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2017 Tax Cuts and Jobs Acts: What it Means For Individuals

The Tax Cuts and Jobs Act was signed by President Trump on December 22. The Act makes sweeping changes to the U.S. tax code and impacts virtually every taxpayer. Individuals are more impacted by the provisions of the act than any other class of taxpayer. With the reduction in effective tax rates, the elimination of some deductions, exclusions, and credits coupled with the enhancement of other deductions and credits, individual taxpayers are going to have to navigate a different maze in making decisions to maximize their tax benefits and minimize their tax liability.

The major goal of tax reform is to simplify tax filing. Provisions of the 2017 Tax Cuts and Jobs Act affecting all individuals is the elimination of the deduction for personal exemptions and the near doubling of the standard deduction. The higher standard deduction that replaces the personal exemption, will cut, by more than half, those taxpayers who would otherwise do better by itemizing deductions. Of course, that group will realize less of a net tax benefit than those taxpayers who do not now itemize. Supporters argue that, in addition to simplification, it effectively creates a more broadly applicable "zero tax bracket" for taxpayers earning less than the standard deduction amount.

The loss of many itemized deductions will channel an even greater number of taxpayers to the standard deduction. There are new limits on mortgage debt for purposes of the mortgage interest deduction. Annual itemized deductions for all state and local taxes, including property taxes, is capped at $10,000. The threshold for medical expense deductions is lowered to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018 and casualty losses will only be allowed for losses in federally declared disaster areas. For a large number of taxpayers, their total itemized deductions will no longer exceed the standard deduction.

An enhanced child and family tax credit will make up some of the difference for certain families. As a credit, in contrast to a deduction, the enhanced child credit has been highlighted as one of the provisions that will lower overall tax liability for middle-class families.

These are just highlights of the changes and impact of the Tax Cuts and Jobs Act. There is much more to discuss than can be covered in this letter, including changes to the education benefits, alternative minimum tax, and the individual mandate, to name a few. Tax reform is further complicated because many of the changes are temporary, generally ending after 2025. Therefore, a comprehensive tax plan must be flexible and anticipate either expiration of these changes or possible extenders in years to come.

We are focused on the immediate and long-term impact of the Tax Cuts and Jobs Act on your situation. Please call our office for guidance on all of the provisions that directly affect you.

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2017 Tax Cuts and Jobs Acts: What it Means For Businesses

The Tax Cuts and Jobs Act was signed by President Trump on December 22. The Act makes sweeping changes to the U.S. tax code and impacts virtually every taxpayer. For businesses, tax benefits include a reduction in the corporate tax rate, increase in the bonus depreciation allowance, an enhancement to the Code Sec. 179 expense and repeal of the alternative minimum tax. Owners of partnerships, S corporations, and sole proprietorships are allowed a temporary deduction as a percentage of qualified income of pass-through entities, subject to a number of limitations and qualifications. On the other hand, numerous business tax preferences are eliminated.

Corporate Taxes

A reduced 21-percent corporate tax rate is permanent beginning in 2018. Also, the 80-percent and 70-percent dividends received deductions under current law are reduced to 65-percent and 50-percent, respectively. The Tax Cuts and Jobs Act also repeals the alternative minimum tax on corporations.

Bonus Depreciation

The bonus depreciation rate has fluctuated wildly over the last 15 years, from as low as zero percent to as high as 100 percent. It is often seen as a means to incentivize business growth and job creation. The Tax Cuts and Jobs Act temporarily increases the 50-percent "bonus depreciation" allowance to 100 percent. It also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Section 179 Expensing

The Tax Cuts and Jobs Act sets the Code Sec. 179 dollar limitation at $1 million and the investment limitation at $2.5 million. Although the differences between bonus depreciation and Code Sec. 179 expensing would now be narrowed if both offer 100-percent write-offs for new or used property, some advantages and disadvantages for each will remain. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to elect to expense only particular qualifying assets within any asset class.

Deductions and Credits

Numerous business tax preferences are eliminated. These include the Code Sec. 199 domestic production activities deduction, non-real property like-kind exchanges, and more. Additionally, the rules for business meals are revised, as are the rules for the rehabilitation credit. However, the Tax Cuts and Jobs Act leaves the research and development credit in place, but requires five-year amortization of research and development expenditures. It also creates a temporary credit for employers paying employees who are on family and medical leave.

Interest Deductions

In an attempt to "level the playing field" between businesses that capitalize through equity and those that borrow, the Tax Cuts and Jobs Act generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income, among other criteria. Exceptions exist for small businesses, including an exemption for businesses with average gross receipts of $25 million or less.

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Pass-Through Businesses

Currently, up to the end of 2017, owners of partnerships, S corporations, and sole proprietorships – as "pass-through" entities - pay tax at the individual rates, with the highest rate at 39.6 percent. The Tax Cuts and Jobs Act allows a temporary deduction in an amount equal to 20 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications.

The Tax Cuts and Jobs Act contains rules that will prevent pass-through owners—particularly service providers such as accountants, doctors, lawyers, etc.—from converting their compensation income taxed at higher rates into profits taxed at the lower rate.

Net Operating Losses

The Tax Cuts and Jobs Act modifies current rules for net operating losses (NOLs). Generally, NOLs will be limited to 80 percent of taxable income for losses arising in tax years beginning after December 31, 2017. It also denies the carryback for NOLs in most cases while providing for an indefinite carryforward, subject to the percentage limitation.

