The Tax Cuts and Jobs Act of 2017 is making sweeping changes to our tax system, starting in 2018. This paper is not meant to be all-encompassing, but it does provide some highlights that most taxpayers should be aware of:

FOR INDIVIDUAL FILERS

1. Lowers (many) individual rates: The bill preserves seven tax brackets, but changes the rates that apply to: 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Today's rates are 10%, 15%, 25%, 28%, 33%, 35% and 39.6%.

Here's how much taxable income would apply to the new rates:
-- 10% (income up to $9,525 for individuals; up to $19,050 for married couples filing jointly)
-- 12% (over $9,525 to $38,700; over $19,050 to $77,400 for couples)
-- 22% (over $38,700 to $82,500; over $77,400 to $165,000 for couples)
-- 24% (over $82,500 to $157,500; over $165,000 to $315,000 for couples)
-- 32% (over $157,500 to $200,000; over $315,000 to $400,000 for couples)
-- 35% (over $200,000 to $500,000; over $400,000 to $600,000 for couples)
-- 37% (over $500,000; over $600,000 for couples)

2. Nearly doubles the standard deduction: For single filers, the bill increases it to $12,000 from $6,350 currently; for married couples filing jointly it increases to $24,000 from $12,700.

3. Eliminates personal exemptions: Today you're allowed to claim a $4,050 personal exemption for yourself, your spouse and each of your dependents. Doing so lowers your taxable income and thus your tax burden. This has now been eliminated.

4. Caps state and local tax deduction: The final bill will preserve the state and local tax deduction for anyone who itemizes, but it will cap the amount that may be deducted at $10,000. Today the deduction is unlimited for your state and local property taxes plus income or sales taxes.

5. Expands child tax credit: The credit will be doubled to $2,000 for children under 17. It also will be made available to high earners because raises the income threshold under which filers may claim the full credit to $200,000 for single parents, up from $75,000 today; and to $400,000 for married couples, up from $110,000 today.

Like the first $1,000 of the child tax credit, $400 of the additional $1,000 also will be refundable, meaning a low- or middle-income family will be able get the money refunded to them if their federal income tax liability nets out at zero.

6. Creates temporary credit for non-child dependents: The bill will allow parents to take a $500 credit for each non-child dependent whom they're supporting, such as a child 17 or older, an ailing elderly parent, or an adult child with a disability.

7. Lowers cap on mortgage interest deduction: If you take out a new mortgage on a first or second home you will only be allowed to deduct the interest on debt up to $750,000, down from $1 million today. Homeowners who already have a mortgage will be unaffected by the change.

The bill will no longer allow a deduction for the interest on home equity loans. Currently that's allowed on loans up to $100,000.

8. Curbs who's hit by AMT: Earlier bills called for the elimination of the Alternative Minimum Tax. The final version keeps it, but reduces the number of filers who will be hit by it by raising the income exemption levels to $70,300 for singles, up from $54,300 today; and to $109,400, up from $84,500, for married couples.

9. Preserves smaller but popular tax breaks: Earlier versions of the bill had proposed repealing the deductions for medical expenses, student loan interest, and classroom supplies bought with a teacher's own money. They also would have repealed the tax-free status of tuition waivers for graduate students.

The final bill, however, preserves all of these as they are under the current code. And it actually expands the medical expense deduction for ***2017***, 2018 and 2019.

10. Exempts almost everybody from the estate tax: Unlike the House GOP bill, the final bill does not call for a repeal of the estate tax.

But it essentially eliminates it for all but the smallest number of people by doubling the amount of money exempt from the estate tax -- currently set at $5.49 million for individuals, and $10.98 million for married couples.

11. Slows inflation adjustments in tax code: The bill will use "chained CPI" to measure inflation, which is a slower measure than is used today. The net effect is your deductions, credits and exemptions will be worth less -- since the inflation-adjusted dollars defining eligibility and maximum value will grow more slowly. It also will subject more of your income to higher rates in future years than would be the case under the current code.

