INDIVIDUAL TAX LAW CHANGES

INDIVIDUAL TAX RATES

(Note: Individual rate cuts would begin in 2018 and expire after 2025.)

Current law: Seven rates, starting at 10% and reaching 39.6% for incomes above $418,401 for singles and $470,701 for married, joint filers.

New Law: Seven rates, starting at 10% and reaching 37% for incomes above $500,000 for singles and $600,000 for married, joint filers.

Here is a comparison of the savings taxpayers will enjoy:

Comparison of Tax Rates			
Rate	**2018-2025**	**2017**	**2016**
Joint Returns			
10 percent	$0-$19.050	$0-$18,650	$0-$18,550
12 percent	$19,051-$77,400	N/A	N/A
15 percent	N/A	$18,651-$75,900	$18,551-$75,300
22 percent	$77,401-$165,000	N/A	N/A
24 percent	$165,001-$315,000	N/A	N/A
25 percent	N/A	$75,901-$153,100	$75,301-$151,900
28 percent	N/A	$153,101-$233,350	$151,901-231,450
32 percent	$315,001-$400,000	N/A	N/A
33 percent	N/A	$233,351-$416,700	$231,451-$413,350
35 percent	$400,001-$600,000	$416,701-$470,700	$413,351-$466,950
37 percent	>$600,000	N/A	N/A
39.6 percent	N/A	>470,700	>466,950
Head of Household			
10 percent	$0-$13,600	$0-$13,350	$0-$13,250
12 percent	$13,601-$51,800	N/A	N/A
15 percent	N/A	$13,351-$50,800	$13,251-$50,400
22 percent	$51,801-$82,500	N/A	N/A
24 percent	$82,501-$157,500	N/A	N/A
25 percent	N/A	$50,801-$131,200	$50,401-$130,150
28 percent	N/A	$131,201-$212,500	$130,151-$210,800
32 percent	$157,501-$200,000	N/A	N/A
33 percent	N/A	$212,501-$416,700	$210,881-$413,350
35 percent	$200,001-$500,000	$416,701-$444,550	$413,351-$441,000
37 percent	>$500,000	N/A	N/A
39.6 percent	N/A	>$444,500	>441,000
Single			
10 percent	$0-$9,525	$0-$9,325	$0-$9.275
12 percent	$9,526-$38,700	N/A	N/A
15 percent	N/A	$9,325-$37,950	$9,276-$37,650
22 percent	$38,701-$82,500	N/A	N/A
24 percent	$82,501-$157,500	N/A	N/A
25 percent	N/A	$37,951-$91,900	$37,651-$91,150
28 percent	N/A	$91,901-$191,650	$91,151-$190,150
32 percent	$157,501-$200,000	N/A	N/A
33 percent	N/A	$191,651-$416,700	$231,451-$413,350
35 percent	$200,001-$500,000	$416,701-$418,400	$413,351-$415,050
37 percent	>500,000	N/A	N/A
39.6 percent	N/A	>$418,400	>$415,050

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INDIVIDUAL ALTERNATIVE MINIMUM TAX

Current law: Individual AMT can apply after exemption level of $54,300 for singles and $84,500 for married, joint filers, and the exemptions phase out at higher incomes.

New law: Increase the exemption to $70,300 for singles and $109,400 for joint filers. Increase the phase-out threshold to $500,000 for singles and $1 million for joint filers. The higher limits would expire on Jan. 1, 2026.

OBAMACARE INDIVIDUAL MANDATE

Current law: An individual who fails to buy health insurance must pay penalties of $695 (higher for families) or 2.5% of their household income — whichever is higher, but capped at the national average cost of the most basic, low-premium, high-deductible plan.

New law: Repeal the penalties.

STANDARD DEDUCTION AND PERSONAL EXEMPTIONS

Current law: $6,350 standard deduction for single taxpayers and $12,700 for married couples, filing jointly. Personal exemptions of $4,050 allowed for each family member.

New law: $12,000 standard deduction for single taxpayers and $24,000 for married couples, filing jointly. Personal exemptions repealed.