These are just highlights of the changes and impact of the Tax Cuts and Jobs Act. There is much more to discuss than can be covered in this letter. We can help you with the immediate and long-term impact of the Tax Cuts and Jobs Act on your situation. Please call our office for guidance on all of the provisions that directly affect you.

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2017 Tax Cuts and Jobs Acts: Alternative Minimum Tax for Individuals

The Tax Cuts and Jobs Act temporarily increases the alternative minimum tax (AMT) exemption amounts for individuals for tax years 2018 through 2026. The AMT system was originally enacted to ensure that all taxpayers, particularly higher-income taxpayers, pay at least a minimum amount of federal income tax. The AMT generally imposes a minimum tax on taxpayers who have substantially lowered their regular tax liability by taking advantage of tax-favored and preference items, including deductions, exemptions, and credits.

A taxpayer's AMT for a tax year is the excess of the tentative minimum tax over the regular tax liability. To calculate the tentative minimum tax, the taxpayer must first determine alternative minimum taxable income (AMTI) and then subtract the AMTI exemption amount. The AMTI is taxable income recomputed by taking into account adjustments and preferences. The amount of alternative minimum taxable income up to the exemption amount is excluded from minimum taxation. The exemption amount is phased out at certain AMTI levels. The difference between the AMTI and the exemption amount is then multiplied by the appropriate AMT rate, and the product of this computation is the tentative minimum tax.

Exemption amount and phaseout thresholds for individuals temporarily increased

Beginning in 2018, the AMT exemption amounts are:

- $109,400 for married individuals filing jointly or surviving spouses;
- $70,300 for single or head of household filers; and
- $54,700 for married individuals filing separately (**i**.e., 50 percent of the amount for married individuals filing jointly).

The threshold amounts for phaseout or reduction of the AMT exemption amount are also temporarily increased after 2017. The phaseout threshold is $1 million for married individuals filing jointly or surviving spouses, and 50 percent of this amount for all other individuals. Thus, the phaseout threshold is $500,000 for an individual filing as single, head of household, or married filing separately.

For tax years after 2018, the temporary increases in the AMT exemption amounts and phaseout thresholds are adjusted annually for inflation.

The exemption amount continues to phase out 25 percent for each $1 that AMTI exceeds certain threshold amounts. Thus, the AMT exemption amount is completely phased out for an individual for 2018 when AMTI reaches $1,437,600 for married individual filing jointly or surviving spouse; $781,200 for filing as single or head of household; and $718,800 for married filing separately.

The AMT exemption amount and phaseout threshold for an estate or trust are not impacted by any of the temporary increases in the exemption amount and phaseout threshold for an individual. For 2018, the AMT exemption amount for an estate or trust is $24,600 (but $0 for portion of an electing small business trust), and the phaseout threshold is $82,050 for 2018. The corporate AMT is repealed effective for tax years beginning after December 31, 2017.

If you have any questions regarding how the changes to AMT impact your tax liability, or if you would like to discuss your overall tax plan, please call our office. We are here to assist you.

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2017 Tax Cuts and Jobs Acts: Contributions and Rollovers to ABLE Accounts

The Tax Cuts and Jobs Act makes modifications to ABLE accounts created by the Achieving a Better Life Experience Act of 2014. These changes, effective in 2018 through the year 2025:

- allow rollovers from 529 accounts into ABLE accounts, up to an amount equal to the annual gift tax exclusion:
- increase the annual contribution limit by the lesser of any earned income of the designated beneficiary or the poverty line for a one-person household; and
- make contributions to ABLE accounts eligible for the saver's credit.

ABLE accounts are designed to encourage individuals and families to provide private funding to assist disabled individuals in maintaining a healthy, independent, and quality lifestyle through a tax-favored savings account program. This program, modeled along the lines of qualified tuition programs under Code Sec. 529, has been available since 2015.

Eligible individual

An individual eligible to be the designated beneficiary of an ABLE account must be disabled or blind, and the onset of the disability or blindness must have occurred before the individual attained age 26. The individual must either be entitled to benefits based on blindness or disability under Title II of the Social Security Act; or the person must certify under penalties of perjury that the individual (or the individual's agent under a power of attorney or a parent or legal guardian of the individual) has the signed physician's diagnosis, and that the signed diagnosis is retained and provided to the ABLE program or the IRS upon request.

Contributions

Any person may make nondeductible contributions to an ABLE account for the benefit of an eligible individual. However, the aggregate annual contribution amount cannot exceed the annual gift tax exclusion amount ($15,000 for 2018).

An ABLE account's designated beneficiary may contribute an additional amount equal to the lesser of the amount of any earned income or the federal poverty line (of the prior year) for a one-person household ($12,060 for 2017). The increased contribution amount, based on earned income, is only available to eligible individuals who do not participate in a retirement plan. Contributions made by eligible individuals to their own ABLE account may qualify for the saver’s credit.

Contributions may also be received as rollovers from 529 plans, provided that the ABLE account is owned by the designated beneficiary of that 529 account or a member of such designated beneficiary's family. Such rolled-over amounts count towards the overall limitation on amounts that can be contributed to an ABLE account within a tax year.

Excess contributions. The designated beneficiary (or a person acting on their behalf) must maintain adequate records for ensuring that the annual contribution limit is not exceeded. A 6-percent excise tax applies to excess contributions to ABLE accounts. An excess contribution subject to tax does not include timely-made corrective distributions which must be made on or before the day (including extensions of time) for filing the individual's return for that tax year.

