

Tax Cuts and Jobs Act of 2017

Presentation to Jackson Area Estate Planning Council 1-10-18

Individual Provisions:

Reduced rates – wider brackets: (married filing Joint)

<u>New</u>		<u>Prior</u>	
0 - \$19,050	10%	0 - \$18,550	10%
\$19,050 – \$ 77,400	12%	\$18,550 – \$75,300	15%
\$77,400 – \$165,000	22%	\$75,300 – \$151,900	25%
\$165,000 – \$315,000	24%	\$151,900 – \$231,450	28%
\$315,000 – \$400,000	32%	\$231,450 – \$413,500	33%
\$400,000 – \$600,000	35%	\$413,350 – \$466,950	35%
Over \$600,000	37%	Over \$466,950	39.6%

Standard deduction \$12,000 single, \$18,000 HOH, and Married Filing Joint (MFJ) is \$24,000

No personal exemptions of \$4,150

Kiddie tax (age 19 or full time students to age 24) regular single rates for earned income; Trust rates for investments

Capital gains – no change – Zero rate for taxable income under \$77,200 for MFJ

Excess business loss carried forward only – not offset against other income.

Deduction of personal Casualty and Theft losses suspended

Child credit – Now \$2,000 with \$1,400 refundable. Phase out increased to \$400,000 from 110,000 for MFJ

\$500 nonrefundable for other non-child dependents

State and local taxes (SALT) deduction limited to \$10,000

Home equity interest deduction is suspended for 2018 – 2025

Medical deduction threshold reduced to 7.5% for 2017 & 2018

Charitable contribution deduction limitation increase to 60% from 50% for 2018-2025

No deduction for amounts paid for college athletic seating rights

Alimony payer deduction/recipient inclusion for agreements dated after 2018

Miscellaneous deductions suspended for years 2018-2025

Overall Schedule A limitation (Pease limitation) in itemized deductions suspended

Moving expenses deduction/exclusion suspended except for military orders

Repealed Obamacare Mandate after 2018

Alternative Minimum exemptions slightly increased to MFJ from \$86,200 to \$109,400 – Note many preferences eliminated or curtailed

Higher due diligence required for claiming head of household.

New tax reporting for sale of life insurance contracts and death benefit payments

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Investment highlights:

No changes to capital gain holding period.

Capital gain tax rates Zero rate up to \$77,200 MFJ; 15% 77,200 – 479,000; 20% above 479,000

Still have the 3.8% Net Investment Income Tax surcharge on investment income

Still have the 0.9% Additional Medicare Tax on wages

Publicly traded partnerships are allowed the special deduction for pass through income

No changes to retirement plan

Repealed Characterization of IRA contributions

Future Roth conversions not as prevalent as I was expecting, still are significant for lower income folks.

Roth conversion decisions are still projections of future income and tax rates.

Able account changes; between 12/22/17 and 1/1/2026 contributions can exceed \$15,000 up to the Federal poverty line for a one person household or the individual's compensation for the year. Also, the designated beneficiary can get a saver credit for contributions made to their able account.

Expanded use of 529 Funds- can now be used up to \$10,000 for elementary or secondary public, private or religious schools

Increased disaster relief provisions

Estate and Gift provisions:

Exemption increased from \$5.6 million to \$11.2 (as indexed for inflation) for 2018 – 2025

Trust Tax rates:

<u>New</u>	<u>Prior</u>	
No changes	0 - \$2,550	15%
	\$2,550 – \$6,000	25%
	\$6,000 – \$9,150	28%
	\$9,150 – \$12,500	33%
	Over \$12,500	39.6%

Trusts are eligible for the new special deduction for pass through income.

Discounts for interest transfer between family members – Note that proposed rules on 8/4/16 were withdrawn as “unworkable” by the IRS on 10/17/17. This is good news

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Business Provisions:

- Flat 21% rate, no 15% bracket
- Dividends received deduction is now 50%, down from 70%, for some dividends received
- Corporate Alternative Minimum Tax repealed
- Increased Section 179 expensing to \$1,000,000 with phase out beginning at \$2,500,000 of additions
- Expended 179 property includes:
 - o Tangible personal property used with furnishing lodging
 - o Nonresidential real property improvements (after purchase) for roofs, heating, ventilation, and air conditioning property, fire protection and alarm systems, and security systems
- 100% first year depreciation, "100% expensing" for qualified property (both new and used) placed in service after 9/27/17 and before 1/1/2024 (may elect 50% expensing)
- Luxury Auto limits increased to \$10,000 year 1; \$16,000 year 2, \$9,600 year 3, and \$5,750 thereafter
- SUV section 179 deduction of \$25,000 will now be adjusted for inflation.
- Computers no longer are listed property
- Farming equipment and machinery is now 5 year property
- Definitions of qualified leasehold improvement, qualified restaurant, and qualified retail improvement property are eliminated and a 15 year recovery period – straight line are provided
- Interest expense is limited for companies with annual receipts exceeding \$25 million.
- Domestic activities production deduction is eliminated.
- Like kind exchange treatment denied for trade-ins of personal property. Still available for most real estate.
- Entertainment deductions now disallowed, as well as related meals. *"Entertainment" includes activity generally considered to provide entertainment, amusement, or recreation and includes meals provided to a customer or client.*
- Nondeductible penalties and fines have been expanded
- No deduction for settlement, payout, or legal fees related to a sexual harassment or sex abuse, subject to a nondisclosure agreement
- Employee achievement awards generally limited to \$400 per employee or \$1,600 qualified plan award. Must be tangible personal property and cannot be cash, cash equivalents, gift cards, gift coupons, gift certificates, vacations, meals, lodging, sporting, or theater tickets, stocks, bonds, etc.
- Taxable year of inclusion of income – generally required when reflected on an applicable financial statement (AFS) *AFS now has expanded applications*
- Cash basis for certain companies - gross receipts are increased from \$5 million to \$25 million.
- Accounting for inventories now increased for companies greater than \$25 million
- Section 263A now applies to companies with receipts greater than \$25 million
- Long Term Contracts requiring percentage of Completion Method (PCM) if the contract is expected (at commencement) to be completed within two years, and receipts are under \$25 million.
- Net operating losses are now carryforward only. In addition, the carryforward can only reduce taxable income by 80%.
- Accountable plans for employee owned vehicles may be needed since employees cannot claim 2106 expenses

