

Tax Cuts and Jobs Act Summary To-Date



ARTICLE 12.18.17 DEAN DORTON

On Friday evening, congressional Republicans released the final version of their tax overhaul plan. The plan will be voted on this week with the goal of President Trump signing the bill into law before Christmas. The Republicans believe they have enough votes to pass this plan and are anticipating no Democratic support.

The new bill looks a lot like earlier versions from the House and Senate with some modifications. One of the initial goals of the tax legislation was simplification of the tax code. This bill does not represent significant tax simplification, but does represent the most sweeping change to the Tax Code since 1986. This final bill carries a **January 1, 2018 effective date** for most provisions. Given the size and complexity of the tax bill, this summary only highlights a few selected items. **Individual Tax Rates**

Old Law:

Under current tax law, the individual income tax brackets are structured as follows:

<u>Tax Rate</u>	<u>Single</u>	<u>Married Filing Joint (MFJ)</u>
10%	\$0 – \$9,325	\$0 – \$18,650
15%	\$9,326 – \$37,950	\$18,651 – \$75,900
25%	\$37,951 – \$91,900	\$75,901 – \$153,100
28%	\$91,901 – \$191,650	\$153,101 – \$233,350
33%	\$191,651 – \$416,700	\$233,351 – \$416,700
35%	\$416,701 – \$418,400	\$416,701 – \$470,700
39.6%	\$418,401+	\$470,701+

New Law:

Under the proposed tax law, the individual income tax brackets are structured as follows:

<u>Tax Rate</u>	<u>Single</u>	<u>Married Filing Joint (MFJ)</u>
10%	\$0 – \$9,525	\$0 – \$19,050
12%	\$9,526 – \$38,700	\$19,051 – \$77,400
22%	\$38,701 – \$82,500	\$77,401 – \$165,000
24%	\$82,501 – \$157,500	\$165,001 – \$315,000
32%	\$157,501 – \$200,000	\$315,001 – \$400,000
35%	\$200,001 – \$500,000	\$400,001 – \$600,000
37%	\$500,001+	\$600,001+

Personal Exemptions and Standard Deduction Old Law:

Personal exemptions generally are allowed for the taxpayer, the taxpayer's spouse, and any dependents. The amount deductible for each personal exemption is \$4,050 for 2017, subject to a phase-out for higher earners. Taxpayers are allowed a standard deduction of \$6,350 single/\$12,700 MFJ.

New Law:

The personal exemptions are eliminated and the standard deductions increased to \$12,000 single/\$24,000 MFJ, indexed for inflation for tax years beginning after 2018.

State, Local and Property TaxesOld Law: Taxes paid at the state and local level, including real and personal property taxes, income taxes, and/or sales taxes can be deducted from a taxpayer's taxable income as an itemized deduction.

New Law:

For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the *combined* deduction for property taxes and state and local income taxes, is limited to \$10,000 MFJ. Sales taxes may be included as an alternative to claiming state and local income taxes.

Mortgage InterestOld Law: Taxpayers who itemize their deductions may deduct interest payments on the first \$1 million in acquisition indebtedness (for acquiring, constructing, or substantially improving a residence), and up to \$100,000 in home equity indebtedness.

New Law:

For home acquisition indebtedness incurred before December 15, 2017, the limitation remains at \$1 million. Home acquisition debt incurred after this date is subject to a \$750,000 limitation. The law eliminates the deduction for home equity indebtedness.

Medical ExpensesOld Law: Under current tax law, the threshold for deduction is 10% of AGI.

New Law:

For tax years beginning after Dec. 31, 2016 and ending before Jan. 1, 2019, the threshold for deduction is reduced to 7.5% of AGI. However, this adjustment is only temporary, as the threshold for deduction will return to 10% of AGI for tax years beginning after Dec. 31, 2018.

Charitable Contributions for Purchase of Seating to College and University Athletic EventsOld Law:

A taxpayer that purchases tickets for seating at an athletic event for an educational organization, may take a charitable deduction for 80% of the amount contributed (example – UK Blue/White Fund).

New Law:

For tax years beginning after Dec. 31, 2017, taxpayers will no longer be able to take a charitable deduction for *any* portion of contribution made to an athletic event for an educational organization.

Expanded Use of Sec. 529 Account FundsOld Law: Funds in a Sec. 529 college savings account could only be used for qualified higher education expenses. "Qualified higher education expenses" included tuition, fees, books, supplies, and required equipment, as well as reasonable room and board if the student was enrolled at least half-time.

New Law:

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.

Individual – Alternative Minimum Tax (AMT)Old Law: Under current tax law, the AMT exemption amounts are \$53,900 for individual filers and \$83,800 MFJ. The exemption phase-out amounts are \$335,300 for individual filers and \$494,900 MFJ.

New Law:

For tax years beginning after Dec. 31, 2017 and ending before Jan. 1, 2026, the AMT exemption amounts will be \$70,300 for single filers and \$109,400 MFJ. Additionally, the exemption phase-out amounts will be \$500,000 for single filers and \$1,000,000 MFJ.

Estate & Gift TaxOld Law: The first \$5 million, basic exclusion adjusted for inflation after 2011, was exempt from estate and gift tax.

New Law:

The estate and gift tax basic exclusion amount is doubled from \$5,000,000 to \$10,000,000, indexed for inflation. The generation skipping transfer (GST) exemption amount is also increased to \$10,000,000, indexed for inflation. These changes are effective for decedents dying and for gifts made after Dec. 31, 2017 and before Jan. 1, 2026. The bill does not provide for a repeal of the estate or GST tax in the future.