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Distributions

Distributions from an ABLE account for a tax year are not included in gross income unless they exceed the amount of qualified disability expenses incurred during the tax year. Qualified disability expenses include, but are not limited to:

- education,
- housing, transportation,
- employment training and support,
- assistive technology and personal support services,
- health,
- prevention and wellness,
- financial management and administrative services,
- legal fees,
- expenses for oversight and monitoring, and
- funeral and burial expenses.

Rollovers

Amounts in an ABLE account can be rolled over for the purpose of either changing the designated beneficiary or the ABLE program. To escape tax, the amount must be paid into another ABLE account in a qualified ABLE program not later than the 60th day after the date of payment or distribution. The ABLE account accepting the payment must be established for the designated beneficiary or an eligible individual who is a family member of the designated beneficiary. However, there is no such thing as an inherited ABLE account. The assets, if any are left over from paying qualified disability expenses, will generally be transferred to the state.

Individuals with disabilities face significant barriers to living independently and finding and holding employment. Although the federal government provides certain safety-net programs, these benefits can either be lost once the disabled individual establishes a minimum level of savings and income, or are inadequate due to the increased costs of health care and support systems to allow them to be employed and live independently. An ABLE account may be of special interest to you. If you have any questions related to this tax benefit, please call our office. We are happy to help.

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2017 Tax Cuts and Jobs Acts: Corporate Tax Rates

The Tax Cuts and Jobs Act calls for a 21-percent corporate tax rate beginning in 2018. The maximum corporate tax rate currently tops out at 35 percent. In addition, the 80-percent and 70-percent dividends-received deductions under current law are reduced to 65 percent and 50 percent, respectively. The Tax Cuts and Jobs Act also repeals the alternative minimum tax on corporations.

Under current law, corporations determine their annual income tax liability by applying a graduated rate of tax to their taxable income. The corporate income tax rates consist of four brackets. The top corporate tax rate is 35 percent on taxable income in excess of $10 million. If a corporation has a net capital gain for any tax year, the corporation pays an alternative tax if it is less than the tax computed in the regular manner. Under the alternative tax, the portion of the corporation's taxable income that is net capital gain is subject to a maximum tax rate of 35 percent. The alternative tax rate is applied to the lesser of a corporation's net capital gain or its taxable income.

21 - Percent Corporate Income Tax Rate

For tax years beginning after December 31, 2017, the graduated corporate rate structure is eliminated and corporate taxable income is taxed at a 21-percent flat rate. The new rate is permanent.

Presently, the United States has one of the highest statutory corporate tax rates among developed countries. Although the current maximum corporate tax rate is 35 percent, many corporations now pay an effective tax rate that is considerably less.

Alternative Minimum Tax (AMT) for Corporations

The alternative minimum tax (AMT) for corporations is repealed beginning after 2017. Any unused minimum tax credit of a corporation may be used to offset regular tax liability for any tax year. In addition, a portion of unused minimum tax credit is refundable in 2018 through 2021. The refundable portion is 50 percent (100 percent in 2021) of any excess minimum tax for the year over any credit allowable against regular tax for that year.

Repeal of the AMT allows some corporations to use certain tax benefits to effectively pay significantly below the new 21-percent rate.

Reduction of Dividends-Received Deduction

The 70-percent dividends-received deduction has been reduced to 50 percent, and the 80-percent dividends-received deduction is reduced to 65 percent.

Under present law, a corporation is generally allowed a deduction for dividends received from other taxable domestic corporations. The amount of the deduction is generally equal to 70 percent of the dividend received. Dividends subject to the 70-percent dividends-received deduction are taxed at a maximum rate of 10.5 percent (30 percent of the 35-percent top corporate tax rate).

The Tax Cuts and Jobs Act reduces the dividends-received deduction to reflect the new lower corporate tax rate of 21 percent. Dividends subject to the new 50-percent dividends-received deduction will be taxed at a maximum rate of 10.5 percent (50 percent of the 21-percent new corporate tax rate). Dividends subject to the new 65-percent dividends-received deduction will be taxed at a maximum rate of 7.35 percent (35 percent of the 21-percent new corporate tax rate). If you have any questions regarding these modifications to corporate taxation or to tax reform in general, please call our office. We are here to assist you.

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2017 Tax Cuts and Jobs Acts: Depreciation and Sec. 179 Expensing

The Tax Cuts and Jobs Act modifies provisions related to depreciation and expensing of fixed assets. These changes extend and modify the additional first-year depreciation deduction through 2026 (through 2027 for longer production period property and certain aircraft), increase the Code Sec. 179 dollar and investment limitations, expand the definition of Code Sec. 179 property, and modify the MACRS recovery period for farm property.

Bonus Depreciation

The first-year depreciation allowance is increased to 100 percent for property placed in service after September 27, 2017, and before January 1, 2023 (January 1, 2024, for longer production period property and certain aircraft), as well as for specified plants planted or grafted after September 27, 2017, and before January 1, 2023. The 100-percent allowance is phased down by 20 percent per calendar year for property placed in service and specified plants planted or grafted in taxable years beginning after 2022 (after 2023 for longer production period property and certain aircraft).

Transition rules. The phase-down of bonus depreciation remains unchanged for property acquired before September 28, 2017, and placed in service after September 27, 2017. Also, for a taxpayer's first tax year ending after September 27, 2017, the taxpayer may elect to apply a 50-percent allowance instead of the 100-percent allowance.

The Tax Cuts and Jobs Act removes the requirement that the original use of qualified property commence with the taxpayer. Therefore, the additional first-year depreciation deduction is allowed for new and used property.

