Thoughts Regarding The Recently Passed "Tax Cuts and Jobs Act" January 2018

The recently passed tax bill, named "The Tax Cuts and Jobs Act", has created some significant changes to U.S. tax law that are important for clients, advisors, accountants and attorneys. While the majority of corporate tax changes are permanent, the individual tax changes will mostly expire by the end of 2025. Some of the individual tax law changes that we want to highlight to clients include:

1. The bill keeps the number of tax brackets the same at seven, however all brackets are slightly lower and the highest bracket is now at 37%, down from 39.6%. The standard deduction has been nearly doubled to $12,000 for single filers and $24,000 for joint filers, while the personal exemption has been eliminated.

2. Under the Act, individuals are allowed to deduct up to $10,000 ($5,000 for married taxpayers filing separately) in state and local income tax OR property taxes.

3. Miscellaneous itemized deductions subject to the 2% limitation have been repealed through 2025. This includes unreimbursed employee expenses, tax preparation expenses, and investment fees.

4. Going forward, homeowners will be able to deduct mortgage interest on loans up to $750,000 (previous amount was up to $1 million). The home-equity loan interest deduction was repealed through 2025.

5. The Child Tax Credit has been increased to $2,000 from the current amount of $1,000, with phase-out beginning for households making $400,000.

6. The Federal Estate Tax exemption will be increased to $11.2 million per person, up from the current level of $5.49 million. The increased exemption will revert back to $5.49 million in 2026.

7. Roth IRA re-characterizations will not be allowed starting in 2018. Previously, if an investor converted a traditional IRA to a Roth IRA, that process was allowed to be reversed at the investor's discretion. Going forward, a conversion will be permanent.

8. The Individual Alternative Minimum Tax (AMT) is retained, however the AMT exemption amount is increased to $109,400 for married joint filers (half that amount for married separate filers) and $70,300 for all other taxpayers (excluding estates and trusts). The phase-out thresholds are increased to $1 million for married joint filers, and $500,000 for all other taxpayers. The amounts are indexed for inflation.

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9. 529 Plans (Education)

    a. Will now be allowed to use proceeds from 529 Plans for elementary and secondary school expenses up to $10,000 per year.

    b. The new law allows a contribution to be made from a 529 Plan to an ABLE account, up to the annual gift exclusion amount ($15,000 in 2018).

10. Current law is that a child with unearned income over $2,100 is taxed at the parent's rate. The tax bill changes the "Kiddie Tax" by applying ordinary and capital gains rates applicable to trusts and estates to the net unearned income of the child. This has the potential to increase taxes incurred from custodian accounts for minors.

11. There is NO change to Capital Gains or Dividend Tax Rates.

This is by no means a comprehensive list of all of the major potential impacts from the recently approved tax law changes. Please consult with any professionals you engage to determine any impacts and course of action based upon your specific tax situation.