12. Eliminates mandate to buy health insurance: There will no longer be a penalty for not buying insurance. Please note that this goes into effect in ***2019***, so the requirement still exists for all of 2018.

FOR BUSINESSES AND CORPORATIONS

13. Lowers tax burden on pass-through businesses: The tax burden on owners, partners and shareholders of S-corporations, LLCs and partnerships -- who pay their share of the business' taxes through their individual tax returns -- will be lowered by a 20% deduction. ***Please note this is not a reduction TO a 20% rate. This is a 20% reduction of the net profit; the remaining 80% of your net profit will still be taxed at your overall prevailing tax rate.*** Very tricky wording…

The 20% deduction will be prohibited for anyone in a service business, such as attorneys, doctors/dentists, and accountants -- unless their taxable income is less than $315,000 if married ($157,500 if single).

14. Includes rule to prevent abuse of pass-through tax break: If the owner or partner in a pass-through also draws a salary from the business, that money is always subject to ordinary income tax rates.

But to prevent people from recharacterizing their wage income as business profits to get the benefit of the pass-through deduction, the bill will place limits on how much income will qualify for the deduction.

15. Slashes corporate rate: The bill cuts the corporate rate to 21% from 35%, starting next year. The bill also repeals the alternative minimum tax on corporations. Please note that all corporate net profit will be subject to the 21% rate, even on profits that used to be taxed ***at rates as low as 15%.***

16. Changes how U.S. multinationals are taxed: Today U.S. companies owe Uncle Sam tax on all their profits, regardless of where the income is earned. They're allowed to defer paying U.S. tax on their foreign profits until they bring the money home.

The final GOP bill proposes switching the U.S. to a territorial system. It also includes a number of anti-abuse provisions to prevent corporations with foreign profits from gaming the system.

In the meantime it would require companies to pay a one-time, low tax rate on their existing overseas profits -- 15.5% on cash assets and 8% on non-cash assets (e.g., equipment abroad in which profits were invested).

Here are a few more interesting changes:

<u>The Good News</u>

The capital gain exclusion on the sale of your principal residence remains intact: Homeowners who sell their house for a gain will still be able to exclude up to $500,000 (or $250,000 for single filers) from capital gains, as long as they're selling their primary home and have lived there for two of the past five years. There had been talk of eliminating this altogether, or changing the rules to five out of the past eight years, but the existing provision ended up making it through unscathed.

529 savings accounts can be used in new ways: In the past, funds invested in 529 savings accounts weren't taxed -- but they could only be used for college expenses. Now, up to $10,000 can be distributed annually to cover the cost of sending a child to a "public, private or religious elementary or secondary school."

Alimony received is no longer taxable income, starting with 2019. This one was a surprise. But see the Bad News below:

<u>The Bad News</u>

Alimony payments are no longer deductible: Alimony payments will no longer be deductible for the person who writes the checks. This provision will apply to couples who sign divorce or separation paperwork after December 31, 2018. For those of you in this situation, you may want to consider the timing of signing your divorce decrees and settlements.

The deduction for moving expenses is also gone: There may be some exceptions for members of the military, but most people will no longer be able to deduct their expenses when they move for work.

Casualty losses are now limited: Losses sustained due to a fire, storm, shipwreck or theft that aren't covered by insurance used to be deductible, assuming they exceeded 10% of adjusted gross income. But now through 2025, people can only claim that deduction if they've been affected by an **official national disaster**. So for example, that would make someone whose house was destroyed by a California wildfire potentially eligible for some relief, while disqualifying the victim of a random house fire.

Interesting News

Businesses won't be able to write off sexual harassment settlements: We don't expect this to affect any of our clients, but companies can no longer deduct any settlements, payouts, or attorneys' fees related to sexual harassment if the payments are subject to non-disclosure agreements.