Individual Tax Changes in the "Tax Cuts and Jobs Act"

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Agenda

Today's presentation will provide a basic overview of some of the more significant changes included in the newly signed Tax Cuts and Jobs Act for individual tax payers such as:

- Changes in Tax Brackets
- Kiddie Tax Modifications
- Repeal of Obamacare Individual Mandate
- AMT Changes
- Changes in Various Deductions
- Pass Through Income
- Estate and Gift Tax
- Expanded Use of 529 Account Funds
- 2016 Disaster Losses
- Student Loan Forgiveness
- New Deferral Election for Qualified Equity Grants
- Time to Contest IRS Levy Extended
- Due Diligence Requirements for Claiming Head of Household

Income Tax Rates & Brackets

Pre-Act Law	New Law
• Six tax rates: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, seven tax brackets apply for individuals: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

2018 Income Tax Brackets and Rates Under Reconciled/ Tax Cuts and Jobs Act

Tax Rate	Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
10%	Up to $9,525	Up to $19,050	Up to $9,525	Up to $13,600
12%	$9,526 to $38,700	$19,051 to $77,400	$9,526 to $38,700	$13,601 to $51,800
22%	$38,701 to $82,500	$77,401 to $165,000	$38,701 to $$82,500	$51,801 to $82,500
24%	$82,501 to $157,500	$165,001 to $315,000	$82,501 to $157,500	$82,501 to $157,500
32%	$157,501 to $200,000	$315,001 to $400,000	$157,501 to $200,000	$157,501 to $200,000
35%	$200,001 to $500,000	$400,001 to $600,000	$200,001 to $300,000	$200,001 to $500,000
37%	$500,000+	$600,000+	$300,000+	$500,000+

2017 Federal Tax Rates and Marginal Tax Brackets

Tax Rate	Single	Married Filing Jointly	Married Filing Separate	Head of Household
10%	$0 – $9,325	$0 - $18,650	$0–$9,325	$0-$13,350
15%	$9,326 – $37,950	$18,651 - $75,900	$9,376–$37,950	$13,351-$50,800
25%	$37,951 - $91,900	$75,901 - $153,100	$37,951-$76,550	$50,801-$131,200
28%	$91,901 – $191,650	$153,101 - $233,350	$76,551-$116,675	$131,201-$212,500
33%	$190,651-$416,700	$233,351 - $416,700	$116,676-$208,350	$212,501-$416,700
35%	$416,701-$418,400	$416,701 - $470,700	$208,351-$235,350	$416,701-$444,550
39.6%	over $418,400	over $470,700	over $235,350	over $444,550
Exemption	$4,050	$4,050	$4,050	$4,050
Std Deduction	$6,350	$12,700	$6,350	$9,350

Capital Gains Provisions

Pre-Act Law	New Law
• The adjusted net capital gain of a non-corporate taxpayer (e.g., an individual) is taxed at maximum rates of 0%, 15%, or 20%.	• The new Tax Cuts and Jobs Act generally retains present-law maximum rates on net capital gains and qualified dividends.

Kiddie Tax Modified

Pre-Act Law	New Law
• The net unearned income of a child was taxed at the parents' tax rates if the parents' tax rates was higher than the tax rates of the child.	For tax years beginning after Dec. 31, 2017: • Taxable income – single rates for earned income • Unearned income - brackets applicable to trusts and estates

Repeal of Obamacare Individual Mandate

Pre-Act Law	New Law
• The Affordable Care Act required that individuals who were not covered by a health plan that provided at least minimum essential coverage were required to pay a "shared responsibility payment" with their federal tax return.	• For months beginning after Dec. 31, 2018, the amount of the individual shared responsibility payment is reduced to zero.

