Congress recently passed sweeping tax reform legislation in the Tax Cuts and Jobs Act, and the President signed it into law on December 22, 2017. In addition to many other changes, some of which (such as the lower corporate tax rates) have been discussed at length in the media, the legislation makes significant changes to Internal Revenue Code that either increases or decreases tax. While the new tax law is quite complex, we have been working hard to learn it, and more importantly help you benefit from the new rules and ultimately lower your tax and keep more of your hard earned money.

If you are interested in learning how the new laws effect your bank balance, give us a call.

We'll be happy to discuss the new money saving opportunities now available to you!

The Tax Cuts and Jobs Act Overview

On December 22, 2017, the largest tax reform in three decades, Tax Cuts and Jobs Act, was passed. The article is dedicated to providing some guidance on the tax reform and aid in preparing for planning 2018. The reform impacts individuals and business taxes in 2017 and beyond. While much of the impact will be seen in 2018 through 2025, the changes could revert back to its current state if the future Congress does not extend the Act. That means that the individual tax changes would reset and the tax law would revert back to the 2017 state that we all know of today.

For tax years 2018 through 2025, the changes present a number of year-end tax planning opportunities.

INDIVIDUAL TAX IMPLICATIONS

Income Tax Rate		Income Levels for Those Filing As:	
2017	**2018-2025**	**Single**	**Married-Joint**
10%	10%	$0-$9,525	$0-$19,050
15%	12%	$9,525-$38,700	$19,050-$77,400
25%	22%	$38,700-$82,500	$77,400-$165,000
28%	24%	$82,500-$157,500	$165,000-$315,000
33%	32%	$157,500-$200,000	$315,000-$400,000
33%-35%	35%	$200,000-$500,000	$400,000-$600,000
39.6%	37%	$500,000+	$600,000+

Standard deduction – The Act increases the standard deduction through 2025.

- Single Filers – $6,500 to $12,000
- Married filing jointly – $13,000 to $24,000
- Heads of households – $9,500 to $18,000

Affordable Care Act – aka "Obamacare" – Repeals the penalty imposed on those who do not obtain insurance in 2019.

Personal exemptions – Repeals all personal exemptions through 2025.

Itemized deductions – The Act eliminates or restricts the ability to use several itemized deductions, through 2025.

State and local taxes OR Property Tax Deductions – Individuals are allowed a maximum deduction and must choose between state and local income or property taxes. Taxpayers cannot take a deduction in 2017 for prepaid 2018 state income taxes.

- Married filing jointly – $10,000
- Married filing separately – $5,000

Mortgage interest – Limits the debt of the loan by filing status. Mortgages taken out or contracts entered into before Dec. 15 are still subject to the current tax laws.

- Married filing jointly – first $750,000

Home equity loans – Repealed through 2025.

Alternative Minimum Tax (AMT) – Raises the exemption amount and exemption phase-out threshold that was enacted to curb tax avoidance among high earners.

- Married couples filing jointly – Exemption increases to $109,400 and phaseout increases to $1,000,000
- All other taxpayers – Exemption increases to $70,300 and phase-out increases to $500,000 (other than estates and trusts).

Casualty losses – Applies only if the loss is attributable to a presidentially declared disaster.

Gambling losses – The bill clarifies that the term "losses from wagering transactions" in Sec. 165(d) includes any otherwise allowable deduction incurred in carrying on a wagering transaction. This is intended to clarify that the limitation of losses from wagering transactions applies not only to the actual costs of wagers, but also to other expenses incurred by the taxpayer in connection with his or her gambling activity.

Charitable contributions – The charitable contributions changes are limited or repealed.

- Increases the income-based percentage limit for charitable contributions of cash to public charities to 60%.
- Donations given in exchange for college seating tickets or athletics events are no longer allowed.

Miscellaneous itemized deductions – All miscellaneous itemized deductions subject to the 2% floor under current law are repealed through 2025.

Medical expenses – Allows for medical expense deductions in excess of 7.5% of adjusted gross income for 2017 and 2018 for everyone not just those over the age of 65.

Child tax credit – The Act has several tax planning advantages

- Increases the Child Tax Credit from $1,000 to $2,000 per child
- The credit is refundable for qualifying taxpayers up to to $1,400.
- Increases the maximum income level to qualify for the credit
    - $400,000 for married taxpayers filing a joint return
    - $200,000 for other taxpayers.

- Expansion of 529 savings plans
    - Maximum distribution of $10,000 per student for tuition at private and religious K-12 schools.
    - Allows parents to use the funds for expenses for home-schooled students.

IRA recharacterizations – The Act repeals the ability to recharacterize one kind of IRA contribution as another, for example to designate a traditional contribution as a Roth contribution, or vice-versa.

Estate, gift, and generation-skipping transfer taxes – This change will be reversed as of 2026

The estate tax doubles the exemption and applies to estates of decedents dying and gifts made after Dec. 31, 2017, and before Jan. 1, 2026.

- $11.2 million for singles
- $22.4 million for couples

Other credits – The Act repeals several tax credits.

- Credit for the elderly and permanently disabled
- Credit for plug-in electric drive motor vehicles
- Credit for interest on certain home mortgages.

Other Deduction Changes – The Act outlines other impacts to the individual taxpayer.

- **Alimony –** Alimony and separate maintenance payments are not deductible by the payor spouse and conversely not includible income by the payee spouse.

- **Moving expenses –** Repealed for most with one major exception.
    - Members of the armed forces on active duty who move because of military orders or change in where the members are stationed.

- **Exclusion for bicycle commuting reimbursements** – The bill repeals through 2025 the exclusion from gross income or wages of qualified bicycle commuting expenses.