Listed Property

The Tax Cuts and Jobs Act increases the depreciation limitations under section 280F that apply to listed property. For passenger automobiles placed in service after December 31, 2017, and for which the additional first-year depreciation deduction is not claimed, the maximum amount of allowable depreciation is $10,000 for the year in which the vehicle is placed in service; $16,000 for the second year; $9,600 for the third year; and $5,760 for the fourth and later years in the recovery period. The limitations are indexed for inflation for passenger automobiles placed in service after 2018.

In addition, the Tax Cuts and Jobs Act removes computer or peripheral equipment from the definition of listed property. Such property is therefore not subject to the substantiation requirements that apply to other listed property.

Farm Property

The Tax Cuts and Jobs Act shortens the recovery period from seven to five years for any new machinery or equipment (other than any grain bin, cotton ginning asset, fence or other land improvement) used in a farming business placed in service after December 31, 2017.

The requirement to use the 150-percent declining balance method for property in a farming business (**i**.e., for 3-, 5-, 7-, and 10-year property) is repealed for property placed in service after December 31, 2017. However, the 150-percent declining balance method continues to apply to any 15-year or 20-year property used in the farming business to which the straight line method does not apply, or to property for which the taxpayer elects to use the 150-percent declining balance method.

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Real Property

The separate definitions of qualified leasehold improvement, qualified restaurant and qualified retail improvement property are eliminated. Qualified improvement property is treated as a new class of MACRS property with a recovery period of 15 years, effective for property placed in service after December 31, 2017. The definition of qualified improvement property for purposes of the new 15-year recovery period is the same as the definition applied for bonus depreciation purposes. Specifically, qualified improvement property is defined as any improvement to an interior portion of a building which is nonresidential real property if the improvement is placed in service after the date the building was first placed in service by any taxpayer.

The Tax Cuts and Jobs Act also requires a real property trade or business electing out of the limitation on the deduction for interest to use ADS to depreciate any of its nonresidential real property, residential rental property and qualified improvement property.

Code Sec. 179 Expensing

The Tax Cuts and Jobs Act increases the maximum amount a taxpayer may expense under Code Sec. 179 to $1 million, and the phase-out threshold amount to $2.5 million for tax years after 2017. These amounts are indexed for inflation for tax years beginning after 2018.

For tax years beginning after 2017, the definition of qualified real property under Code Sec. 179 is expanded to include:

- certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging; and
- any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.

The incentives for investing in business property are significant and must be coordinated. For example, Code Sec. 179 expensing is claimed prior to the additional depreciation allowance. In general, taxpayers should expense under Code Sec. 179, assets with the longest recovery (depreciation) period in order to accelerate the recovery of their costs. Planning for your capital and equipment acquisitions and retirements is essential.

If you have any questions about how these developments apply to you, or about any other aspect of this legislation, please contact our office at your convenience.

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2017 Tax Cuts and Jobs Acts: Education Tax Benefits

The Tax Cuts and Jobs Act modifies qualified tuition programs and the exclusion of student loan discharges from gross income. There was much debate regarding changes to other educational benefits as part of tax reform, including the elimination of the student loan interest deduction, repeal of exclusion of income for graduate student tuition waivers, and modifications to the American Opportunity Credit. These benefits were retained as part of the final agreement between the House and Senate. However, the above-the-line deduction for education expenses that expired at the end of 2016 was not renewed.

529 Plans

Qualified tuition programs (529 plans) have, in recent years, become a popular way for parents and other family members to save for a child's college education. Though contributions to 529 plans are not deductible, there is no income limit for contributors. 529 plan distributions are tax-free as long as they are used to pay qualified higher education expenses for a designated beneficiary. Qualified expenses include tuition, required fees, books and supplies. For someone who is at least a half-time student, room and board also qualifies as a higher education expense.

The Tax Cuts and Jobs Act expands qualified distributions made after December 31, 2017. Plan participants may withdraw not more than $10,000 in expenses for tuition incurred during the tax year in connection with the enrollment or attendance of the designated beneficiary at a public, private or religious elementary or secondary school. This limitation applies on a per-student basis, rather than a per-account basis. Any excess distributions received by the individual are treated as distributions subject to tax under the general rules of section 529.

Discharge of Student Loans

The Tax Cuts and Jobs Act modifies the exclusion of student loan discharges from gross income by including certain discharges on account of death or disability. Loans eligible for the exclusion under the provision are loans made by:

- **(1)** the United States (or an instrumentality or agency thereof);
- **(2)** a state (or any political subdivision thereof);
- **(3)** certain tax-exempt public benefit corporations that control a state, county, or municipal hospital and whose employees have been deemed to be public employees under state law;
- **(4)** (an educational organization that originally received the funds from which the loan was made from the United States, a state, or a tax-exempt public benefit corporation; or
- **(5)** certain private education loans.

Under the provision, the discharge of a loan as described above is excluded from gross income if the discharge was pursuant to the death or total and permanent disability of the student. The provision applies to discharges of loans after, and amounts received after, December 31, 2017, and before January 1, 2026.

If you have any questions about the modifications to educational benefits under the Tax Cuts and Jobs Act, or regarding education savings in general, please call our office. We are here to assist you.

