ROSENFIELD & Co. PLLC
TRADITIONAL VALUES | EXTRAORDINARY RESULTS

TAX CUTS & JOBS ACT – INDIVIDUAL PROVISIONS

Unless noted otherwise, all of the individual provisions will expire on December 31, 2025. This means many of the disallowed deductions are merely suspended, rather than repealed.

TAX BRACKETS

The current seven (7) bracket system was retained in the final bill; however, the maximum tax rate has been reduced from 39.6% to 37%.

The 2018 Tax Brackets are amended as follows:

Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Heads of households

Taxable income over	But not over	Is taxed at
$0	$13,600	10%
$13,600	$51,800	12%
$51,800	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Married taxpayers filing joint returns

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

This table also applies to Surviving Spouses.

Married taxpayers filing separately

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$300,000	35%
$300,000		37%

STANDARD DEDUCTION AND PERSONAL EXEMPTIONS

The 2018 Standard deductions are increased to $24,000 for married taxpayers filing a joint return, $18,000 for heads of households, and $12,000 for all other filers.

All personal exemptions have been suspended.

Note: The withholding rules will be updated since taxpayers will no longer receive personal exemptions. This means that new Forms W-9 may be required for all employees in 2018, depending on how the rules are modified. It is possible that payroll systems will automatically update without any action on the part of the taxpayer.

ITEMIZED DEDUCTIONS

Pease Limitation: Under current law, itemized deductions are limited depending on the taxpayer's adjusted gross income above the annual threshold. This limitation is suspended until these provisions sunset after 2025.

Medical Expenses: Under current law, only medical expenses paid in excess of 10% of the taxpayer's adjusted gross income may be deducted. The final bill reduces the floor to 7.5% of adjusted gross income for **2017 and 2018**.

State and Local Taxes: A deduction of up to $10,000 of state income taxes and property taxes is allowed under the final bill. The previous versions either completely eliminated the state and local Tax Deduction or limited it to $10,000 of property taxes.

Tax Planning Tip: The final bill includes a provision that any state or local income tax paid in a taxable year before January 1, 2018 (i.e. 2017) for taxes imposed for a taxable year beginning after December 31, 2017 (i.e. 2018), the amount will be treated as though it had been paid on the last day of the taxable year for which the tax was imposed (i.e. December 31, 2018).

Tax Planning Tip: If the taxpayer has already received a property tax bill (i.e. the tax has been imposed and levied on the taxpayer's account), it may be beneficial to pay the tax bill before December 31, 2017. This will depend on taxpayer's personal tax situation and whether or not the taxpayer is subject to the Alternative Minimum Tax (AMT) because the benefit of the pre-payment may be negated by the AMT rules.

Mortgage Interest: The current mortgage interest limitation on mortgages of $1 million is reduced to $750,000. This is applicable to acquisition debt incurred after December 15, 2017.

If a taxpayer has entered into a binding written contract before December 15, 2017, to close on the purchase of a principal residence before January 1, 2018, and who purchases that residence before April 1, 2018, will be considered to have incurred the acquisition debt prior to the December 15, 2017 cutoff and will be allowed to use the current-law $1 million limit.

Home Equity Loans: The bill suspends the deduction for mortgage interest on home equity lines of credit until the provision sunsets after 2025.

Charitable Contributions: The current adjusted gross income limitation of 50% for charitable contributions is increased to 60%.

Tax Planning Tip: The increased charitable contribution limitation (which allows taxpayers to deduct more contributions) will only be beneficial if they are able to itemize deductions in 2018. If the taxpayer does not think that they will be able to itemize, but are planning to make charitable contributions next year, they may want to consider accelerating those donations into 2017. If itemizing in 2018, the increased allowed contributions will be more beneficial in 2018.

Casualty Losses: Casualty losses are only allowed for losses incurred in a presidentially declared disaster.

Miscellaneous Itemized Deductions: All miscellaneous deductions subject to the 2% floor are suspended. Examples of these deductions include tax preparation fees, brokerage account fees, and IRA losses.

