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"Tax Cuts and Jobs Act" of 2017 (TCJA)
As of December 18, 2017

I have just been able to review a detailed summary of the tax act proposed to be voted on this week. I've summarized some points below that I think our Caissa clients and colleagues will find relatable. There will be a lot of planning to do in 2018!!!

If have any questions, please don't hesitate to call or email me. Kelly Pedersen

- ***New brackets:*** The TCJA did not cut the number of brackets as much as they first indicated and these brackets are set to sunset in 2024. The 10% and 35% brackets remain as current while the other five brackets all receive a rate reduction of approximately 1-4%. See below for how this may affect you.

NEW INDIVIDUAL & MARRIED TAX BRACKETS UNDER FINAL GOP TAX PLAN

Individual	
Not over $9,525	10% of the taxable income
Over $9,525 but not over $38,700	$952.50 plus 12% of the excess over $9,525
Over $38,700 but not over $82,500	$4,453.50 plus 22% of the excess over $38,700
Over $82,500 but not over $157,500	$14,089.50 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$32,089.50 plus 32% of the excess over $157,500
Over $200,000 but not over $500,000	$45,689.50 plus 35% of the excess over $200,000
Over $500,000	$150,689.50 plus 37% of the excess over $500,000

Married Filing Jointly	
Not over $19,050	10% of the taxable income
Over $19,050 but not over $77,400	$1,905 plus 12% of the excess over $19,050
Over $77,400 but not over $165,000	$8,907 plus 22% of the excess over $77,400
Over $165,000 but not over $315,000	$28,179 plus 24% of the excess over $165,000
Over $315,000 but not over $400,000	$64,179 plus 32% of the excess over $315,000
Over $400,000 but not over $600,000	$91,379 plus 35% of the excess over $400,000
Over $600,000	$161,379 plus 37% of the excess over $600,000

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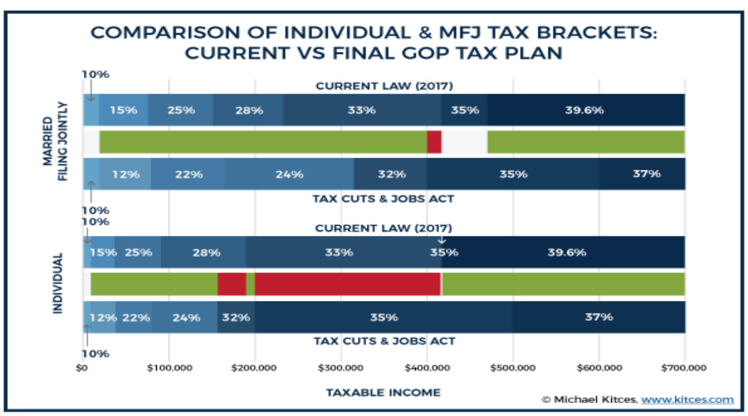
Source: Joint Explanatory Statement of the Committee of Conference regarding the Tax Cuts and Jobs Act (Dec. 16, 2017)



- The ***phaseout of itemized deductions*** will be repealed but the repeal sunsets in 2025.
- The ***marriage penalty*** will be removed for those under the 35% tax bracket (meaning the brackets are double that of a single taxpayer) but it is brought back for those in the 35% and higher brackets. Married couples will hit the highest bracket at $600,000 where an individual will hit it at $500,000.

