

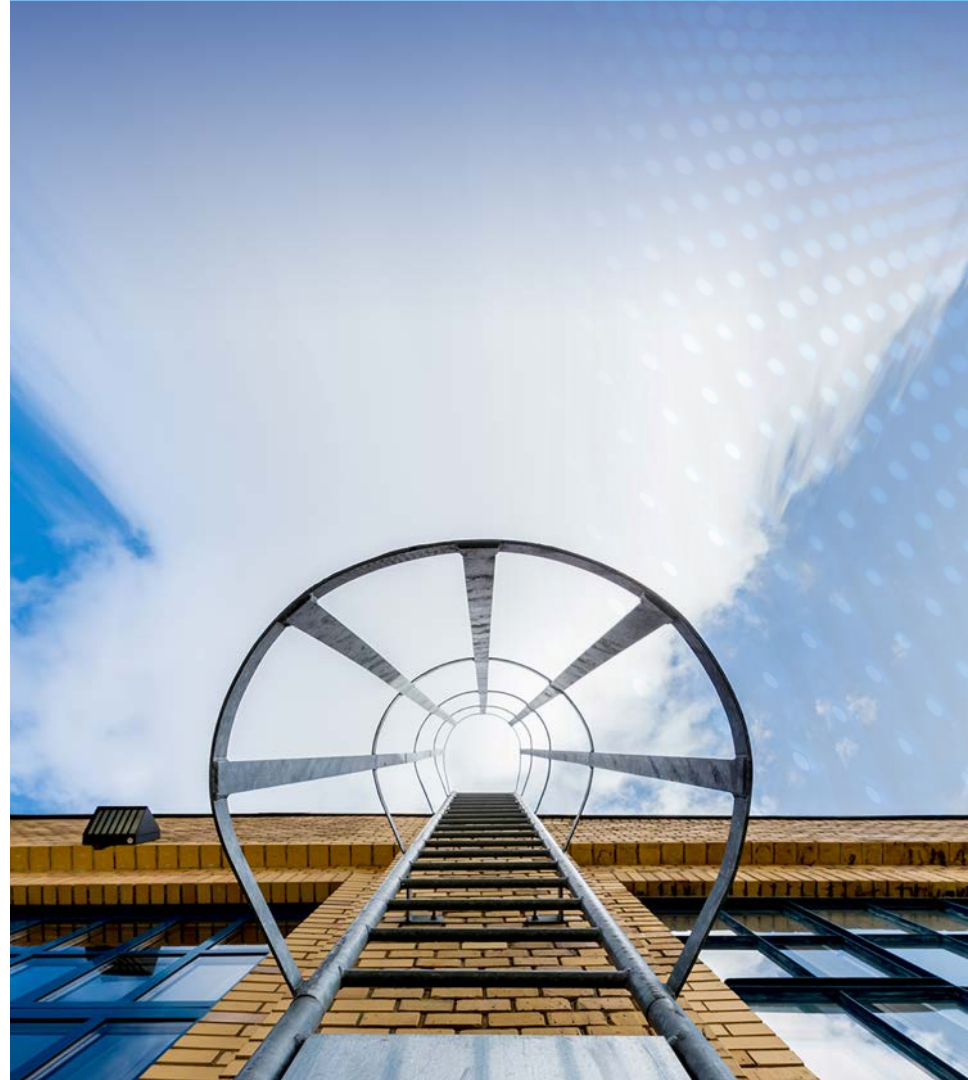


Tax Cuts & Jobs Act – Individuals



Many changes!

