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BRIEF HIGHLIGHTS OF THE TAX CUTS AND JOBS ACT

The new tax legislation was signed into law on December 22, 2017. The following is a brief summary of some key provisions that take effect for 2018, unless otherwise stated. Please note that most of these changes will not affect your **2017** tax return.

1.) The individual tax brackets have been expanded and the top tax rate was reduced from 39.6% to 37%. In 2017 a couple filing jointly with taxable income over $470,700 will be taxed at 39.6%. In 2018 that same couple will find themselves taxed at the top rate of 37% if their taxable income is over $600,000. These expanded brackets, albeit with different amounts, also apply to the other filing statuses as well.

Single 2018 Tax Brackets

Taxable Income	Tax Bracket:
$0-$9,525	10%
$9,526-$38,700	12%
$38,701-$82,500	22%
$82,501-$157,500	24%
$157,501-$200,000	32%
$200,001-$500,000	35%
$500,001+	37%

MFJ or QW 2018 Tax Brackets

Taxable Income	Tax Bracket:
$0-$19,050	10%
$19,051-$77,400	12%
$77,401-$165,000	22%
$165,001-$315,000	24%
$315,001-$400,000	32%
$400,001-$600,000	35%
$600,001+	37%

HOH 2018 Tax Brackets

Taxable Income	Tax Bracket:
$0-$13,600	10%
$13,601-$51,800	12%
$51,801-$82,500	22%
$82,501-$157,500	24%
$157,501-$200,000	32%
$200,001-$500,000	35%
$500,001+	37%

MFS 2018 Tax Brackets

Taxable Income	Marginal Tax Rate:
$0-$9,525	10%
$9,526-$38,700	12%
$38,701-$82,500	22%
$82,501-$157,500	24%
$157,501-$200,000	32%
$200,001-$300,000	35%
$300,001+	37%

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2.) The 2018 standard deduction amounts will be as follows:

- ✓ Single or married filing separately: $12,000
- ✓ Married filing jointly: $24,000
- ✓ Head of household: $18,000

The additional standard deduction for people who have reached age 65 (or who are blind) is $1,300 for married taxpayers or $1,600 for unmarried taxpayers.

3.) The deduction for personal exemptions is suspended for tax years 2018 through 2025.

4.) The phase-out limitation on itemized deductions is suspended for tax years 2018 through 2025.

5.) The threshold for deducting medical expenses will be 7.5% of AGI for both 2017 and 2018 for all taxpayers. After 2018, the threshold increases to 10% of AGI.

6.) The total itemized deduction for state and local property and income taxes will be limited to $10,000 per year ($5,000 for those filing separately). The option to deduct state and local sales tax instead of income tax remains in place, subject to the same limitation.

7.) The AGI limitation for charitable contributions of cash to public charities and certain other organizations has increased from 50% to 60%.

8.) Personal casualty losses (e.g., losses due to fire, storm, and theft) will no longer be deductible unless they are attributed to a federally declared disaster.

9.) Miscellaneous itemized deductions that were subject to the 2% AGI limitation are no longer deductible. These items include investment expenses, tax preparation fees, and unreimbursed employee business expenses.

10.) The acquisition debt limit for deducting home mortgage interest is reduced to $750,000, down from $1 million. In addition, interest on home equity debt is no longer deductible.

11.) The child tax credit is increased to $2,000 per qualifying child under age 17. The credit is phased out when modified AGI exceeds $400,000 for joint filers and $200,000 for all other taxpayers. A portion of the credit that exceeds regular tax liability may be refundable up to $1,400 per child. For those with children over age 16 and other qualifying dependents there is a non-refundable family credit of $500 per person.

12.) Taxpayers will be allowed to take distributions from 529 Plans, up to $10,000 per student, to pay tuition expenses for a public, private, or religious elementary or secondary school. The postsecondary rules remain unchanged.

13.) For those affected by the "kiddie tax", the parent's tax rate is no longer used to calculate this tax. Instead, taxable income attributable to net unearned income is taxed according to the tax brackets applicable to trusts and estates, with respect to both ordinary income and income taxed at the preferential net long-term capital gain rates.

14.) The two year carryback provision for a net operating loss (NOL) has been repealed. Beginning in 2018, the NOL deduction is limited to 80% of the taxable income for the year to which it is being carried to. NOL carryovers are adjusted to take the 80% of taxable income limitation into account and are carried forward indefinitely until the entire loss has been used.

15.) Bonus depreciation of 100% can be taken on qualifying property acquired after September 27, 2017 and before January 1, 2023. The new law also removes the requirement that the property must be new in order to qualify for the bonus treatment.

16.) The Section 179 expense deduction has been increased to a maximum amount of $1,000,000. The phase-out threshold has increased to $2,500,000. These amounts will be indexed for inflation for all tax years after 2018.

17.) Entertainment expenses are no longer deductible. The new law provides that no deduction is allowed with respect to:

- ✓ An activity generally considered to be entertainment, amusement or recreation,
- ✓ Membership dues with respect to any club organized for business, pleasure, recreation or other social purposes, or
- ✓ A facility or portion thereof used in connection with any of the above items.

Taxpayers may still deduct 50% of the food and beverage expenses associated with operating their trade or business.

18.) For taxpayers with "pass-through business income" (sole proprietorship, partnership, or S-corporation), there will be <u>a deduction equal to 20% of such pass-through income</u>. However, if taxable income (without regard to this deduction) exceeds $157,500 ($315,000 if married filing jointly), several complicating factors can apply.

For instance, if your taxable income is above the threshold amount and your business is a "specified service trade or business" (i.e., your business provides services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or the principal asset of your business is the reputation or skill of 1 or more of its employees), your deduction will be reduced.

Or, if your taxable income is above the threshold amount, your deduction for pass-through income from the business may be limited based on your wages from the business (potentially being limited to 50% of such wages, if your taxable income is high enough).

These are just a small portion of the changes that were enacted with the passage of the new legislation. If you have any questions please give us a call.