Tax Cuts and Jobs Act of 2017: What Taxpayers Need to Know

Presented by DOHERTY FINANCIAL SERVICES

On December 20, 2017, the U.S. House of Representatives and U.S. Senate passed the Tax Cuts and Jobs Act of 2017 (the act or TCJA). The legislation makes significant changes to the Internal Revenue Code (IRC), including individual, corporate, and gift and estate taxation. The following piece highlights important changes affecting you and suggests potential strategies to employ prior to year-end.

Individual income tax changes

Although the act maintains seven tax brackets, these brackets will change.

Current tax rates

Tax Rate	Single	Married/Jointly	Head of Household	Married/Separately
10%	$0−$9,525	$0−$19,050	$0−$13,600	$0−$9,525
15%	$9,525−$38,700	$19,050−$77,400	$13,600−$51,850	$9,525−$38,700
25%	$38,700−$93,700	$77,400−$156,150	$51,850−$133,850	$38,700−$78,075
28%	$93,700−$195,450	$156,150−$237,950	$133,850−$216,700	$78,075−$118,975
33%	$195,450−$424,950	$237,950−$424,950	$216,700−$424,950	$118,975−$212,475
35%	$424,950−$426,700	$424,950−$480,050	$424,950−$453,350	$212,475−$240,025
39.6%	Over $426,700	Over $480,050	Over $453,350	Over $240,025

New tax rates under the TCJA

Tax Rate	Single	Married/Jointly	Head of Household	Married/Separately
10%	$0−$9,525	$0−$19,050	$0−$13,600	$0−$9,525
12%	$9,525−$38,700	$19,050−$77,400	$13,600−$51,800	$9,525−$38,700
22%	$38,700−$82,500	$77,400−$165,000	$51,800−$82,500	$38,700−$82,500
24%	$82,500−$157,500	$165,000−$315,000	$82,500−$157,500	$82,500−$157,500
32%	$157,500−$200,000	$315,000−$400,000	$157,500−$200,000	$157,500−$200,000
35%	$200,000−$500,000	$400,000−$600,000	$200,000−$500,000	$200,000−$300,000
37%	Over $500,000	Over $600,000	Over $500,000	Over $600,000

In addition to the changes made to the tax brackets, many exemptions and deductions for individual income tax will be repealed or modified.

- The personal exemption of $4,150 per taxpayer and dependent will be eliminated.
- The standard deduction for individuals will go from $6,500 for individuals and $13,000 for married couples to $12,000 for individual taxpayers and $24,000 for married couples who file jointly. This near doubling of the standard deduction will result in more taxpayers taking it instead of itemizing.
- The legislation also places limits on several itemized deductions, listed in the table below.

Specific itemized deductions that will be eliminated or modified

	2017 Tax Year	**As of 2018**
State and local income tax, property tax	State and local income and property tax fully deductible	All deductions for state and local income tax, as well as property tax, limited to a maximum of **$10,000**
Mortgage interest deduction	Interest payments on mortgage debt deductible up to **$1 million** in indebtedness	Debt limitation lowered to **$750,000**
Medical expenses	Deductible to the extent they exceed **10%** of adjusted gross income (AGI)	Deductible to the extent they exceed **7.5%** of AGI
Moving expenses	Personal moving expenses deductible, including employer-sponsored reimbursements	No longer deductible at the personal or employer level, except for military
Miscellaneous itemized deductions	Certain miscellaneous itemized deductions may be taken to the extent they exceed 2% of taxpayer's AGI	Miscellaneous itemized deductions repealed; no longer deductible
Income phase-out for itemizing deductions	Itemized deductions limited by phase-out beginning at $266,700 (single) and $320,000 (married)	No phase-out for itemizing deductions

Miscellaneous individual income tax changes
In addition to the major modifications discussed above, several other changes in the bill may affect your financial decisions going forward. These are:

Family tax credits. The child tax credit will be doubled, from $1,000 to $2,000, and the refundable portion of that credit will be allowable up to $1,400. The act also will grant a new credit of $500 for other dependents. These will phase out at income limits of $200,000 (single) and $400,000 (married).

Estate and gift taxes. Effective January 1, 2018, the individual unified gift and estate tax exemption will be raised to $11.2 million (up from what was set to be $5.6 million), and, with portability remaining intact, $22.4 million for a married couple. The top rate will remain 40 percent. The new rates are set to expire—and return to 2017 levels—at the end of calendar year 2025.