AMT Retained with Higher Exemption Amounts

Pre-Act Law	New Law

• For 2018, the exemption amounts were scheduled to be:
  • $86,200 for marrieds filing jointly/surviving spouses
  • $55,400 for other unmarried individuals
  • $43,100 for marrieds filing separately
• Phase out amount
  • $164,100 for marrieds filing jointly and surviving spouses
  • $123,100 for unmarried individuals
  • $82,050 for marrieds filing separately
	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026 the Act increases the AMT exemption amounts for individuals as follows:
	  • $109,400 for marrieds filing jointly/surviving spouses;
	  • $70,300 for other unmarried individuals;
	  • $54,700 for marrieds filing separately
	• Phase out amount
	  • $1,000,000 for marrieds filing jointly and surviving spouses
	  • $500,000 for all other taxpayers (other than estates and trusts)

Standard Deduction Increased

Pre-Act Law	New Law
• For 2018, the standard deduction amounts, indexed to inflation, were to be: $6,500 for single individuals and married individuals filing separately. • $9,550 for heads of household, and $13,000 for married individuals filing jointly (including surviving spouses). • Additional standard deductions may be claimed by taxpayers who are elderly or blind.	For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the standard deduction is increased to: • $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers. • $12,000 for all other taxpayers, adjusted for inflation in tax years beginning after 2018. • No changes are made to the current-law additional standard deduction for the elderly and blind.

Child Tax Credit Increased

Pre-Act Law	New Law
• Taxpayer could claim a child tax credit of up to $1,000 per qualifying child under the age of 17. • The aggregate amount of the credit that could be claimed phased out by: • $50 for each $1,000 of AGI over $75,000 for single filers, $110,000 for married filers, and $55,000 for married individuals filing separately. • To the extent that the credit exceeds a taxpayer's liability, a taxpayer is eligible for a refundable credit	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the child tax credit is increased to $2,000. • The income levels at which the credit phase out is increased to $400,000 for married taxpayers filing jointly • ($200,000 for all other taxpayers) (not indexed for inflation).

State and Local Tax Deduction Limited

Pre-Act Law	New Law
• Generally, taxpayers could deduct from their taxable income as an itemized deduction several types of taxes paid at the state and local level including: • Real and personal property taxes • Income taxes • Sales taxes	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, a taxpayer may claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the aggregate of: (i) State and local property taxes (ii) State and local income, war profits, and excess profits taxes (or sales taxes in lieu of income, etc. taxes) paid or accrued in the tax year. (iii) Foreign real property taxes may not be deducted.

Mortgage & Home Equity Indebtedness Interest Deduction Limited

Pre-Act Law	New Law
• Taxpayer could deduct as an itemized deduction qualified residence interest, which included interest paid on a mortgage secured by a principal residence or a second residence. • The underlying mortgage loans could represent acquisition indebtedness of up to $1 million, plus home equity indebtedness of up to $100,000.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the deduction for interest on home equity indebtedness is suspended • The deduction for mortgage interest is limited to underlying indebtedness of up to $750,000 ($375,000 for married taxpayers filing separately). • The new lower limit doesn't apply to any acquisition indebtedness incurred before Dec. 15, 2017.

Charitable Contribution Deduction Limitation Increased

Pre-Act Law	New Law
• The deduction for an individual's charitable contribution is limited to 50%, 30%, or 20% of the taxpayer's "contribution base" and depended on the type of organization to which the contribution was made. • The 50% limitation applied to public charities and certain private foundations.	• For contributions made in tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the 50% limitation for cash contributions to public charities and certain private foundations is increased to 60%. • Contributions exceeding the 60% limitation are generally allowed to be carried forward and deducted for up to five years, subject to the later year's ceiling.

Miscellaneous Itemized Deductions Suspended

Pre-Act Law	New Law
• Taxpayers were allowed to deduct certain miscellaneous itemized deductions which were not deductible unless they exceeded, in the aggregate, 2% of the taxpayer's adjusted gross income.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the deduction for miscellaneous itemized deductions that are subject to the 2% floor is suspended. • This includes the deduction for tax preparation expenses.

Deduction for Personal Casualty & Theft Losses Suspended

Pre-Act Law	New Law
• Individual taxpayers were generally allowed to claim an itemized deduction for uncompensated personal casualty losses, including those arising from fire, storm, shipwreck, or other casualty, or from theft.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the personal casualty and theft loss deduction is suspended, except for personal casualty losses incurred in a Federally-declared disaster.

Gambling Loss Limitation Modified

Pre-Act Law	New Law
• In general, taxpayers can claim a deduction for wagering losses to the extent of wagering winnings.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the limitation on wagering losses is modified to provide that: • All deductions for expenses incurred in carrying out wagering transactions, and not just gambling losses, are limited to the extent of gambling winnings.