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2017 Tax Cuts and Jobs Acts: Estate, Gift, and GST Tax Exclusions Increased

The Tax Cuts and Jobs Act doubles the basic exclusion amount for federal estate and gift taxes and the exemption amount for the generation-skipping transfer (GST) tax. For the estates of decedents dying and gifts made after 2017 and before 2026, the amount increases from $5 million to $10 million, as adjusted for inflation. Accordingly, the estate and gift tax basic exclusion amount and the GST exemption amount applicable to the estates of decedents dying and gifts made in 2018 is $11,200,000, as adjusted for inflation.

Estate and gift tax exclusion doubled

For the estates of decedents dying and gifts made after 2017 and before 2026, the basic exclusion amount for purposes of federal estate and gift taxes is doubled from $5 million to $10 million, as adjusted for inflation. Accordingly, the estate and gift tax basic exclusion amount applicable to the estates of decedents dying and gifts made in 2018 is $11.2 million, as adjusted for inflation. For a married couple using portability, the maximum applicable exclusion amount would be doubled again to $22.4 million.

Example 1: Bruce Payne, a wealthy single individual, dies in 2018 leaving a taxable estate of $20 million. His estate will owe $3,520,000 in federal estate taxes. If he had died in 2017, however, the estate tax payable would have been $5,804,000.

Example 2: Carol Cologne, a wealthy widow, dies in 2018 leaving a taxable estate of $20 million. Her late husband died earlier in 2018, having used only $2 million of his available estate tax exclusion amount. Her estate will owe no federal estate tax. However, if the couple had died under the same circumstances in 2017, the estate tax payable would have been $4,408,000.

Because the doubling of the estate and gift tax exclusion amount expires for decedents dying and gifts made after December 31, 2025, the next several years present a tremendous opportunity for wealthy individuals and married couples to make large gifts, including those that leverage the amount of the available exclusion, such as those to grantor retained annuity trusts (GRATs).

According to the IRS Statistics of Income tables presenting data on estate tax returns for tax year 2016, a total of 5,219 taxable returns were filed as compared to 7,192 nontaxable returns. Of the taxable returns, just over 2,400 fell within the $5 to $10 million gross estate range, with almost 1,300 in the $10 to $20 million range. Only 300 returns were filed with gross estates in excess of $50 million. These statistics primarily reflect data from the estates of decedents who died in 2015, when the basic exclusion amount was $5.43 million, but also include some returns for decedents who died in years prior to 2015, as well as a small number of estates with respect to deaths that occurred in 2016. The large increase in the basic exclusion amount after 2017 will no doubt lead to further decreases in the number of taxable estates.

GST tax exemption amount

Because the exemption from the GST tax is computed by reference to the basic exclusion amount used for estate and gift tax purposes, the GST exemption amount for GSTs occurring in 2018 is $11.2 million. Portability does not apply for purposes of the GST tax.
Corresponding adjustments with respect to prior gifts. In addition to the increase in the basic exclusion amount, the Tax Cuts and Jobs Act modifies the computation of gift tax payable and estate tax payable in cases where gifts have been made in prior years. With respect to the computation of gift tax payable, the tax rates in effect at the time of the decedent's death are used rather than the rates that were in effect at the time the gifts were made.

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Inflation adjustments going forward. A separate amendment of the Tax Cuts and Jobs Act requires that future inflation adjustments mandated throughout the Internal Revenue Code be made using the, "Chained" Consumer Price Index for All Urban Consumers (C-CPI-U) rather than the CPI adjustment used under current law. This change, effective for tax years beginning after December 31, 2017, will generally serve to slow down inflation adjustments to provisions throughout the Code, including the estate and gift tax exclusion amounts.

If you have any questions related to the increase of the exclusion amount for federal estate and gift taxes and the exemption amount for GST tax, or for estate planning in general, please call our office. We are here to assist you.

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2017 Tax Cuts and Jobs Acts: Homeowners

Traditionally, tax law provides numerous incentives for home ownership by allowing the deduction for mortgage interest and real estate tax. The Tax Cuts and Jobs Act modifies these popular tax benefits.

Mortgage Interest

Home mortgage interest is generally deductible if it is paid or accrued on acquisition indebtedness or home equity indebtedness secured by any qualified residence of the taxpayer (i.e., the taxpayer's principal or second residence). The deduction for acquisition indebtedness is limited to interest paid on the first $1 million of debt ($500,000 for a married taxpayer filing a separate return) and the first $100,000 on home equity loans ($50,000 for a married taxpayer filing a separate return).

Under the Tax Cuts and Jobs Act, a taxpayer may treat no more than $750,000 as acquisition indebtedness ($375,000 in the case of married taxpayers filing separately) for tax years beginning after December 31, 2017, and before January 1, 2026.

Planning Note: The reduced amounts for application of the acquisition indebtedness do not apply to any indebtedness incurred on or before December 15, 2017. Therefore, a taxpayer who purchased their home on or before December 15, 2017, may continue to deduct interest paid on the first $1 million of debt ($500,000 for a married taxpayer filing a separate return).

Transition relief. A taxpayer who has entered into a binding written contract before December 15, 2017, to close on the purchase of a principal residence before January 1,2018, and who purchases such residence before April 1, 2018, shall be considered to have incurred acquisition indebtedness prior to December 15, 2017.

Additionally, The Tax Cuts and Jobs Act suspends the deduction for interest on home equity indebtedness. Therefore, for tax years beginning after December 31, 2017, a taxpayer may not claim a deduction for interest on home equity indebtedness. The suspension ends for tax years beginning after December 31, 2025.