Cash donations to charity. Under 2017 law, gifts of cash to charity offer a taxpayer the ability to deduct the contribution, up to 50 percent of AGI. The TCJA will increase the limitation to 60 percent of the taxpayer's AGI.

Education planning. The TCJA includes an expansion of 529 savings plans that will allow families to save for K−12 expenses, in addition to college expenses. 529 plans will also be able to use qualified distributions for elementary and secondary school expenses, up to $10,000 per year, per student. In addition, the definition of qualified education expenses will be further expanded to include homeschooling expenses.

1031 exchanges. Beginning January 1, 2018, 1031 exchanges will be limited to real property.

Affordable Care Act individual mandate. The TCJA will eliminate the penalty imposed under the IRC for individuals who do not maintain individual health care coverage.

Individual alternative minimum tax (AMT). The individual AMT exemption amount will increase to $70,300 for individual filers and $109,400 for joint filers. The phase-out for the AMT exemption will increase to $500,000 for individuals and $1 million for married couples. With enactment of the new act, fewer Americans will be subject to the AMT.

Retirement recharacterizations. The TCJA will eliminate the ability for a taxpayer to unwind a Roth conversion and "recharacterize" back to a traditional IRA. This will begin for conversions occurring after January 1, 2018. Be sure to speak with your financial advisor before considering any new recharacterizations, as there is current debate as to whether Roth conversions that occurred in 2017 may still be characterized in 2018.

Pass-through business income

Under law in effect for the 2017 tax year, all pass-through business income is taxed at the individual taxpayer's marginal rate, as is most ordinary income. Under the TCJA, qualified pass-through business income will be addressed in a new IRC Section 199A as follows:

- Deduction of 20 percent of the non-wage allocation of qualified business income from the trade or business
- Deduction limited to 50 percent of W-2 wage income (The limitation was set in an effort to prevent abuse in classifying wage income as business income in order to receive a lower rate for income that should be taxed at ordinary income rates.):
    - **For individuals:** Income earned over $157,000
    - **For married couples:** Income earned over $315,000
    - Certain service professionals (e.g., attorneys, accountants, financial professionals) will be excluded from taking the deduction for income above $157,000 for an individual and $315,000 for a married couple.

Please note: The changes to pass-through business income taxation sunset at the end of calendar year 2025, as written in the TCJA.

Corporate taxation
Although the changes to how individual income is taxed are set to expire at the end of 2025, the corporate tax changes provided for in the TCJA will be permanent. One of the largest tax cuts in the legislation will lower the corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Furthermore, the TCJA will completely repeal the corporate AMT. The act will also impose some limitations on certain corporate tax deductions, including those for net operating loss, business interest, and R&D expenditures.

Year-end tax planning strategies in light of reform
There is still a bit of time to take advantage of strategies that may positively impact your 2018 tax bills. These strategies may or may not be available to every taxpayer, though it is important to consider them and how they may work for you. As always, we recommend that you speak with your accountants and tax preparers as soon as possible about the viability of any of these actions.

Prepay property tax. If possible, you may want to consider making prepayments of property taxes that would have otherwise been paid in 2018. But be sure to consult your tax professional before doing that for any state income tax that you estimate for 2018. The final version of the TCJA contains a clause that will not allow for the deductibility of state and local income taxes prepaid in 2017 that would otherwise be assessed and due in 2018.

Marginal rate review. Review significant changes in marginal tax rate at the federal level for the possibility of deferring income where possible and perhaps delaying the sales of large assets. In some cases, the acceleration of income may help taxpayers with large families and who would lose out on some significant tax savings garnered from the family-friendly personal exemption.

Accelerate deductions. One possible tax-relieving strategy is to accelerate deductions that are disallowed in 2018. This is especially true for taxpayers who itemize deductions. Some examples of ways to do this include making an extra mortgage payment or making additional charitable donations. This is not viable for every taxpayer, however; for some, making these deductions in 2018 will bring the dollar amount of the items above the new standard deduction figure.

For any of these strategies, it is imperative for you to analyze your tax picture for 2017 and 2018 in the hope of taking steps that will result in the most tax savings.

Assess where you are headed
In light of these sweeping changes, 2018 should result in a complete review of you financial snapshots. An overall review of income, assets, and balance sheet is important in order to get a clear picture of how the significant changes to individual income taxation will affect you and their families.

More planning opportunities will continue to arise as the new tax code unfolds. Your financial advisor can answer your questions and provide educational resources to help navigate these changes. We highly recommend that you reach out to him or her as soon as possible.

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