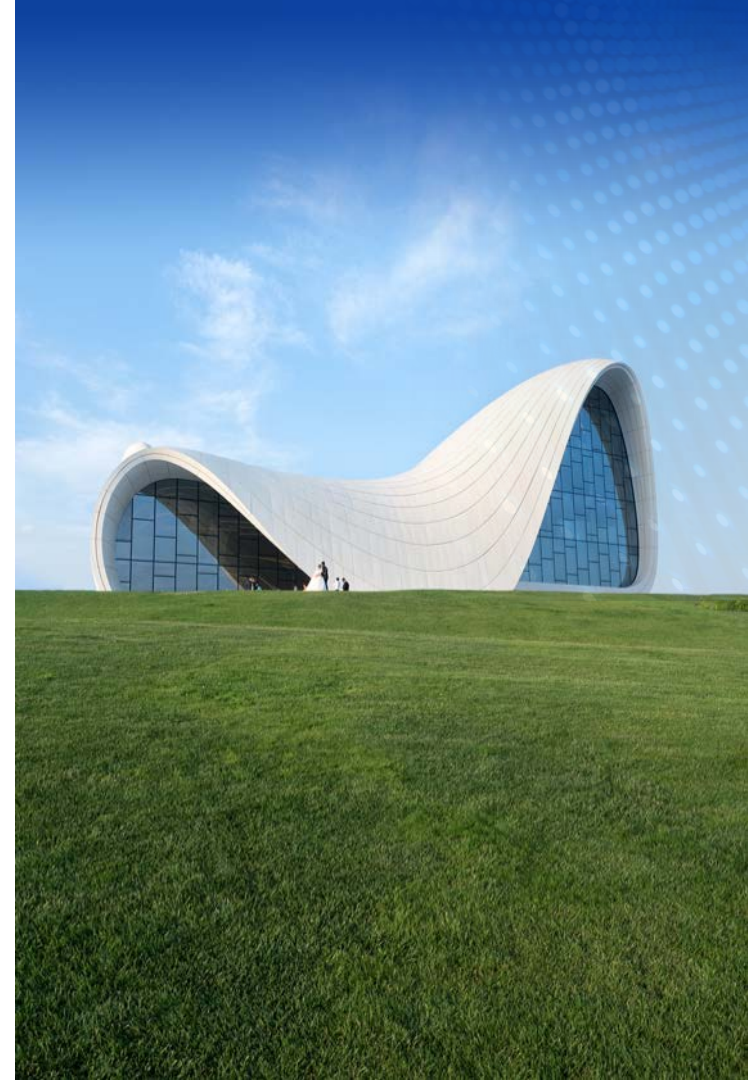
- Generally effective after 12/31/17
- Most changes are temporary
 - Sunset after 2025
- Guidance is needed
- Future legislation?
- State conformity to changes?





The basics

- Still seven tax brackets
 - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- No more dependent exemption
- Higher child tax credit (\$2,000)
 - New \$500 non-child dependent credit
- Increase in standard deduction
- Individual AMT not repealed
 - *But* exemption amounts have increased





Dividend and capital gains rates unchanged

- The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies).

Here's the breakdown:

**0% for MFJ taxpayers
with < \$77.2k taxable
income**

**15% for MFJ taxpayers
with between \$77.2k
and \$479k taxable
income**

**20% for MFJ taxpayers
with taxable income
greater than \$479k**



Itemized deductions changes

- Repeal of the overall limitation on itemized deductions
- Medical deduction threshold is 7.5% for 2017 & 2018
 - Reverts to 10% starting in 2019
- Mortgage interest limited to \$750k of debt
 - Debt prior to 12/15/17 is grandfathered
- Home equity interest no longer deductible
- State and local tax deduction is limited to \$10k (\$5k if MFS)
- Misc. deductions subject to 2% threshold no longer deductible



Misc. itemized deductions subject to 2% AGI

- Unreimbursed employee expenses
- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit fee
- Gambling losses (*in excess of winnings*)

...are no longer deductible



Expired provisions (at the end of 2016)

- Exclusion of discharge of indebtedness on principal residence
- Deduction of mortgage insurance premiums
- Above-the-line deduction for qualified tuition and fees
- Credits for qualified energy property





20% pass-through deduction

- 20% of qualified business income
- Qualified business income definitions
 - Qualified trade/business income
 - Not a specified trade/business
 - Trade/business involving performance of services
 - Does not include investment income
 - Does not include reasonable compensation paid from S corporation or guaranteed payments paid to a partner
 - Phase-out limitation



Affordable Care Act impact

- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- **HOWEVER**, still in effect for 2017 and 2018
- 2017 penalty:
 - Higher of 2.5% of yearly household income, **or**
 - \$695 per person (\$347.50 per child under 18)