Special rules apply in the case of indebtedness from refinancing existing acquisition indebtedness. Specifically, the $1,000,000 ($500,000 in the case of married taxpayers filing separately) limitation continues to apply to any indebtedness incurred on or after December 15, 2017, to refinance qualified residence indebtedness incurred before that date to the extent the amount of the indebtedness resulting from the refinancing does not exceed the amount of the refinanced indebtedness. Thus, the maximum dollar amount that may be treated as principal residence acquisition indebtedness will not decrease by reason of a refinancing.

For tax years beginning after December 31, 2025, a taxpayer may treat up to $1,000,000 ($500,000 in the case of married taxpayers filing separately) of indebtedness as acquisition indebtedness, regardless of when the indebtedness was incurred.

Real Estate Tax

The Tax Cuts and Jobs Act provides that for tax years beginning after December 31,2017, and beginning before January 1, 2026, a taxpayer may claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the total amount of:

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(i) state and local property taxes not paid or accrued in carrying on a trade or business, and
(ii) state and local income (or sales taxes in lieu of income taxes) for the tax year.

Foreign real property taxes cannot be deducted under this exception.

Caution: Under The Tax Cuts and Jobs Act, an individual may not claim an itemized deduction in 2017 on a pre-payment of income tax for a future tax year in order to avoid the dollar limitation applicable for tax years beginning after 2017.

In view of these tax changes, we urge you to contact us, particularly if you are considering transactions involving your home, including selling, refinancing, or renting. We would like to assist you with home ownership as it applies to your overall tax plan. Please call our offices at your earliest convenience to arrange an appointment.

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2017 Tax Cuts and Jobs Acts: Impact on Families

The Tax Cuts and Jobs Act makes sweeping tax changes that impact virtually all taxpayers. For individual taxpayers and their families, changes include a decrease in the tax rates, repeal of the personal exemption, increase in the standard deduction, modification to itemized deductions, and doubling of the child tax credit.

Under the Tax Cuts and Jobs Act, personal exemptions are repealed ($4,050 in 2017) for 2018 through 2025. Instead, the Tax Cuts and Jobs Act provides for a near doubling of the standard deduction. For tax year 2018, it increases the standard deduction from $13,000 to $24,000 for married individuals filing a joint return; $9,550 to $18,000 for head-of-household filers; and $6,500 to $12,000 for all other individuals. These standard deduction amounts are indexed for inflation for tax years beginning after 2018. The additional standard deduction for the elderly and the blind ($1,300 for married taxpayers, $1,600 for single taxpayers) is retained.

Itemized deductions

Mortgage interest deduction. The Tax Cuts and Jobs Act limits the mortgage interest deduction to interest on $750,000 of acquisition indebtedness ($375,000 in the case of married taxpayers filing separately), for tax years beginning 2018 through 2025. For acquisition indebtedness incurred before December 15, 2017, the Tax Cuts and Jobs Act allows current homeowners to keep the current limitation of $1 million ($500,000 in the case of married taxpayers filing separately). Taxpayers may continue to include mortgage interest on second homes, but within those lower dollar caps. However, no interest deduction will be allowed for interest on home equity indebtedness.

State and local taxes. The Tax Cuts and Jobs Act limits annual itemized deductions for all nonbusiness state and local taxes deductions, including property taxes, to $10,000 ($5,000 for married taxpayer filing a separate return) for 2018 through 2025. Sales taxes may be included as an alternative to claiming state and local income taxes.

Miscellaneous itemized deductions: The Tax Cuts and Jobs Act repeals all miscellaneous itemized deductions for tax years 2018 through 2025 that are subject to the two-percent floor under current law.

Medical expenses: The Tax Cuts and Jobs Act lowers the threshold for the deduction to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018.

Casualty losses: For tax years 2018 through 2025, a casualty loss will only be allowed to the extent it is attributable to a federally declared disaster.

The phaseout of itemized deductions is suspended for tax years 2018 through 2025.

The doubling of the standard deduction and modifications to itemized deductions effectively eliminates many individuals from claiming itemized deductions other than higher-income taxpayers. For example, for the vast majority of married taxpayers filing jointly, only those with total allowable mortgage interest, state income and local income/property taxes (up to $10,000), and charitable deductions exceeding $24,000, would claim them as itemized deductions (absent extraordinary medical expenses).

In contrast, the enhanced child credit has been highlighted as one of the provisions that will lower overall tax liability for middle-class families. The Tax Cuts and Jobs Act temporarily increases the current child tax credit from $1,000 to $2,000 per qualifying child. Up to $1,400 of that amount is refundable. The child tax credit is also expanded to provide for a $500 nonrefundable credit for qualifying dependents other than

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qualifying children. More families will be able to take advantage of the credit due to an increase in the adjusted gross income phaseout thresholds, starting at $400,000 for joint filers ($200,000 for all others).

In addition to changes related to exemptions, the child tax credit and the standard and itemized deduction discussed above, the Tax Cuts and Jobs Act also makes changes to alternative minimum tax and the individual tax brackets. Because these tax provisions are interrelated, estimating the impact of these changes to the tax liability for any particular family is challenging. However, as with any tax reform, there will be winners and losers.

