*A brief overview of the*

***Tax Cuts and Jobs Act of 2017***

***The changes that matter most!***

***01-29-2018 - 6.3***

 The Act is the most significant tax law change since 1986. The information included will address the questions most often received from clients. There are many other provisions under the law. Please call with inquiries not addressed here.

***Important note:*** *---, its agents and representatives may not give legal or tax advice. Any discussion of taxes herein or related to this document is for general information purposes only and does not purport to be complete or cover every situation. Tax law is subject to interpretation and legislative change. Tax results and the appropriateness of any product for any specific taxpayer may vary depending on the facts and circumstances. Clients should consult with and rely on their own independent legal and tax advisors regarding their particular set of facts and circumstances.*

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| ***Tax Item*** | ***2017 Law*** | ***2018 Law*** |
| ***Personal Income Tax*** |
| ***Tax brackets***   | Seven graduated brackets increasing the tax as taxable income increases – minimum 10%, maximum 39.6%. | The seven brackets are maintained with the rates lowered in some and higher incomes allowed at lower rates in others – minimum 10%, maximum 37%.Ex. For a joint filing with taxable income at the *midpoint* of each new bracket: 12% (old 15%) - 48,225 – 875 savings 22% - 121,200 – 2,874 savings 24% - 240,000 – 7,555 savings 32% - 357,500 – 14,730 savings |
| ***Standard Deduction*** | Single – 6,500Joint – 13,000 | Single – 12,000Joint – 24,000 |
| *Observations* * This is the provision that will reduce many more filers to a Form 1040EZ.
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| ***Certain Itemized Deductions*** *(those affecting a large number of filers)* | Mortgage Interest  On loans up to 1,100,000State & Local Taxes *(SALT)* Unlimited |  On loans up to 750,000 Single & joint – up to 10,000  |
| *Observations* * Most filers benefitting from these deductions will not be affected by the new limits.
* Note – the discrimination between single and joint filers on the SALT deduction.
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| ***Personal Exemptions*** | 4,050/taxpayer and for each tax dependent - indexed | Repealed |
| *Observations** Note – the loss of the personal exemptions will wipe out the benefit of the increased standard deduction in many cases (e.g. a married couple with two kids loses approx. 20,000 in exemptions vs. an 11,000 increase in the standard deduction).
* Divorced couples – the right to claim exemptions for children under a divorce decree is often an important matter in the determination of alimony or child support payments – the repeal could affect proceedings under those decrees allowing for adjustments
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| ***Alimony*** | Alimony was deductible to the payor, recognizable to the recipient | *For decrees* ***after*** *December 31, 2018* The opposite – alimony will no longer be deductible to the payor, and will no longer be recognizable to the recipient (the same as the current law for child custody payments. |
| *Observations** This will affect the amount of after-tax money available where the payor is in a higher tax bracket than the recipient
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| ***Child and Family Tax Credit*** | 1) 1,000 credit per qualifying child (under age 17) up to 2 children2) Non-refundable – credit stopped when taxable income was reduced below zero3) Phase-out begins for joint at 110,000 AGI, single 75,000 AGI | 1) 2,000 credit per qualifying child (under age 17) up to 2 children2) Refundable – up to 1,400 per child even if taxable income drops below zero3) Phase-out begins for joint at 400,000 AGI, single at 200,000 AGI |
| * ***Important*** – a *credit* is a dollar-for-dollar deduction of the tax owed – each full credit is equivalent to almost 17,000 in deductions in a 12% bracket and around 9,000 in deductions in a 22% bracket – this credit is often overlooked – for taxpayers with qualifying children this goes a long way to offsetting the loss of personal exemptions
* Divorced couples – the right to claim this credit can play an important role in most decrees
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| ***Charitable Deductions*** | Most contributions (e.g. cash) are deductible up to 50% of AGI with 5-year carryover for use of any excess. | Increased to 60% of AGI with 5-year carryover.30% AGI limit stills applies for donation of appreciated property |
| *Observations* * Loose talk of a “repeal or cut-back” of charitable deductions in the law are not accurate.
* The misunderstanding is probably based on the effect of the increased standard deduction. Consider a single taxpayer with 10,000 in charitable donations:

In 2017 he/she needed to itemize to benefit from the donation amount over 6,500.In 2018 the standard deduction of 13,000 covers the whole deal without itemizing.Some unrealistically suspect this will cause taxpayers to stop giving. |
| ***Business Income Tax*** |
| ***Tax Brackets – C-Corps*** | Eight brackets configured to eventually, given enough income, tax all dollars at a flat 35%.Assume a C-Corp wanted to pay a shareholder a 1.00 dividend: ***1.53*** – year-end company profit needed (35%) - corporate tax 1.00 – ordinary dividend to shareholder (39.6%) - individual tax .59 – after-tax dividend to shareholder | Creates a maximum 21% bracket that applies to all taxable income over 50,000 (unlike most provisions in the Tax Act, this change has no sunset provision)Same assumption: ***1.26*** – year-end company profit needed (21%) - corporate tax 1.00 – ordinary dividend to shareholder (37%) - individual tax .63 – after-tax dividend to shareholder |
| *Observations* * Businesses really don’t pay taxes – the levy is passed on to the consumer as a cost of doing business, thereby increasing the price of goods and services.
* Because (in the example) the business doesn’t need to earn the additional 27 cents to meet shareholder dividend expectations the difference will be reflected (at least partly) in a lower price to consumers as competitors are able to lower prices as well due to the reduced cost of doing business.
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| ***Deduction for Pass-throughs*** *(S-Corps, partnerships & sole proprietorships and LLCs taxed as those business forms)* | These business structures do not pay a business income tax. Any profits each year *“pass-through”* the entity and are reported on the personal returns of the owners and taxed in their individual brackets.Assume an owner in the highest personal bracket with 100,000 on the Schedule K:100,000 – reported on the Schedule K (39.6%) – income (a 3.8% ObamaCare tax may also be included) 59,400 – after-tax income | In order to give pass-through business a tax break similar to the reduction of the corporate bracket to 21%, *an optimum deduction is allowed for 20% of business income*.Same assumptions (best possible circumstances):100,000 – reported on the Schedule K(20,000) – maximum deduction allowed 80,000 – taxable income from the business (37%) – income (a 3.8% ObamaCare tax may also be included) 50,400 – after-tax amt. of the taxable income 20,000 – portion not taxed due to the deduction 70,400 – total after-tax income from the business |
| *Observations* * The amount of the deduction hinges on a business owner’s “taxable income” prior to consideration of any pass-through deduction allowed – the calculation for a partial deduction is a convoluted process requiring the assistance of a tax advisor.
* In determining how much of the 20% deduction is available pass-through businesses are divided into two categories: 1) ***Specified Service Trades or Businesses*** – enterprises where the principal asset is the reputation or skill of one or more of its employees - e.g. services in the fields of health, law, accounting, actuarial, performing arts, consulting, athletics, investments, but *not* engineering or architecture – go figure! Although not mentioned, many feel that insurance advisors or agencies will be considered a specified service trade or business; 2) ***Nonservice Businesses*** – e.g. manufacturing, retail sales.
* Other than this summary an explanation of the calculation of the available deduction will not be attempted here.

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| ***Pass-through Owner’s Taxable Income*** | ***Specified Service Trade or Business*** | ***Nonservice Businesses*** |
| Below threshold levels | Full 20% deduction | Full 20% deduction |
| Within phase-out range: Filing singly – $157,500 - $207,500 Filing jointly - $315,000 - $415,000 | Deduction is subject to both a reduction and a phase-out of that reduced amount | Deduction is subject to a phase-out |
| Above threshold levels | No deduction | Despite phase-out a portion of the deduction may still be available |

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| ***Transfer Tax (Estate, Gift & Generation-skipping)*** |
| ***Lifetime Exemption***The amount a taxpayer can gift or leave to heirs over his/her lifetime without gift or estate or generation-skipping tax. | 5,490,000 per taxpayer indexed10,980,000 per married couple (with proper planning) indexed | 11,200,000 per taxpayer indexed ***till 1/1/26, then 2017 levels*** (the expiration is a “Sunset” provision – see below)22,400,000 per married couple (with proper planning) indexed |
| *Observations* * State death taxes may still apply and the exemption increase are only good for 7 years (see next).
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| ***“Sunset” makes a difference*** | If the law remains unchanged and the exemption amount has increased by 2%/year (higher than past experience) the following would be the future exemptions amounts:

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| ***If taxpayer(s) only live for 7 years*** | ***If taxpayer(s) live for more than 7 years*** |
| Until 12/31/2025 12,870,000 per taxpayer 25,740,000 per married couple (with proper planning) | On or after 1/1/2026 6,560,000 per taxpayer 13,120,000 per married couple (with proper planning) |

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| *Observations* * If a tax revision is not deemed revenue neutral then it must have an expiration date (or “Sunset” provision). Most changes in the Tax Cuts and Jobs Act of 2017 have a sunset provision. One exception is the reduction of the top corporate bracket to 21%.
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| ***Stepped-up Basis in Inherited Property*** | Heirs have an income tax basis in inherited property equal to the FMV at the time of death | Unchanged Example: Parent buys a share of stock in 1980 for $5.00. In 2018 it is worth $1,005.00. If sold the parent owes capital gains tax on $1,000. Instead parent dies and leaves the share to his child. Child’s basis is $1,005.00. If sold for that amount there is no gain and no tax. |