CHILD & FAMILY TAX CREDITS

The child tax credit is increased to $2,000 per qualified child. $1,400 of the tax credit is refundable.

A nonrefundable $500 tax credit for qualified dependents, other than a qualifying child, was created by the bill.

The phaseouts for both of these credits are $200,000 adjusted gross income (single) or $400,000 (married filing joint).

§529 PLANS

The bill will allow $10,000 to be distributed annually from a §529 plan to cover tuition incurred during the tax year at elementary or secondary schools on a per-student basis. The provision to include certain homeschool expenses was not retained in the final bill.

ALTERNATIVE MINIMUM TAX

The Alternative Minimum Tax was retained in the final bill; however, the exemption was increased. The exemption amount, beginning in 2018, is increased to $109,400 (married filing joint) or $70,300 (all others). Additionally, the phaseout thresholds were increased to $1 million (married filing joint) or $500,000 (all others). Both the exemption and phaseout limitations are indexed for inflation.

ESTATE AND GIFT TAXES

The current estate and gift tax exemption is doubled to $10,000,000. This is applicable to the estates of decedents dying and gifts made after December 31, 2017. The 2011 inflation index allowance was retained; the anticipated 2018 exemption is expected to be approximately $11.2 million (single) or $22.4 million (married filing joint).

PASS-THROUGH INCOME DEDUCTION

A deduction of 20% of "qualified business income" from pass-through entities, including sole-proprietorships will be allowed under the bill. The 20% deduction will also apply to qualified REIT dividends, cooperative dividends, and qualified publicly traded partnership income (specifics relating to the qualifications are not included in this analysis).

Qualified business income is the net amount of income, gain, deduction, and loss relating to a trade or business, not including specified investment-related income, deductions, or losses. The income must be effectively connected with a US trade or business.

Qualified business income does not include S-Corporation shareholder's reasonable compensation, guaranteed payments, or payments to a partner who is acting in a capacity other than his or her capacity as a partner.

The deduction is available for specified service trades or businesses, including the fields of accounting, health, law, consulting, athletics, financial services, and brokerage services. The original proposal excluded these types of businesses. For these types of services, if the taxpayer's income exceeds the threshold amount, this deduction is phased out. The 2018 threshold amounts are $157,500 (single) or $315,000 (married filing joint). These phase out limitations are indexed for inflation after 2018.

Income above the pass-through cap can be eligible for the deduction based on the amount of wages paid to employees. The formula is the greater of:

1. 50% of the W-2 wages paid by the business; or
2. 25% of W-2 wages paid **plus** 2.5% of the value of qualified property at purchase.

The 20% deduction is not allowed in computing adjusted gross income, but rather is allowed as a deduction reducing taxable income. This means that other tax provisions that are based on adjusted gross income will not be impacted by this deduction.

This new deduction is complex. Rosenfield and Company will continue to delve into the intricacies of the deduction in order to inform taxpayers of how it may benefit them on their 2018 tax return. Rosenfield and Company will work closely with all clients who have pass-through business income throughout the year.

INDIVIDUAL MANDATE

The bill reduces the penalty for not having health insurance to zero, essentially repealing the individual mandate for all taxpayers to have the minimum required health insurance coverage.

OTHER ITEMS

Alimony: For any divorce agreement executed after December 31, 2018, alimony and maintenance payments will not be deductible by the payer spouse. Alternatively, the receipt of these payments will not be includable in the taxable income of the payee spouse.

Moving Expenses: This deduction is suspended except for members of the armed forces on activity duty who move pursuant to a military order for a permanent change of station.

IRA Conversions: The rule allowing IRA contributions to be recharacterized as a contribution to the other type of IRA excludes conversions of contributions to Roth IRAs.

ITEMS NOT INCLUDED IN THE FINAL BILL

The tax credits for the elderly and permanently disabled, plug-in electric drive motor vehicles, and interest on certain home mortgages were retained.

The student loan interest deduction was retained.

The $250 deduction for educator expenses was retained.

The proposed change to the exclusion of gain from the sale of a principal residence was not included in the final bill.