



WHAT TO EXPECT FROM THE NEW TAX BILL

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On Wednesday, Congress passed the largest tax reform bill in 30 years. Although the legislation is primarily aimed at corporations there are substantial changes on the individual side. I hope to provide a general sense of what you can expect. Barring any last-minute changes, the new law takes effect in January 2018 and following are some of the key changes for individuals:

- The vast majority of Americans will see a decrease in their tax rate. The new individual rates will be 10%, 12%, 22%, 24%, 32%, 35% and 37%.
- The standard deduction is doubled (\$24,000 for married couples, \$12,000 for singles), while some itemized deductions have been altered or eliminated.
- Personal exemptions are eliminated.
- Doubling of the child tax credit to \$2,000.
- A new \$500 tax credit for non-child dependents. This can apply to a number of people the taxpayer supports, such as children over the age of 17, or elderly parents.
- Elimination of the individual mandate for the Affordable Care Act (AKA Obamacare).
- \$10,000 limit on the deduction for state and local taxes.
- Reduction to the mortgage debt limit for the mortgage interest deduction, to \$750,000 (\$375,000 for separate filers).
- Elimination of the deduction for interest on home equity debt.
- Expansion of 529 college savings plan distributions to include those used to pay qualifying elementary & secondary school expenses, up to \$10,000 per student, per year.
- Business owners who are organized as sole proprietorships, LLCs, S corporations, or partnerships can take a 20 percent deduction on their pass-through income, with some limits for couples earning above \$315,000 (157,500 single).
- Estate tax exemption is doubled to \$10 million.

Other points of interest:

- Student loan interest deduction **will remain unchanged.**
- Tax rates on dividends and capital gains **will remain unchanged.**
- Tax benefits to 401k, IRAs and other retirement accounts **will remain unchanged.**

General thoughts

Overall, experts believe that most folks will see a reduction in what they pay in income taxes. High income people residing in very high tax states/cities (Chicago IL, New York, NY, etc) are likely to **not** see much of a benefit and in many cases will experience a tax increase. But folks living in Tennessee and other 'zero income tax' states will benefit the most. By far **the biggest change is the reduction of the corporate tax rate to 21%**. The idea is to stimulate economic growth by putting more cash in companies' pockets. The hope is that businesses will use this savings to hire more workers, pay dividends to shareholders, repatriate offshore assets and do other economic stoking activities. Regardless of what the various political parties claim, we really don't know how this will shake out. It is true that past reductions in the corporate rate have substantially aided our economy. But with so many variables we will just have to wait and see.

THINGS TO CONSIDER NOW:

Consider postponing income until 2018

- Since it's highly likely that your tax rate will be less after 2017 it only makes sense to defer income until 2018. For example, if you are a cash basis taxpayer and self-employed you may want to wait to bill clients until next year.

Consider accelerating charitable contributions and other deductions in 2017

- The deduction for charitable contributions will stay the same. But because most other itemized deductions will be eliminated, giving to charity may not yield the same benefit in 2018 and beyond.
- There are other deductions that should also be taken in 2017 as well, such as HSA contributions. Be sure to discuss the options with your CPA.

Get that 401k maxed out now (and deductible IRAs before April 16, 2018)

- You should really be doing this anyway. But, if you have not maxed your contributions to your company's retirement plan this year, do as much as possible in these last couple weeks. For IRA's (excluding SIMPLE IRA salary deferrals) you have until your tax filing deadline (April 16, 2018)

For those going through a divorce

- Under the new law, alimony payments aren't deductible by the payor or includible in the income of the payee (generally effective for any divorce executed *after* 2018). So try to get everything finalized in 2018 if you're the payor, and try to hold off if you're the payee. If both parties are reading this, please don't put me in the middle!

IRA recharacterizations

- Investors who converted funds from a traditional IRA to a Roth IRA can no longer undo or recharacterize the conversion once it's done.

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