HIGHLIGHTS OF THE TAX CUTS AND JOBS ACT

The Tax Cuts and Jobs Act (TCJA) is the most sweeping tax mandate in decades. It is complex legislation and will take time to fully understand.

Adding to the complexity is that some aspects of the TCJA are scheduled to sunset while others are permanent. This document provides an overview of many significant TCJA provisions.

Marginal Rates: The new tax plan maintains seven marginal income tax brackets. There were several changes to rates and thresholds. Here is how the old and new marginal rate schedules compare for 2018.

UNDER OLD TAX LAW – 2018					TAX CUTS AND JOBS ACT – EFFECTIVE 2018				
Taxable Income ($)					Taxable Income ($)				
Single Filers		Married Filing Jointly		Tax Rate	Single Filers		Married Filing Jointly		Tax Rate
Income over	But not over	Income over	But not over	%	Income over	But not over	Income over	But not over	%
0	9,525	0	19,050	**10**	0	9,525	0	19,050	**10**
9,525	38,700	19,050	77,400	**15**	9,525	38,700	19,500	77,400	**12**
38,700	93,700	77,400	156,150	**25**	38,700	82,500	77,400	165,000	**22**
93,700	195,450	156,150	237,950	**28**	82,500	157,500	165,000	315,000	**24**
195,450	424,950	237,950	424,950	**33**	157,500	200,000	315,000	400,000	**32**
424,950	426,700	424,950	480,050	**35**	200,000	500,000	400,000	600,000	**35**
426,700	and over	480,050	and over	**39.6**	500,000	and over	600,000	and over	**37**

*The income tax brackets will index for inflation based on the chained CPI (C-CPI-U) starting after 2018.

Standard Deduction: The standard deduction for individuals has been increased from $6,350 in 2017 (deduction for 2018 would have been $6,500) to $12,000 in 2018. For married filing jointly (MFJ) the standard deduction has increased from $12,700 in 2017 (deduction for 2018 would have been $13,000) to $24,000 in 2018.

Personal and Dependent Exemptions: All exemptions (personal and dependent) have been repealed.

Qualified Business Income Deduction for Pass-Through Businesses: Subject to limitations, qualified business income from eligible entities (LLCs, partnerships, S-Corps, and sole proprietorships) will be eligible for a 20% deduction. The deduction is generally limited to the lesser of: (1) 20% of Qualified Business Income, or (2) The greater of: 50% of all Employee W2 income OR 25% of the business W-2 wages plus 2.5% of the unadjusted basis of all qualified property. Restrictions and phase-outs apply depending on the amount of income and the type of business. The deduction is phased-out for qualified service businesses when taxable income reaches $157,500 (Single) or $315,000 (Married Filing Jointly). It is eliminated when taxable income reaches $207,500 (Single) or $415,000 (MFJ).

Carried Interest: For certain carried interest a new three-year holding period is imposed to qualify for the long-term capital gains rate.

Child Tax Credit: The tax credit for qualified dependent children (under the age of 17) has been increased from $1,000 to $2,000 per child. $1,400 is refundable if the filer's net tax liability is zeroed out by the credit. (There is also a $500 credit for dependents aged 17 and over.) The phase-out threshold for this credit has also increased to $400,000 for MFJ and $200,000 for all other filers.

Capital Gains and Qualified Dividends: Long-term capital gains rates have remained unchanged (0%, 15%, 20% + 3.8% NIIT). However, they are still based on the old marginal rate table (indexed using C-CPI-U) and no longer align with the ordinary income tax schedules. Trusts and estates with capital gains and/or qualified dividends also use the old tax table (indexed using traditional CPI).

Alternative Minimum Tax (AMT): The AMT exemption has been increased to $70,300 for individuals and $109,400 for those MFJ. The income phase-out for the AMT exemption has been increased to $500,000 for individuals and $1,000,000 for MFJ. This significantly limits the scope of AMT applicability. The corporate AMT has been repealed.

Federal Estate Tax: The threshold for estates subject to the 40% estate tax has been increased to ~$11.2 for individuals and ~$22.4 million for married couples.

Estates and Trusts Tax Rates: The number of brackets was reduced from five to four. The tax rates have also been lowered but they remain compressed.

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ESTATES AND TRUSTS TAX RATES UNDER THE TCJA	
Not over $2,550	**10%**
Over $2,550 but not over $9,150	**24%**
Over $9,150 but not over $12,500	**35%**
Over $12,500	**37%**

Kiddie Tax: Unearned income above $2,100 from child-owned assets is now subject to the same tax table as estates and trusts.

Roth IRA Recharacterization: Roth conversions completed after 12/31/17 cannot be recharacterized.

Itemized Deductions: There have been many reforms to the itemized deduction rules, including a repeal of the income phase-out. Some of the additional changes are included in the following list.

State and Local Taxes (SALT): Real estate, personal property, and either income or sales tax are deductible up to a $10,000 limit.

Medical Expenses: A deduction can be claimed for all unreimbursed medical expenses to the extent that they exceed 7.5% of income. Under the old law medical expenses had to exceed 10% of income to qualify for a deduction. The lower threshold is applicable to the 2017/2018 tax years and revert back to 10% thereafter.

Mortgage Deduction: The cap for deducting mortgage interest has been decreased to $750,000 of debt principal. Homes purchased before 12/15/17 are grandfathered under the old cap of $1 million. Also, the deduction for home-equity loan interest has been eliminated unless the loan is used for improvements or acquisition of a home.

Charitable Contributions: The deduction for charitable donations of cash has been increased to 60% of adjusted gross income (AGI).

Casualty Losses: Deductible personal casualty losses are limited to federally declared disaster areas.

Investment Advisory Fees and Other Miscellaneous Itemized Deductions: All miscellaneous itemized deductions subject to the 2% AGI floor under IRC Section 67 have been repealed. This includes, but is not limited to, annuity losses, investment advisory fees, tax preparation fees, and unreimbursed business expenses.

Other TCJA Changes: The following are other notable changes made under the TCJA.

Individual Mandate: Effective 2019, the TCJA repeals the health insurance individual mandate and penalty.

Corporate Income Taxes: The corporate income tax rate has reduced to a flat rate of 21%.

Alimony Treatment: For divorces that conclude after 12/31/18, alimony will no longer be deductible by payers. Congruently, alimony received will no longer be treated as taxable income.

1031 Exchanges: Tax-free exchanges of like-kind property are now limited to real estate only.

Moving Expenses: Except for specific military situations, moving expenses can no longer be deducted. Additionally, any reimbursed moving expenses will be countable as taxable income to employees.

Business Entertainment Expenses: The TCJA prohibits deductions for activities considered to be entertainment or recreation.

401(k) Loans: The deadline for tax-free rollovers of employer plan loan offset amounts has been extended to the participant's tax filing deadline (including extensions).

Education Reforms: Withdrawals from 529 education-savings accounts can now be used tax free for expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school (not including homeschooling). There is a $10,000 limit per student , per year, for K-12. This limit does not apply to post-secondary expenses. Transfers from 529 plans to 529 ABLE accounts are now permissible up to the annual contribution limits of $15,000 for 2018. Also, student loans discharged due to death or disability will no longer be treated as taxable income.

Sources: http://www.taxpolicycenter.org/feature/analysis-tax-cuts-and-jobs-act

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