INDIVIDUAL STATE AND LOCAL DEDUCTIONS

Current law: Individuals can deduct the state and local taxes they pay, but the value is subject to certain limits for high earners.

New law: Individuals can deduct no more than $10,000 worth of the deductions, which could include a combination of property taxes and either sales or income taxes.

MORTGAGE INTEREST DEDUCTION

Current law: Deductible mortgage interest is capped at loans of $1 million.

New law: Deductible mortgage interest for new purchases of first or second homes would be capped at loans of $750,000 starting on Jan. 1, 2018. Old mortgage loan amounts are grandfathered.

MEDICAL EXPENSE DEDUCTION

Current law: Qualified medical expenses that exceed 10% of the taxpayer's adjusted gross income are deductible.

New law: Reduce the threshold to 7.5% of AGI for 2017 and 2018.

CHILD TAX CREDIT

Current law: A $1,000 credit for each child under 17. The credit begins phasing out for couples earning more than $110,000. The credit is at least partially refundable to qualified taxpayers who earned more than $3,000.

New law: Double the credit to $2,000 and provide it for each child under 17 through 2025. Raise the phase-out amount to $400,000, and cap the refundable portion at $1,400 in 2018.

KIDDIE TAX

Current law: Unearned income of a child is taxed at the parents' tax rate if higher than the child's rate

New law: Unearned income of a child is taxed at trust tax rates.

ESTATE TAX

Current law: Applies a 40% levy on estates valued more than $5.6 million for individuals and $11.2 million for couples.

New law: Double the thresholds so the levy applies to $11.2 million for individuals and $22.4 million for couples. The higher thresholds would sunset in 2026.

529 FOR ALL EDUCATION COSTS

Section 529 plans have typically only been available for college education expenses, with Coverdell Education Savings accounts being used for pre-college education. A revision in the law means that 529 accounts could be used for any education expense, from elementary to college. Home school expenses were deleted by the Senate. Pre-college expenses are limited to $10,000 per year.

For families who have been paying for pre-college education out-of-pocket, they could now reroute those expenses, up to $10,000 per year, through their state's 529 plans. If available, they could take a state income tax deduction.

One caveat with this planning opportunity: if families start using money in the accounts for pre-college expenses without adding more cash, it will shrink the amount available for college. This means future costs would need to be funded through cash flow or loans.

HOME EQUITY LINE OF CREDIT (HELOC) DEDUCTABILITY ELIMINATED

As of today, interest on home equity loans (up to $100,000 loan balance) has been deductible against income. However, for all current and future loans used for expenses other than making home improvements, no interest on any current or future loan could be deducted against income.

While a popular strategy for many has been to roll consumer and student loan debt into a HELOC to lower the rate and deduct the interest, this strategy has lost some of its luster.

Another way to accomplish both of these goals is to refinance a primary mortgage (now subject to a $750,000 deductibility cap versus $1,000,000) and roll those debts into the new mortgage.

CHARITABLE CONTRIBUTIONS

Current Law: The AGI limitation on cash contributions is 50%

New Law: The AGI limitation on cash contributions will increase to 60%

MISCELLANEOUS ITEMIZED DEDUCTIONS

A favorite selling point amongst investment managers has been that investment expenses paid out of taxable accounts were deductible against income.

This provision, as well as all expense listed under IRC Section 67, has now been eliminated by the proposed plan. As well as investment expenses, the plan also eliminates the deductibility of tax preparation fees (accountant and software), unreimbursed employee business expenses, safety deposit box fees and others.

With investment expenses typically being the largest of these, the easiest way to reclaim some of that money would be to pay as much as is legally allowed out of tax-deferred IRA accounts.

While an IRA cannot pay financial planning fees (otherwise it's classed as a distribution) or fees for another tax-classification of accounts, it could pay its own management fee.

If not being done already, allocating an IRA to pay for its own management fee will allow a client to pay with tax-deferred funds.

ALIMONY DEDUCTION ELIMINATED IN 2019

2018 is potentially going to be a busier year for attorneys involved in divorce agreements and settlements.