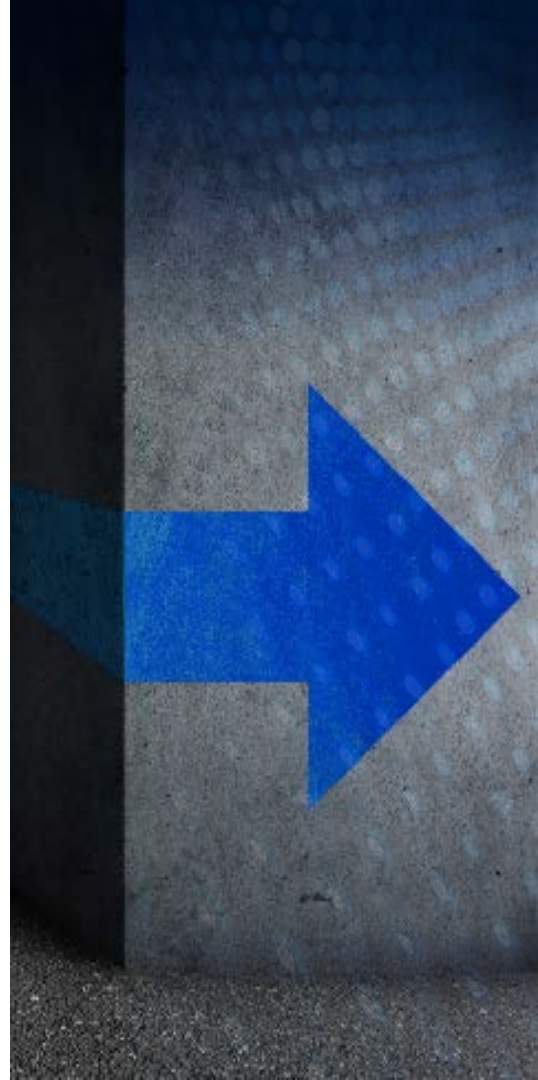
Affects on the net investment income tax (NIIT)

- No change to NIIT itself, but.....
- Investment fees and state income tax (amount attributable to investment income) reduce investment income to lower amount subject to NIIT
- Since investment fees are no longer deductible and state income tax is limited to \$10k, this will likely cause an increase in the amount subject to NIIT



Alternative minimum tax (AMT) changes

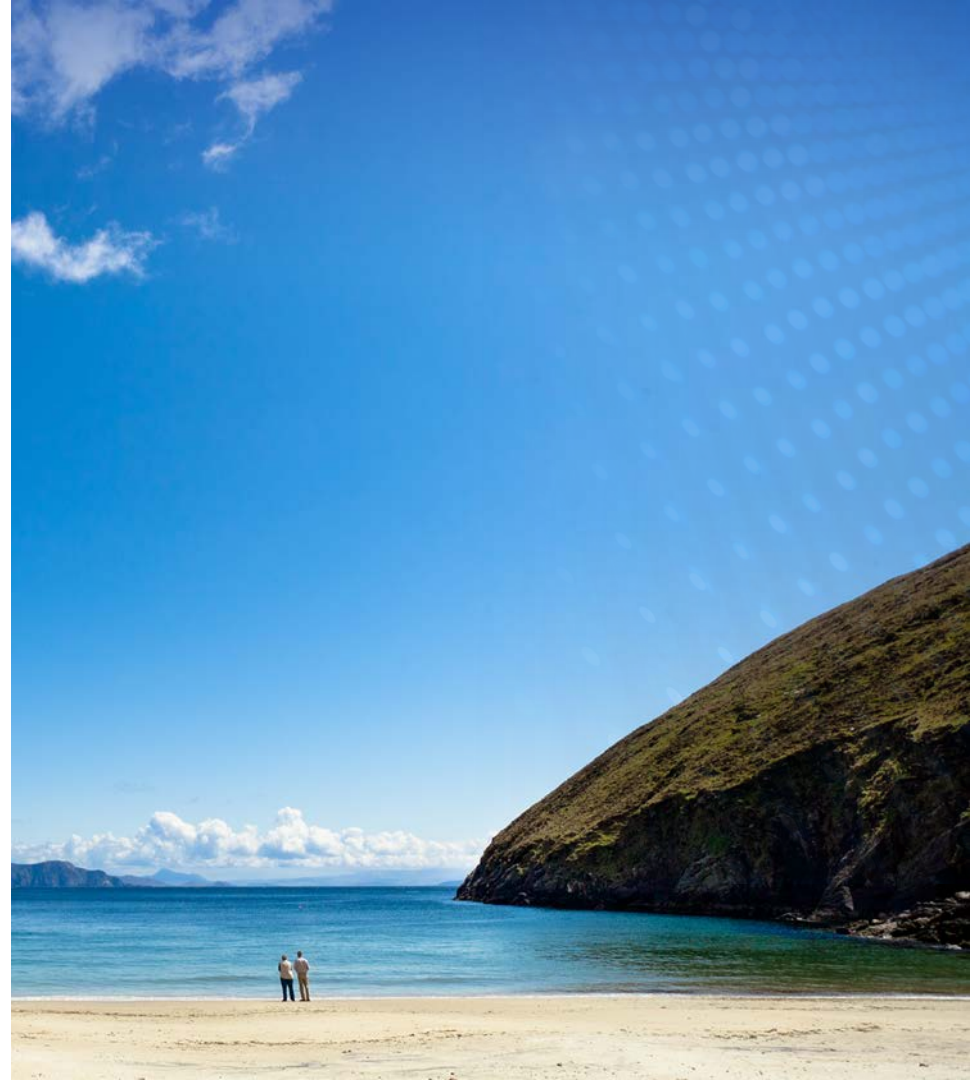
- Alternative tax system that parallels the regular federal tax (with different rates and rules for deductions)
- Increase in exemption amount
- Due to limit on state/local tax deduction and repeal of miscellaneous deductions, impact should be less