Income Tax Rate**Taxable Income Levels:**

Old Law	New Law*	
15%	21%	\$0 – \$50,000
25%	21%	\$50,000-\$75,000
34%	21%	\$75,000 – \$100,000
39%	21%	\$100,000-\$335,000
34%	21%	\$335,000 – \$10,000,000
35%	21%	\$10,000,000-\$15,000,000
38%	21%	\$15,000,000 – 18,333,333
35%	21%	\$18,333,000+

* Personal Service Corporations (PSC) receive no special tax rate. **Pass-Through Entities Old Law:**

The net income of sole proprietorships, partnerships, limited liability companies, and S corporations was not subject to an entity-level tax, and was instead included in taxable income on an owner's or shareholder's individual income tax return. This rate could have been as high as 39.6%.

New Law:

Generally, for tax years beginning after December 31, 2017 and before January 1, 2026, individual taxpayers with domestic "qualified business income" from sole proprietorships, partnerships and S corporations would be allowed a new deduction of up to 20% this income. Qualified business income is defined as other than investment income (e.g., dividends, interest income, capital gains, etc.). The deduction could not exceed the greater of:

1. 50% of the taxpayer's allocable portion of W-2 wages paid, or
2. The sum of 25% of the taxpayer's allocated W-2 wages plus 2.5% of the taxpayer's allocated unadjusted basis, immediately after acquisition of all "qualified property". Qualified property is defined as meaning tangible, depreciable property which is held by and available for use in the qualified trade or business at the close of the tax year, which is used at any point during the tax year in the production of qualified business income, and the depreciable period for which has not ended before the close of the tax year.

This second limitation would allow businesses to be eligible for the deduction based on owning property that qualified under the provision, with or without applicable wages.

However, the W-2 wage limit does not apply in the case of a taxpayer with taxable income not exceeding \$315,000 for MFJ (\$157,500 for other individuals). The application of the W-2 wage limit is phased in for individuals with taxable income exceeding these thresholds over the next \$100,000 of taxable income for MFJ (\$50,000 for other individuals).

The deduction generally does not apply to specified service businesses, but the service business limitation does not apply in the case of a taxpayer whose taxable income does not exceed the applicable thresholds above. **Corporate – Alternative Minimum Tax Old Law:**

The corporate AMT is 20%, with an exemption amount of up to \$40,000. Corporations with average gross receipts of less than \$7.5 million for the preceding three tax years are exempt from the AMT. The exemption amount phases out starting at \$150,000 of alternative minimum taxable income.

New Law:

The corporate AMT is repealed for tax years beginning after 2017. In addition, for years beginning after 2017 and before 2022, the AMT credit is refundable and can offset regular tax liability in an amount equal to 50% (100% for tax years beginning in 2021) of the excess of the minimum tax credit for the tax year over the amount of the credit allowable for the year against regular tax liability. Accordingly, the full amount of the minimum tax credit will be allowed in tax years beginning before 2022. **Depreciation**

Old Law:

Bonus Depreciation – 50% for qualified property placed in service during the tax year. Beginning with property placed in service after Dec. 31, 2017 and before Jan. 1, 2020, the bonus depreciation rate is reduced to 40%, with the deduction expiring after 2019. Additionally, the definition of qualified property includes the requirement that the original use of property commence with the taxpayer. As such, used property is not eligible for bonus depreciation.

Sec. 179 Deduction – The maximum amount that may be expensed under this provision is \$510,000. Additionally, the phase-out threshold for the deduction is \$2,030,000. These amounts are permanently extended and indexed for inflation.

Farm Property – Machinery and equipment used in farming operations have a useful life of 7 years, and must be depreciated using the 150% declining balance method.

New Law:

Bonus Depreciation – 100% (full expensing) for qualified property acquired and placed in service after September 27, 2017 and before Jan. 1, 2023. Beginning with 2023, bonus depreciation will be phased out at a rate of 20% each year until fully phased out after 2027. Additionally, the requirement that the original use of property commence with the taxpayer has been removed. As such, the definition of qualified property is effectively expanded to include used property.

Sec. 179 Deduction – The maximum amount that may be expensed under this provision is \$1,000,000. Additionally, the phase-out threshold for the deduction is \$2,500,000. Beginning with property acquired after Dec. 31, 2018, both the maximum deduction and phase-out amount will be indexed for inflation.

Farm Property – Machinery and equipment used in farming operations have a useful life of 5 years, and are now depreciated using the 200% declining balance method.**Business Interest Deduction Limitations**
Old Law: Business interest paid or accrued is generally deductible.

New Law:

For tax years beginning after Dec. 31, 2017, every business, regardless of its form, is generally subject to a disallowance of a deduction for net interest expense in excess of 30% of the business's "adjusted taxable income". The net interest expense disallowance is determined at the taxpayer level. However, a special rule applies to pass-through entities such as S Corporations or Partnerships, which require the determination to be made at the entity level.

For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2022, adjusted taxable income is computed without regard to deductions allowable for depreciation, amortization, or depletion and without the former domestic production deduction (which is repealed effective Dec. 31, 2017). An exemption rule applies for taxpayers with average annual gross receipts of less than \$25 million for the prior three-year period.
DisclaimerThe information presented is not intended to be a full and exhaustive explanation of the tax bills referenced as there are many more provisions. Please consult with your tax advisor regarding the policies that might be applicable to your specific situation.