- ***Kiddie tax*** on children's unearned income will now be calculated at the trust tax brackets and NOT the top marginal bracket of the parents. This could be very significant to those caught in kiddie tax as the trust brackets are extremely compressed and you get to a 37% rate at just $12,500 of income!!
- ***Capital gains*** will be 0% up to $38,600 Individuals/$77,200 Married. After that it is 15% and jumps to 20% for $452,400 Individual/$479,000 Joint (more marriage penalties!). The 3.8% Medicare surtax on those making $200,000 Individual/$250,000 Married will be added to the capital gains tax.
- ***Standard deduction and personal exemptions MERGE***. You will no longer get an exemption deduction for each person in your family. Instead, the standard deduction will be $12,000 for Individual/$24,000 Married (compared to last year of $6,350 Individual/$12,700 Joint; also $4,050 per person exemptions which will now be included in the standard deduction.
- ***Child tax credit*** will double to $2,000 per qualifying child and will phaseout starting at $75,000 Individual/$110,000 Married and be completely gone at $200,000 Individual/$400,000 Married
- ***State income taxes AND real estate taxes will be COMBINED and limited to $10,000***. This will have a huge impact on clients that are used to deducting state income taxes AND real estate taxes. For example, if you have $8,000 real estate taxes and $25,000 of state taxes to deduct, you will only get to deduct $10,000!!!!
- ***NEW mortgages*** after December 14, 2017, will only be able to deduct interest up to a mortgage of $750,000 (a reduction from $1,000,000).
- ***Home equity indebtedness will NO LONGER be deductible***. However, home equity debt used specifically to make a substantial improvement on a house WILL BE deductible. So it is about what you use the money for that will make it eligible or not.
- ***Medical deductions*** will be temporarily EXPANDED. The rate to exceed was reduced from 10% to 7.5% of AGI and will be **RETRO-ACTIVE for 2017** and forward into 2018!
- ***Current miscellaneous itemized deductions subject to the 2% floor will be repealed***. You will no longer be able to deduct your *attorney fees, accountant fees unreimbursed business expenses, home office expense, investment advisory fees*, etc. on the 2% miscellaneous itemized deductions.
- ***Student loan interest will STILL be deductible*** and they will keep the Hope and Lifetime credits.
- ***529 accounts*** will be eligible to be used for tax-free ***private elementary and secondary school*** expenses up to $10,000/year.
- ***529A ABLE accounts*** will allow tax-free distributions for disabled beneficiaries and you can withdraw funds over a number of years.
- ***Annual gift exclusion will increase to $15,000.***
- ***AMT for individuals will NOT be repealed!!!*** Instead, the exemption increase from $86,200 married to $109,400 married and the phaseout of the AMT exemption was also adjusted higher. With the repeal of many itemized deductions and the higher limits of the AMT exemption, it will be quite difficult to be subject to AMT anymore (which was really the purpose of AMT in the beginning).
- ***NEW qualified business income deduction for pass through entities.*** Any small business owner should fully understand their tax structure and whether it makes sense to run a scenario to convert to a C-corp (now taxed at 21%!!).
    - LLCs, S Corps and Sole Proprietorships may be eligible ***to deduct 20% of their gross income*** off the top and will be claimed on the person's 1040 BELOW the line deduction.
    - Investment income is not eligible.
    - Does not include reasonable compensation to an S Corp owner-employee, nor any guaranteed payments.

- Deduction is limited to the lessor or 20% of business income or 50% of total wages paid (25% of wages for real estate investors, factory/machinery intensive businesses)
- *Does not apply to service professionals including health, law, accounting, financial services, or consulting. It DOES include engineers and architects*

- ***Estate tax exemptions will double*** to $11.2M for each person, with portability and step-up basis remaining. The top tax rate remains at 40%.
- ***FIFO treatment*** on investment sales did NOT happen thankfully!
- ***The individual mandate*** for individual health insurance will be lifted starting 2019.
- ***Alimony will no longer be tax deductible to the payor nor taxable to the payee for divorces happening after 12/31/2018.***
- ***1031 exchanges will only be for real estate***. Nothing else will be eligible.
- ***Moving expenses*** in 2018 will be a taxable reimbursement for the employee.
- ***Cars purchased through businesses*** will have a significant bump in depreciation so you may want to think about buying vs leasing.
- ***Business entertainment expenses*** will allow the normal food and beverage deduction at the 50% rate, but will no longer allow expenses for entertainment, amusement or recreation.
- ***401(k) rollovers with loans*** will have more flexible options.
- ***Roth recharacterization*** will be repealed in 2018 except for those making a NEW Roth contribution and later realized they made too much money to contribute.

Sources:
KPMG Conference Agreement for H.R.1 Tax Cuts and Jobs Act – Initial Observations document
Michael Kitces summary of the Joint Explanatory Statement of the Committee of Conference