Example 1: Married Couple (both 45); AGI $100,000; 2 children (ages 8 and 12); mortgage interest $6,000; property tax $5,000; state income tax $3,000; charitable contributions $500

Example 2: Married Couple (both 45); AGI $200,000; 2 children (ages 19 and 22, both in college); mortgage interest $10,000; property tax $18,000; state income tax $6,000; charitable contributions $1,000

Example 3: Married couple (both 45); AGI $400,000; 2 children (ages 10 and 12); mortgage interest $12,500; property tax $25,000; state income tax $8,000; charitable contributions $7,500

Example	1		2		3	
	2017	***2018***	***2017***	***2018***	***2017***	***2018***
AGI	100,000	100,000	200,000	200,000	400,000	400,000
Standard Deduction		24,000		24,000		(c)
Itemized Deduction	14,500	(a)	35,000	(b)	50,414	30,000
Exemptions	16,200		16,200		4,860	
Taxable Income	69,300	76,000	148,800	176,000	344,726	370,000
Tax	9,466	8,739	28,678	30,819	88,977	81,779
AMT			319		5,344	
Addtl Med Tax					1,350	1,350
Child Tax Credit	2,000	4,000		1,000		4,000
Total Tax	7,466	4,739	28,997	29,819	95,671	79,129
Tax decrease (increase)		2,727		(822)		16,542

(a) Total itemized deductions in 2018 would remain the same at $14,500 which is less than the new standard deduction of $24,000.

(b) Deduction for total amount of property tax and sales tax would be limited to $10,000 in 2018. Therefore, total allowed itemized deductions of $21,000 would be less than the standard deduction of $24,000.

(c) Deduction for total amount of property tax and sales tax would be limited to $10,000 in 2018. Total allowed itemized deductions of $30,000 are not phased out and is more than the $24,000 standard deduction.

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Keep in mind that many of the changes to the Internal Revenue Code in the Tax Cuts and Jobs Act are temporary. This is true especially with respect to the provisions impacting individuals. This decision was made in order to keep the tax reform within budgetary parameters, but with no guarantees that a future Congress would extend them. In future years, as the tax reform provisions expire, tax liability for individuals may be negatively affected.

If you have any questions related to tax reform and the impact on your tax liability, please call our office. We are here to assist you.

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2017 Tax Cuts and Jobs Acts: Pass – Through Income

Currently, owners of partnerships, S corporations, and sole proprietorships - as "pass-through" entities - pay tax at the individual rates, with the highest rate at 39.6 percent. The highest rate is reduced to 37 percent under the Tax Cuts and Jobs Act. The Act also allows a temporary deduction in an amount equal to 20 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications. Conversely, the Tax Cuts and Jobs Act limits the deduction for excess business losses from pass-through entities.

Pass-through Income Deduction

Non corporate taxpayers may deduct up to 20 percent of domestic qualified business income from a partnership, S corporation, or sole proprietorship (Code Sec. 199A deduction). A similar deduction is allowed for specified agricultural or horticultural cooperatives. A limitation based on wages paid, or on wages paid plus a capital element, is phased in for taxpayers with taxable income above a threshold amount. The deduction is not allowed for certain service trades or businesses, but this disallowance is phased in for lower income taxpayers. The deduction applies to tax years from 2018 through 2025.

Caution. The Tax Cuts and Jobs Act provides rules that would prevent pass-through owners— particularly service providers such as accountants, doctors, lawyers, etc.—from converting their compensation income taxed at higher rates into profits taxed at the lower rate.

For individual taxpayers, the Code Sec. 199A deduction is not allowed in determining adjusted gross income. Further, it is not an itemized deduction, but it is available to individuals who itemize deductions and to those who claim the standard deduction. However, the deduction amount cannot be more than the taxpayer's taxable income (reduced by net capital gain) for the tax year.

The Code Sec. 199A deduction is similar to the domestic production activities deduction under Code Sec. 199, in that both allow taxpayers to deduct a portion of their "taxable income" if it is less than a portion of their relevant business income. Also, neither deduction can be claimed if the taxpayer has no relevant business income. It is anticipated that the IRS will provide a new worksheet or form for calculating the Code Sec. 199A deduction, similar to Form 8903, Domestic Production Activities Deduction.

Limit on Excess Business Losses for Non-corporate Taxpayers

Under the Tax Cuts and Jobs Act, excess business losses of non-corporate taxpayers are not allowed for tax years beginning after December 31, 2017, and before January 1, 2026. Any excess business loss that is disallowed is treated as part of the taxpayer's net operating loss (NOL) carryover to the following tax year.

Non-corporate taxpayers must apply this rule for excess business losses after applying the passive activity loss rules. For partnerships and S corporations, the limit on excess business losses is applied at the partner or shareholder level.

Comment: For losses arising in tax years beginning after December 31, 2017, an NOL may generally only reduce 80 percent of taxable income in a carryback or carryforward tax year.
An "excess business loss" is the excess, if any, of:

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1) the taxpayer's aggregate deductions for the tax year from the taxpayer's trades or businesses, determined without regard to whether or not such deductions are disallowed for such tax year under the excess business loss limitation; over

2) the sum of
   (a) the taxpayer's aggregate gross income or gain for the tax year from such trades or businesses, plus

   (b) $250,000, adjusted for inflation (200 percent of the $250,000 amount in the case of a joint return).

The $250,000 amount is adjusted for inflation for tax years beginning after December 31, 2018.

Example: For 2018, Ned Brown has $1,000,000 of gross income and $1,400,000 of deductions from a retail business that is not a passive activity. His excess business loss is $150,000 ($1,400,000 - ($1,000,000 + $250,000)). Brown must treat his excess business loss of $150,000 as an NOL carryover to 2019.

The result of this provision is that an individual taxpayer is limited to offsetting a maximum of $250,000 of business loss against other income for the tax year. In the example, if Ned Brown reported wages of $400,000 (and no other income) in 2018, his adjusted gross income would be $150,000. Under present law, all of the $400,000 of losses can be used to offset wage income to arrive at adjusted gross income of $0.