Overall Limitation ("Pease" Limitation) on Itemized Deductions Suspended

Pre-Act Law	New Law
• Higher-income taxpayers who itemized their deductions were subject to a limitation on itemized deductions (commonly known as the "Pease-out Limitation").	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the "Pease-out limitation" on itemized deductions is suspended.

Exclusion for Moving Expense Reimbursements Suspended

Pre-Act Law	New Law
• An employee could exclude qualified moving expense reimbursements from his or her gross income and from his or her wages for employment tax purposes.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the exclusion for qualified moving expense reimbursements is suspended • Exception: Members of the Armed Forces on active duty (and their spouses and dependents) who move pursuant to a military order and incident to a permanent change of station.

Moving Expenses Deduction Suspended

Pre-Act Law	New Law
• Taxpayers could claim a deduction for moving expenses incurred in connection with starting a new job if the new workplace was at least 50 miles farther from a taxpayer's former residence than the former place of work.	• For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the deduction for moving expenses is suspended. • Exception - Members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station.

New Deduction for Pass-Through Income

Pre-Act Law	New Law
• The net income of pass-through businesses was reported by the owners or shareholders on their individual income tax returns. Thus, the income was effectively subject to individual income tax rates.	• Generally for tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the Act adds a new section, Code Sec. 199A, "Qualified Business Income," under which a non-corporate taxpayer, including a trust or estate, who has qualified business income (QBI) from a partnership, S corporation, or sole proprietorship is allowed to get an additional deduction.

New Deduction for Pass-Through Income

New Law

- Generally 20% Deduction
- Qualified Business Income (QBI) is generally defined as the net amount of "qualified items of income, gain, deduction, and loss" relating to any qualified trade or business of the taxpayer.
- The 20% deduction is not allowed in computing adjusted gross income (AGI), but rather is allowed as a deduction reducing taxable income.
- There are limitations. For pass-through entities, other than sole proprietorships, the deduction cannot exceed the greater of:
  - 50% of the W-2 wages with respect to the qualified trade or business
  - The sum of 25% of the W-2 wages paid with respect to the qualified trade or business plus 2.5% of the unadjusted basis, immediately after acquisition, of all "qualified property.

New Deduction for Pass-Through Income

New Law

- For a partnership or S corporation, each partner or shareholder is treated as having W-2 wages for the tax year in an amount equal to his or her allocable share of the W-2 wages of the entity.
- W-2 wage limit does not apply in the case of a taxpayer with taxable income not exceeding $315,000 for married individuals filing jointly ($157,500 for other individuals).
- The deduction does not apply to specified service businesses (i.e., trades or businesses.
- Service business limitation does not apply in the case of a taxpayer whose taxable income does not exceed $315,000 for married individuals filing jointly ($157,500 for other individuals), both indexed for inflation after 2018.
- The benefit of the deduction for service businesses is phased out over the next $100,000 of taxable income for joint filers ($50,000 for other individuals).

Treatment of Carried Interest

Pre-Act Law	New Law
• Carried interests were taxed in the hands of the taxpayer at favorable capital gain rates instead of as ordinary income.	• Effective for tax years beginning after Dec. 31, 2017, the Act imposes a three-year holding period requirement in order for certain partnership interests received in connection with the performance of services to be taxed as long-term capital gain rather than ordinary income.

Estate and Gift Tax Retained, with Increased Exemption Amount

Pre-Act Law	New Law
• For estates of decedents dying and gifts made in 2018, the first \$5.6 million (\$11.2 million for a married couple) of transferred property was exempt from estate and gift tax.	• For estates of decedents dying and gifts made after Dec. 31, 2017 and before Jan. 1, 2026, the Act doubles the base estate and gift tax exemption amount from \$5.6 million to \$11.2 million.

Expanded Use of 529 Account Funds

Pre-Act Law	New Law
• Funds in a 529 college savings account could only be used for qualified higher education expenses.	• For distributions after Dec. 31, 2017, “qualified higher education expenses” include tuition at an elementary or secondary public, private, or religious school, and various expenses associated with home school, up to a $10,000 limit per tax year.