Starting in January 2019, alimony would not be a deductible expense. This means taxable income will be increasing for those paying it and taxable income will be decreasing for those receiving it.

Depending on the size of the alimony payments, this could put the payer into a higher tax bracket as they've lost a deduction, phase-out other current deductions due to an increased income, and make them ineligible for Roth or deductible IRA contributions. It may also have knock-on effects with financial aid if the parent paying the alimony has custody of the child and it increases income on a FAFSA form.

PLANNING POINT:

For many, overpaying fourth quarter state estimates will produce no such benefit as the alternative minimum tax will kick in. If not subject to the alternative minimum tax, however, you can overpay the fourth quarter estimate in 2017. Legislators intentionally stated that you cannot prepay your 2018 state income taxes. You can prepay your 2018 real estate taxes.

Even though the state income tax deduction is virtually eliminated for 2018, we have found the reduction in the top tax rate (39.6% to 37%) virtually offsets that hurt.

BUSINESS AND CORPORATE TAX LAW CHANGES:

CORPORATE TAX RATE

<u>Current law</u>: 35%

<u>New law</u>: 21%, beginning in 2018.

CORPORATE ALTERNATIVE MINIMUM TAX

<u>Current law</u>: Applies a 20% rate as part of a parallel tax system that limits tax benefits to prevent large-scale tax avoidance. Companies must calculate their ordinary tax and AMT tax, and pay whichever is higher.

<u>New law</u>: Repealed.

EXPENSING EQUIPMENT

<u>Current law</u>: Businesses must take depreciation, spreading the recognition of their equipment costs for tax purposes over several years.

<u>New law</u>: Businesses could fully and immediately deduct the cost of certain equipment purchased after Sept. 27, 2017 and before Jan. 1, 2023. After that, the percentage of cost that could be immediately deducted would gradually phase down

PASS-THROUGH DEDUCTION

Current law: Pass-through businesses, which include partnerships, limited liability companies, S corporations and sole proprietorships, pass their income to their owners, who pay tax at their individual rates.

New law: Owners could apply a 20% deduction to their business income but certain service businesses are limited. This 20% deduction applies if taxable income is $157,500 or less for singles or $315,000 for married filing joint returns. Should taxpayers exceed these threshold amounts they must use a wage based limit. The deduction limitation would be equal to 50% of W-2 wages paid by the business or 25% of W-2 wages paid by the business and 2.5% of business capital. The alternative 50% of wages is not to exceed the overall 20% deduction that is allowed.

There is a phase-out for certain specified service businesses such as accountants, lawyers, etc., which begins at taxable income of $315,000 to a maximum of $415,000. These specified service businesses are not allowed to use the alternative wage deduction option. Architects and engineers are not subject to such limitations.

LUXURY BUSINESS VEHICLE PURCHASE DEDUCTIBILITY EXPANDED

Businesses that buy cars may see benefits. It has been the case that firms that buy vehicles can deduct the purchase price over a period of years: $2,560 for the 1st taxable year, $4,100 for the 2nd taxable year, $2,450 for the 3rd taxable year and, $1,475 for each succeeding taxable year. Changes have increased these limits to $10,000 for the 1st taxable year, $16,000 for the 2nd taxable year, $9,600 for the 3rd taxable year and, $5,760 for each succeeding taxable year.

These higher limits — some more than 4x — would make purchasing a vehicle in a business more attractive than in prior years, given that only the business portion of a lease payment is able to be deducted against business income. This amendment is ideal for clients who operate high-end livery or transportation businesses. Not only could they move away from lease-agreements which might constrict their business operations, but this increased deductibility could allow them to expand more quickly given their increased cash flow.

PLANNING POINT:

Enjoy the ride. Reduced rates, pass-through deductions – it will be fun to make money again.

Enjoy the pass-through deduction of 20%. For many small businesses that means a maximum top rate of $29.6%. ((37%-(37% x 20%). Unfortunately, the 20% deduction is a post adjusted gross income adjustment. Thus, for CT income tax, we will not see the benefit.

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