Changes to retirement planning

- Ability to recharacterize a Roth conversion to a traditional IRA is removed after 2017
- Extension of rollover period for plan loan offsets





Estate and gift taxes changes

- 2018 estate tax exemption: \$11.2 million
- 2018 gift tax annual exclusion: \$15,000
- Estate planning is **more than minimizing estate taxes.**
 - Updating documents
 - Repurposing insurance
 - Privacy
 - Asset protection



Education tax benefit changes

- Sec 529 plan distributions for private school tuition
- Sec 529 plan assets can transfer to ABLE accounts for family members
- Student loan forgiveness will not be taxable income to student upon death/total disability





Other individual changes to note

- Casualty losses: only from federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Kiddie tax now at trusts/estate tax rates



Charitable contribution changes

- AGI limitation increased to 60% for cash contributions (from 50%)
- No 80% deduction for right to purchase athletic tickets
- Exception to contemporaneous written acknowledgement requirement is repealed (must be obtained now for any contribution of \$250 or more)



State and local tax issues

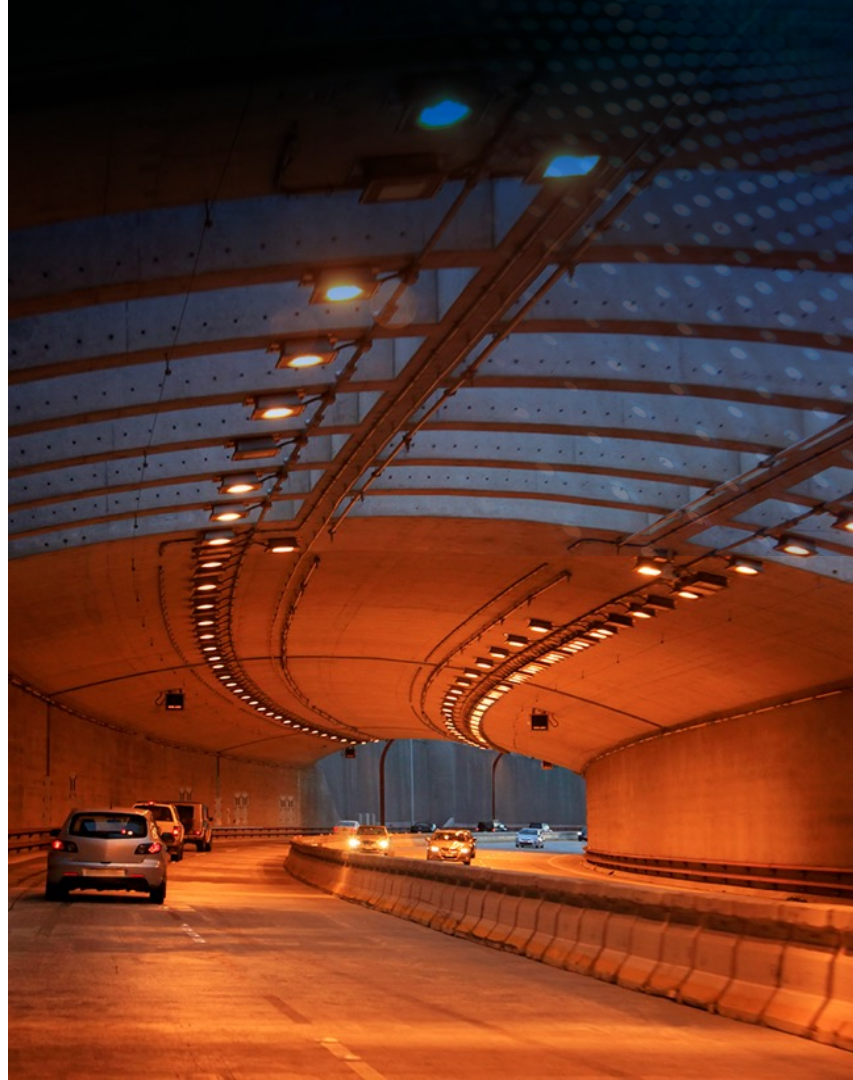
- Total deduction limit of \$10k (\$5k if MFS)
 - Combination of income/sales and state/local property taxes
- Exceptions
 - Tax imposed at entity level
 - Property taxes for residential rental property/business property
- Prepayment of 2018 state income taxes in 2017
- Prepayment of 2018 real estate taxes in 2017





Planning now to avoid underpayment penalties

- Estimated tax payments/withholding





Proposed changes not included in final bill (but were in either House or Senate bill) include ...