Student Loan Interest Forgiveness

Pre-Act Law	New Law
• Gross income does not include any amount from (in whole or in part) of forgiveness of certain students loans. • If forgiveness is contingent on the student's working for a certain period of time in certain professions for any of a broad class of employers.	• For discharges of indebtedness after Dec. 31, 2017 and before Jan. 1, 2026, certain student loans that are discharged on account of death or total and permanent disability of the student are also excluded from gross income.

New Deferral Election for Qualified Equity Grants

Pre-Act Law	New Law
• An employee must generally recognize income for the tax year in which the employee's right to the stock is transferable or isn't subject to a substantial risk of forfeiture. • The amount includible in income is the excess of the stock's fair market value at the time of substantial vesting over the amount, if any, paid by the employee for the stock.	• Generally effective with respect to stock attributable to options exercised or restricted stock units (RSUs) settled after Dec. 31, 2017 a qualified employee can elect to defer, for income tax purposes, recognition of the amount of income attributable to qualified stock transferred to the employee by the employer. • The election applies only for income tax purposes; the application of FICA and FUTA is not affected.

New Deferral Election for Qualified Equity Grants

New Law

- The election must be made no later than 30 days after the first time the employee's right to the stock is substantially vested or is transferable, whichever occurs earlier.
- If the election is made, the income has to be included in the employee's income for the tax year that includes the earliest of:
  - The first date the qualified stock becomes transferable, including, solely for this purpose, transferable to the employer
  - The date the employee first becomes an "excluded employee"
  - The first date on which any stock of the employer becomes readily tradable on an established securities market;
  - The date five years after the first date the employee's right to the stock becomes substantially vested; or
  - The date on which the employee revokes his or her election

Raised Casualty Floor & Modified Threshold for 2016 Disaster Losses

Pre-Act Law	New Law
• In general, the deduction for casualty and theft losses of personal-use property is subject to two limitations: the $100 per-casualty floor and the 10%-of-adjusted-gross-income threshold.	• For tax years beginning after Dec. 31, 2017, and before Jan. 1, 2026, the Act provides that if an individual has a net disaster loss: (i) the $100-per-casualty floor is increased to $500 and (ii) the 10%-of-AGI threshold doesn't apply

Relief from Early Withdrawal Tax for "Qualified 2016 Disaster Distributions"

Pre-Act Law	New Law
• A distribution from a qualified retirement plan generally is included in income for the year distributed and is subject to 10% additional tax.	• The new Act provides an exception to the retirement plan 10% early withdrawal tax for up to $100,000 of "qualified 2016 disaster distributions."

Time To Contest IRS Levy Extended

Pre-Act Law	New Law
• IRS is authorized to return property that has been wrongfully levied upon. Under Pre-Act Law, monetary proceeds from the sale of levied property could generally be returned within nine months of the date of the levy.	• For levies made after the date of enactment; and for levies made on or before the date of enactment if the 9-month period has not expired as of the date of enactment, the 9-month period during which IRS may return the monetary proceeds from the sale of property that has been wrongfully levied upon is extended to two years.

Due Diligence Requirements for Claiming Head of Household

Pre-Act Law	New Law
• Any person who is a tax return preparer for any return or claim for refund, who fails to comply with certain regulatory due diligence requirements imposed by regulations with regard to determining the eligibility for, or the amount of, an earned income credit, a child tax credit, a additional child tax credit, or an American opportunity tax credit, must pay a penalty. • For 2018, the penalty is $520.	• Effective for tax years beginning after Dec. 31, 2017, the Act expands the due diligence requirements for paid preparers to cover determining eligibility for a taxpayer to file as head of household. A penalty of $500 (adjusted for inflation) is imposed for each failure to meet these requirements.

Alimony Deduction by Payor/Inclusion by Payee Suspended

Pre-Act Law	New Law
• Alimony and separate maintenance payments were deductible by the payor spouse and includible in income by the recipient spouse.	• For any divorce or separation agreement executed after Dec. 31, 2018, or executed before that date but modified after it (if the modification expressly provides that the new amendments apply): • Alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse. • Rather, income used for alimony is taxed at the rates applicable to the payor spouse.

Questions