

December 21, 2017



The 2017 Tax Cuts and Jobs Act

Dear Clients & Friends:

Many of you already know that yesterday the Republican tax plan bill successfully passed through Congress and will be signed by President Trump. Some individuals will be impacted more than others, and some not at all. But we just wanted to highlight a couple of these for you—effective in 2018, **for individuals**:

1. The highest marginal tax rate (Federal) has been reduced to 37%, and the income thresholds for each tax bracket are being increased.
2. Alternative Minimum Tax (AMT) – the AMT has been retained but the exemption amounts and the phaseout thresholds have been significantly increased. This means that fewer taxpayers will be paying additional tax due to the AMT calculation.
3. Itemized Deductions (*there are many, but we've highlighted what we feel are most relevant to you below*):
 - Standard deductions have been increased as follows— Single and Married Filing Separately (\$12,000); Head of Household (\$18,000); Married Filing Joint (\$24,000)
 - The amount of state income taxes and property taxes that can be deducted is limited to a combined total of \$10,000. Much of the prior deduction is no longer available to taxpayers. This will hurt those living in states with high tax rates the most (i.e. CA, CT, NY)
 - Mortgage interest deduction – the new law limits the mortgage balance amount that can be used in determining the interest expense deduction to \$750,000 instead of the current amount of \$1,000,000 for your principal residence and second home. This change only applies to mortgage loans that were closed after **December 15, 2017**; loans that were in effect as of this date are “grandfathered in” and can use the existing allowances.
 - Miscellaneous itemized deductions subject to the 2% offset of adjusted gross income have been eliminated. The most common expenses that were deducted in this area are unreimbursed employee business expenses and investment management fees.
4. The standard personal exemption has been replaced by a family tax credit. The amount per taxpayer is \$300. Qualifying dependents other than qualifying children receive a credit of \$500. These credits are reduced or eliminated based on income levels.
5. The child tax credit for dependents under the age of 17 has been increased to \$2,000 with up to \$1,400 refundable.
6. 529 plans are expanded to permit the use of contributions for elementary and secondary school tuition and qualified expenses at public, private and religious schools. *The distributions are limited to no more than \$10,000 per year per student.*

7. The requirement that all individuals maintain health insurance or pay a penalty is eliminated beginning in 2019.

Additionally, the estate tax exemption has been increased to \$11,200,000 per person. This change reduces the tax that large estates will pay.

For businesses:

1. The biggest change is that the highest corporate income tax rate is reduced to 21%. This change affects the income tax calculation for C corporations.

2. Individual tax returns that include pass-through entities (LLCs, partnerships, and S corporations) are able to exclude 20% of the taxable income from their returns. This exclusion does not apply to professional service firms that have taxable income in excess of \$250,000 for a single taxpayer or \$500,000 for joint returns, and the exclusion is phased out for amounts above these thresholds. Professional service firms include accounting, legal, financial services, brokerage services and consulting firms. Other provisions apply that may limit or eliminate this exclusion.

There are many more provisions in the new law, but these are the significant ones that will have the largest effect on you. Most of the individual changes in the new law expire after 2025, so you should anticipate that more changes are going to occur. But the most important thing you can do is discuss your situation with your CPA or tax advisor. If you do not have one or are unhappy, please reach out to us and we may be able to point you in the right direction.

Please do not hesitate to reply or call us if you have any questions.

All the best,
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