- Additional standard deduction for elderly and blind
- \$250 above-the-line teacher deduction is not changed
- Exclusion for employer-provided dependent care assistance
- Exclusion for adoption assistance programs
- Reduction of capital gain rates/changes to taxation of interest income
- Sec. 121 exclusion of gain on sale of principal residence
- Required use of FIFO to determine basis of stock dispositions
- Charitable driving remains at 14 cents/mile (rather than actual)
- Consolidation and modification of education provisions not included (only change is to expand 529 plans)
- Plug-in electric vehicle credit (Sec. 30D)



Depreciation changes

- Additional first year/bonus depreciation- 100% for property acquired after 9/27/17
- Phase down schedule for years after 2022
- Now allowed for new and used property
- Qualified improvement property no longer qualifies
- Luxury auto limits – (note that additional \$8k depreciation has been extended for 2017)
- Increases to Sec. 179 (\$1M and threshold \$2.5M)
- SUV limitation remains at \$25,000
- Limits are indexed for inflation
- Expansion for certain real property (roofs, HVAC)
- Allows residential rental property



Planning tips

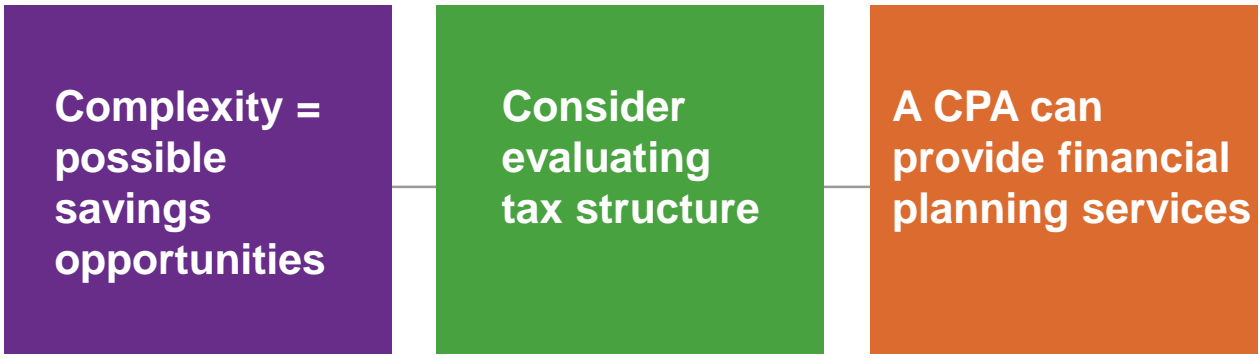
Requires rethinking and planning in many areas

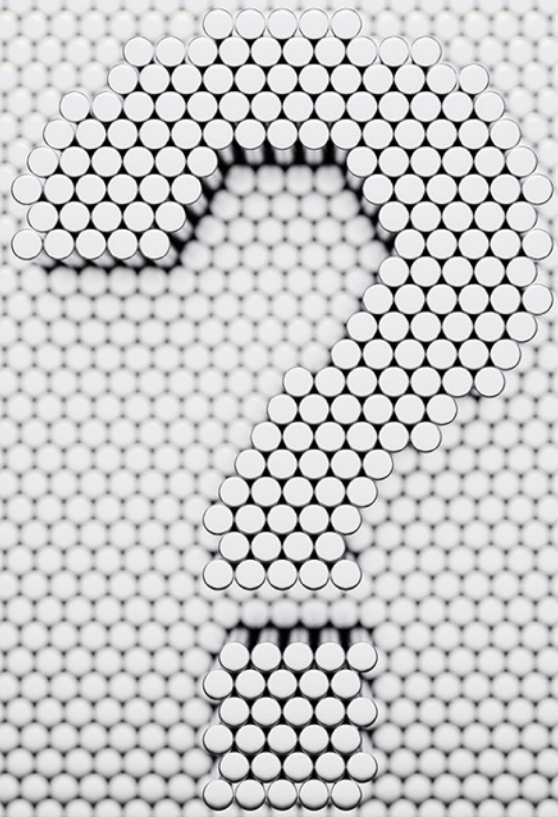
- Choice of entity for business ventures
- Charitable giving planning
- Estate/gift planning with temporary increased exemption
- Stock option and restricted stock exercise planning
- Interplay of Sec. 199A with remaining rules such as NIIT, passive activity loss limits





Planning opportunities







Thank you