Legislative Update | Tax Cuts and Jobs Act

Individual income tax provision highlights

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (P.L. 115-97). Highlights of the key provisions are outlined below. We'll continue to provide additional information and analysis as we move forward in 2018.

When will these provisions go into effect? Unless noted, **January 1, 2018**. However, most changes will **sunset after 2025** (as noted by footnote 1) and revert to their 2017 numbers, adjusted for inflation.

2018 Federal individual income tax brackets and rates

Under the new law, the top federal individual marginal rate is 37%.

Income tax rates[1, 2]	Single[3]	
10%	$0 to $9,525	10% of the taxable income
12%	$9,526 to $38,700	$952.50 plus 12% of the excess over $9,525
22%	$38,701 to $82,500	$4,453.50 plus 22% of the excess over $38,700
24%	$82,501 to $157,500	$14,089.50 plus 24% of the excess over $82,500
32%	$157,501 to $200,000	$32,089.50 plus 32% of the excess over $157,500
35%	$200,001 to $500,000	$45,689.50 plus 35% of the excess over $200,000
37%	Over $500,000	$150,689.50 plus 37% of the excess over $500,000

Income tax rates[1, 2]	Married filing jointly	
10%	$0 to $19,050	10% of the taxable income
12%	$19,051 to $77,400	$1,905 plus 12% of the excess over $19,050
22%	$77,401 to $165,000	$8,907 plus 22% of the excess over $77,400
24%	$165,001 to $315,000	$28,179 plus 24% of the excess over $165,000
32%	$315,001 to $400,000	$64,179 plus 32% of the excess over $315,000
35%	$400,001 to $600,000	$91,379 plus 35% of the excess over $400,000
37%	Over $600,000	$161,379 plus 37% of the excess over $600,000

2018 Federal long-term capital gains and qualified dividend brackets and rates

Capital gains and qualified dividends will retain the old thresholds.

Long-term capital gains and qualified dividend rate	Single[3]	Married filing jointly
0%	$0 to $38,600	$0 to $77,200
15%	$38,601 to $239,500	$75,901 to $479,000
20%	Over $239,500	Over $479,000

The additional 0.9% tax on earned income and the 3.8% Medicare surtax on net investment income, as a result of the Patient Protection and Affordable Care Act of 2010, will continue to apply to taxpayers with adjusted gross incomes (AGI) greater than $200,000 for single individuals and $250,000 for married couples.

Individual income tax highlights:

Provision	2017 Law	New Law	Analysis
Indexing Provisions IRC Section 1	Individual income tax provisions indexed to the traditional consumer price index (CPI) measure of inflation.	Individual income tax provisions indexed to the Chained CPI (C-CPI) measure of inflation.	The new C-CPI measure of inflation is expected to be more conservative.
Standard Deduction[1] IRC Section 63(c)(7)	$6,350 for single $12,700 for joint	$12,000 for single $24,000 for joint	With the higher standard deduction, fewer clients may elect to itemize.
Personal Exemption[1] IRC Section 151(d)(5)	$4,050 per family member	Suspended	For many taxpayers, the effect of the change will be offset by the increased child tax credit and its broader availability.
Child and Family Tax Credits[1] IRC Section 24	Refundable $1,000 child tax credit for first two children. Alternative formula for families with three or more children. Phase-out of credit when adjusted gross income exceeds $75,000 for single individuals and $110,000 for married couples.	Increased child tax credit to $2,000. Of this, $1,400 is refundable and indexed to inflation. Provisions begin to phase out at $200,000 for single individuals and $400,000 for married couples. $500 nonrefundable credit for qualifying dependents other than qualifying children.	This change will offset, or mitigate, the impact of the suspension of personal exemptions, particularly in larger families.

Provision	2017 Law	New Law	Analysis
Charitable Contribution Deduction[1] IRC Section 170(b)(1)(g)	Itemized deduction for cash donations to public charities limited to 50% of AGI.	Itemized deduction for cash donations to public charities limit increased to 60% of AGI. Ability to carry unused deduction forward 5 years is retained.	Increase may release existing carryforward deductions. Clients may "bunch" charitable gifts in years when they itemize (instead of taking the standard deduction).
State and Local Tax Deduction[1] IRC Section 164(b)(6)	Itemized deduction for state and local (a) property taxes, (b) personal property taxes, and (c) income taxes. At the election of the taxpayer, an itemized deduction for sales taxes may be taken in lieu of the deduction for state and local income taxes.	Maximum deduction limited to $10,000.	Individuals in high tax states may be impacted. Clients may want to explore strategies for minimizing state and local income taxes.
Mortgage & Home Equity Indebtedness Interest Deduction[1] IRC Section 163(h)(3)(F)	Itemized deduction for qualified residence interest. The maximum amount treated as acquisition indebtedness is $1,000,000. Additionally, home equity indebtedness may not exceed $100,000.	Itemized deduction for qualified residence interest is limited to acquisition indebtedness of $750,000. Home equity interest deduction suspended.	Mortgages incurred before Dec 15, 2017, are grandfathered.
Moving Expense Deduction[1] IRC Section 217	Above-the-line deduction for moving expenses paid or incurred in connection with employment.	Suspended	Does not apply to active duty military personnel.
Student Interest Loan Deduction IRC Section 221	Above-the-line deduction for payment of qualified student loan interest. Maximum deduction of $2,500.	Retained	Phaseout levels remain unchanged.