If you have any questions on how the pass-through income deduction or excess business loss limitations affect your tax liability, please call our office. We are here to assist you.

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2017 Tax Cuts and Jobs Acts: Retirement Plans and IRAs

The Tax Cuts and Jobs Act modifies several provisions related to retirement plans and IRAs. These include:

- the repeal of the special rule permitting recharacterization of Roth IRA conversions,
- an increase in the period during which a qualified plan loan offset amount may be rolled over,
- relief for qualified 2016 disaster distributions, and
- an increase in allowable amount of length-of-service awards.

Recharacterization of Roth IRA Contributions

An individual who has made contributions to a Roth or traditional IRA may subsequently decide that a contribution to an IRA of the other type is more advantageous. If certain requirements are met, a contribution can be characterized and treated as having been originally made to a different type of IRA. Recharacterizing an IRA contribution requires transferring amounts previously contributed to a traditional or Roth IRA (plus any resulting net income or minus any resulting net loss) to another IRA of the opposite type and electing to have the amounts treated as having been transferred to the second IRA at the time they actually were contributed to the first IRA.

A recharacterization election effectively reverses the contribution from one type of IRA to another (e.g., Roth to traditional, or traditional to Roth). The contribution being recharacterized is treated as having been originally contributed to the second IRA on the same date and for the same tax year as that in which the contribution was made to the first IRA. Because the owner never has use of the IRA assets, the recharacterization does not count towards the once-per-year limit on IRA-to-IRA rollovers.

The Tax Cuts and Jobs Act repeals the special rule permitting recharacterization of Roth conversions for tax years beginning after December 31, 2017. Therefore, for example, a conversion contribution establishing a Roth IRA during a tax year can no longer be recharacterized as a contribution to a traditional IRA (thereby unwinding the conversion).

The Tax Cuts and Jobs Act does not preclude an individual from making a contribution to a traditional IRA and converting the traditional IRA to a Roth IRA. Rather, the provision would preclude the individual from later unwinding the conversion through a recharacterization.

Rollover of Plan Loan Offset Amounts

Plan loan offset amounts occur when, under the terms governing a plan loan, the accrued benefit of the participant or beneficiary is reduced to repay the loan, including the enforcement of the plan's security interest in the accrued benefit. These amounts are treated as actual distributions, not deemed distributions, so that a plan may be prohibited from making the offset. As an actual distribution, a plan loan offset is eligible for rollover if it otherwise qualifies.

The Tax Cuts and Jobs Act increases the period during which a qualified plan loan offset amount may be contributed to an eligible retirement plan as a rollover contribution from 60 days after the date of the offset to the due date (including extensions) for filing the Federal income tax return for the tax year in which the plan loan offset occurs, that is, the tax year in which the amount is treated as distributed from the plan. This extended time is effective for plan loan offset amounts treated as distributed in tax years beginning after December 31, 2017.

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Under the Tax Cuts and Jobs Act, a qualified plan loan offset amount is a plan loan offset amount that is treated as distributed from a qualified retirement plan, a section 403(b) plan or a governmental section 457(b) plan, solely by reason of the termination of the plan or the failure to meet the repayment terms of the loan because of the employee's severance from employment.

Relief for 2016 Disaster Areas

Under the Tax Cuts and Jobs Act, an exception to the 10-percent early withdrawal tax applies in the case of a "qualified 2016 disaster distribution" from a qualified retirement plan, a section 403(b) plan or an IRA. A "qualified 2016 disaster distribution" is a distribution from an eligible retirement plan made on or after January 1, 2016, and before January 1, 2018, to an individual whose principal place of abode at anytime during calendar year 2016 was located in a 2016 disaster area and who has sustained an economic loss by reason of the events giving rise to the Presidential disaster declaration. The total amount of the 2016 disaster distribution cannot exceed $100,000.

Income attributable to a qualified 2016 disaster distribution may be included in income ratably over three years, unless the individual elects not to have ratable inclusion apply. Any portion of a qualified 2016 disaster distribution may, at any time during the three-year period beginning the day after the date on which the distribution was received, be recontributed. Any amount recontributed within the three-year period is treated as a rollover and therefore is not includible in income.

A qualified 2016 disaster distribution is subject to income tax withholding unless the recipient elects otherwise. The mandatory 20-percent withholding does not apply. If the amount of the qualified disaster distribution is recontributed to an eligible retirement plan, the individual may file an amended return to claim a refund of the tax attributable to the amount previously included in income. In addition, if a portion of the distribution has not yet been included in income at the time of the contribution, the remaining amount is not includible in income.

Length of Service Awards

For tax years beginning after December 31, 2017, the Tax Cuts and Jobs Act increases the aggregate amount of length of service awards that may accrue for a bona fide volunteer with respect to any year of service from $3,000 to $6,000 and adjusts that amount in $500 increments to reflect changes in cost of living after 2018. Qualified services for this purpose are firefighting and prevention services, emergency medical services and ambulance services.

If the plan is a defined benefit plan, the limit applies to the actuarial present value of the aggregate amount of length of service awards using reasonable actuarial assumptions and methods.

The Tax Cuts and Jobs Act is a comprehensive package of reform that affects a large number of taxpayers. If you have any questions related to the tax changes for retirement plans and IRAs, or related to the Tax Cuts and Jobs Act in general, please call our office. We are here to assist you.