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Pass-through Provisions (S corp., Partnership) and other comments

Special reduction for pass through income (new Section 199A):

Generally is a reduction of 20% of the business (non-investment) portion of net income (new term "Qualified business income). This is a separate computation of this income to limit the tax paid on this income. It is not a deduction from Adjusted Gross income, but rather a separate reduction reducing taxable income. *(It is similar to a separate computation to the taxation of capital gains).*

If taxable income is under \$315,000 everyone gets a reduction.

If taxable income is over \$415,000 then the 20% deduction cannot exceed the greater of:

- 1) 50% of the wages paid by the entity
 - 2) 25% of the wages paid plus 2.5% unadjusted basis of qualified property
- e.g. Net income of \$400,000 – x 20% is \$80,000 limited to the greater of:

- 1) Wages of \$600,000 x 50% is \$300,000
- 2) Wages of \$600,000 x 25% is \$150,000 plus 2.5% of 1,000,000 or \$25,000 equals \$175,000

"Specified service trades or businesses" which mean Health, law, accounting, actuarial, performing arts, consulting, athletics, financial services, brokerage services etc. get the 20% reduction if taxable income is under \$315,000 and no reduction if over \$415,000

Treatment of S Corporation Converted to C Corporations. Special (favorable) rules apply to post S termination dividends.

Should I terminate an S election?

*Prior top shareholder tax rate on the C Corp –was 50.47% (35% + (65% * 23.8%))*

*New top shareholder tax rate on the C Corp –is 39.8% (21% + (79% * 23.8%))*

Prior S Corp top rate on shareholders was 40.8% (39.8% + itemized deduction phase-out of 1.2%)

New S Corp top rate on shareholders is 37%

S advantage from single taxation slips from 9.67% to 3.8%

SCHEDULE A (Form 1040)

Itemized Deductions

OMB No. 1545-0074

2016

Attachment Sequence No. 07

Department of the Treasury Internal Revenue Service (99)

Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.

Attach to Form 1040.

Name(s) shown on Form 1040

Your social security number

Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others.									
	1	Medical and dental expenses (see instructions)	1							
	2	Enter amount from Form 1040, line 38 <u>2</u>	2							
	3	Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead	3							
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4						over 7.5% for 2018 deduction Nothing in 2019	
Taxes You Paid	5 State and local (check only one box):		5							
	a	<input type="checkbox"/> Income taxes, or								
	b	<input type="checkbox"/> General sales taxes								
	6	Real estate taxes (see instructions)	6							
	7	Personal property taxes	7							
	8	Other taxes. List type and amount ▶	8						MAX IS 10,000	
	9	Add lines 5 through 8	9							
Interest You Paid	10	Home mortgage interest and points reported to you on Form 1098	10							
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11							
	Note: Your mortgage interest deduction may be limited (see instructions).									
	12	Points not reported to you on Form 1098. See instructions for special rules	12							
	13	Mortgage insurance premiums (see instructions)	13							
	14	Investment interest. Attach Form 4952 if required. (See instructions.)	14							
	15	Add lines 10 through 14	15							
Gifts to Charity	16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions.	16							
	17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17							
	18	Carryover from prior year	18							
	19	Add lines 16 through 18	19							
Casualty and Theft Losses	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20						DISASTER ONLY	
Job Expenses and Certain Miscellaneous Deductions	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶	21							
	22	Tax preparation fees	22							
	23	Other expenses—investment, safe deposit box, etc. List type and amount ▶	23							
	24	Add lines 21 through 23	24							
	25	Enter amount from Form 1040, line 38 <u>25</u>	25							
	26	Multiply line 25 by 2% (0.02)	26							
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27						NA	
Other Miscellaneous Deductions	28	Other—from list in instructions. List type and amount ▶	28						NA	
Total Itemized Deductions	29	Is Form 1040, line 38, over \$155,650? <u>Phase out gone</u>	29						①	
	<input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.									
	<input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.									
	30	If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>								

Needs to exceed 12,000 single; 18,000 HOA & 24,000 MFJ