Provision	2017 Law	New Law	Analysis
Medical Expense Deduction IRC Section 213(f)	Itemized deduction for unreimbursed medical expenses to the extent they exceed 10% of AGI.	For tax years 2017 and 2018, itemized deduction for unreimbursed medical expenses to the extent they exceed 7.5% of AGI. In years after 2018, medical expenses must exceed 10% of AGI.	The 7.5% (and later 10%) floor means that this deduction primarily benefits those with lower income and/or high medical expenses, including nursing home expenses.
Investment Advisory Fees[1] IRC Section 67(g)	Itemized deduction for miscellaneous expenses, including investment advisory fees, to the extent they exceed in aggregate 2% of the taxpayer's adjusted gross income.	Suspended	
Pease Limitation[1] IRC Section 68(f)	3% phase-out of itemized deductions when a taxpayer's adjusted gross income exceeds $261,500 for single individuals and $313,800 for married couples.	Suspended	This change may have the effect of expanding certain deductions for higher income taxpayers.
Alternative Minimum Tax[1] IRC Section 55(d)	The amount exempt from the Alternative Minimum Tax for 2018 is scheduled to be $55,400 for single individuals and $86,200 for married couples.	The amount exempt from the Alternative Minimum Tax is $70,300 for single individuals and $109,400 for married couples.	
Individual Mandate Penalty IRC Section 5000A(c)	Under the Affordable Care Act, the "individual mandate" requires individuals be covered by at least a minimum essential health coverage or be subject to a tax ("penalty").	After December 31, 2018, reduces the amount of individual responsibility payment to zero.	This change effectively repeals the individual mandate by removing the penalty for failing to maintain a minimum level of health coverage.
Alimony IRC Sections 215, 61(a)(8)	Alimony and separate maintenance payments are deductible by the payor spouse and includible in income by the recipient spouse.	For divorces/separations effective after December 31, 2018, no alimony tax deduction will be available to the payor spouse.	Courts may be more aggressive about ordering life insurance as a guarantee for alimony payments.

Provision	2017 Law	New Law	Analysis
Kiddie Tax IRC Section 1(j)(4)	Net unearned income of qualifying children is taxed at the higher of the parents' or child's income tax rate.	Applies ordinary and capital gains rates applicable to trusts and estates to the net unearned income of a child.	Children's unearned income will be taxed at higher rates at lower thresholds.
1031 Exchanges IRC Section 1031	No gain/loss is realized if property held for trade, business, or investment if exchanged for "like kind" property used for the same purposes.	Nonrecognition of gain for like-kind exchanges is limited to real property that's not held primarily for sale.	1035 exchanges related to life insurance, annuities and long-term care insurance products still available.
Life Settlement IRC Sections 101, 1016, and 6050X	Sales/acquisitions of existing life insurance policies were previously unreported and regulated by IRS transfer for value rules.	Enacts requirement that sale/acquisitions of existing life insurance be reported in order to record basis, monitor transfer for value, and determine income taxability of the death benefit.	Increased tracking of basis and transfer for value will likely result in increased income tax reporting on viatical settlements.
529 Accounts IRC Section 529 (c)(7)	Use of 529 qualified tuition distributions are generally restricted for certain eligible educational institutions.	Expands 529 plans to permit up to $10,000 in tax-free distributions for public, private, and religious elementary/ secondary schools.	Broadened applicability may increase the use of 529 plans.
ABLE (Achieving a Better Life Experience) Accounts[1] IRC Section 25B(d)(1)	Tax-favored savings plans benefitting disabled individuals. Distributions, including growth in account, are typically exempt from income tax. Contributions limited to annual gift-tax exemption ($14,000 in 2017)	Allows 529 contributions to be rolled into ABLE accounts. Increases contribution limitation by permitting the beneficiary to contribute additional funds beyond the gift tax exemption. Allows contributions to be eligible for saver's credit.	Availability of 529 plan rollovers, saver's credit, and increased contribution limits may expand the use of ABLE accounts.

Provision	2017 Law	New Law	Analysis
IRA Recharac-terization IRC Section 408	Permits recharacterization of IRAs between traditional and Roth in order to maximize tax saving based upon IRA's performance.	Repeals special rule permitting recharacterization of IRA between traditional and Roth.	This change will have the greatest effect on taxpayers for whom a Roth conversion is followed by a downturn in the value of their account. Taxpayers may wish to take a more incremental approach to Roth conversions.

[1] Change will sunset after 2025 and revert to its 2017 numbers, adjusted for inflation.

[2] These rates are imposed on *taxable income*, meaning income remaining after applicable exclusions, deductions and exemptions are claimed. Note that each rate applies only to income falling within that bracket.

[3] Unmarried individuals who are not surviving spouses or heads of household.

Summary

With the changing tax environment, you may want to review your personal tax situation with your legal, accounting or tax counsel. The low tax environment may provide you with the opportunity and means to complete long-term planning. Additionally, contributions to retirement plans, including qualified and nonqualified deferred compensation plans (when available), continue to be attractive tax-advantaged retirement savings vehicles for many. While several of the benefits of the Tax Cuts and Jobs Act are scheduled to sunset after 2025, the basics and benefits of planning never expire.

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