Tax Cut and Jobs Act 2018

Changes – How They Affect You

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Individuals

Income Tax Rates & Brackets for Individuals

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%.

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

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2018 Income Tax Brackets and Rates Under TCJA 2017

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+

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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

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.

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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.**

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)

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.

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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.

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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.

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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.

Corporations

Tax Rates

Pre-Act Law

- Corporations are subject to graduated tax rates of 15% (for taxable income of $0-$50,000)
- 25% (for taxable income of $50,001-$75,000)
- 34% (for taxable income of $75,001-$10,000,000)
- 35% (for taxable income over $10,000,000)
- Personal service corporations pay tax on their entire taxable income at the rate of 35%

New Law

- For tax years beginning after Dec. 31, 2017, the corporate tax rate is a flat 21% rate.
  - $100k = $1.25k savings
  - $1mil = $118k savings

C CORP VS FLOW THROUGH

C-Corp

- Lower entity tax rate
- Double taxation
- Deductibility of SALT

- $1,000,000 Income
  - State Tax = 90,000
  - Federal Tax = 191,100
  - Total Entity = 281,100
  - Dividend tax (F&S)= 208,500
  - Total Tax = $489,600

Flow Through

- No double taxation
- Higher level one tax rate
- Flow through deduction
- Limited SALT deduction

- $1,000,000 Income
  - State Tax = 90,000
  - Federal Tax = 296,000
  - Total Tax = 386,000

<u>Service Business</u>

  - Total Tax = 460,000

New Deduction for Pass-Through Income

Pre-Act Law	New Law
• The net income of pass-through businesses, sole proprietorships, partnerships, limited liability companies (LLCs), and S corporations, was not subject to an entity-level tax and was instead 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 deduct: • (1) the lesser of: (a) the "combined qualified business income amount" of the taxpayer, or (b) 20% of the excess, if any, of the taxable income of the taxpayer for the tax year over the sum of net capital gain and the aggregate amount of the qualified cooperative dividends of the taxpayer for the tax year; plus • (2) the lesser of: (i) 20% of the aggregate amount of the qualified cooperative dividends of the taxpayer for the tax year, or (ii) taxable income (reduced by the net capital gain) of the taxpayer for the tax year.

New Deduction for Pass-Through Income

(Continued)

Pre-Act Law		New Law
		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 ("W-2 wage limit") or • 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." Qualified property is defined in Code Sec. 199A(b)(6) 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.

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Increased Code 179 Expensing

Pre-Act Law	New Law
• The maximum amount a taxpayer could expense was $500,000 of the cost of qualifying property placed in service for the tax year. • The $500,000 amount was reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the tax year exceeds $2m. • These amounts were indexed for inflation.	• For property placed in service in tax years beginning after Dec. 31, 2017: • The maximum amount a taxpayer may expense under Code Sec. 179 is increased to $1m • The phase-out threshold amount is increased to $2.5m • "Qualified real property." The definition of Code Sec. 179 property is expanded to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging. • The definition of qualified real property eligible for Code Sec. 179 expensing is also expanded to include the following improvements to nonresidential real property after the date such property was first placed in service: roofs; heating, ventilation, and air- conditioning property; fire protection and alarm systems; and security systems.

Temporary 100% Cost Recovery of Qualifying Business Assets

Pre-Act Law	New Law
• An additional first-year bonus depreciation deduction was allowed equal to 50% of the adjusted basis of qualified property, placed in service before Jan. 1, 2018. The original use of which began with the taxpayer. • 40% for property placed in service after Dec. 31, 2017 and before Jan. 1, 2019. • 30% for property placed in service after Dec. 31, 2018 and before Jan. 1, 2020.	• A 100% first-year deduction for the adjusted basis is allowed for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. • The additional first-year depreciation deduction is allowed for new and used property. • The first-year bonus depreciation deduction phases down. • 80% for property placed in service after Dec. 31, 2022 and before Jan. 1, 2024. • 60% for property placed in service after Dec. 31, 2023 and before Jan. 1, 2025. • 40% for property placed in service after Dec. 31, 2024 and before Jan. 1, 2026. • 20% for property placed in service after Dec. 31, 2025 and before Jan. 1, 2027.

Luxury Automobile Depreciation Limits Increased

Pre-Act Law	New Law
• For passenger autos placed in service in 2017, for which the additional first-year depreciation deduction under Code Sec. 168(k) is not claimed, the maximum amount of allowable depreciation deduction is $3,160 for the year in which the vehicle is placed in service, $5,100. • For the second year, $3,050 for the third year, and $1,875 for the fourth and later years in the recovery period. This limitation is indexed for inflation. • For passenger automobiles eligible for the additional first-year depreciation allowance in 2017, the first-year limitation is increased by an additional $8,000. This amount is phased down from $8,000 by $1,600 per calendar year beginning in 2018 Thus, the Code Sec. 280F increase amount for property placed in service during 2018 is $6,400, and during 2019 is $4,800.	• For passenger automobiles placed in service after Dec. 31, 2017, in tax years ending after that date, for which the additional first-year depreciation deduction under Code Sec. 168(k) is not claimed, the maximum amount of allowable depreciation is increased to $10,000. • For the year in which the vehicle is placed in service, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years in the recovery period. • For passengers autos eligible for bonus first-year depreciation, the maximum first-year depreciation allowance remains at $8,000.

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Domestic Production Activities Deduction Repealed

Pre-Act Law		New Law
• Taxpayers could claim a domestic production activities deduction (DPAD) equal to 9% of the lesser of the taxpayer's qualified production activities income or the taxpayer's taxable income for the tax year.		• For tax years beginning after Dec. 31, 2017, the DPAD is repealed for non-corporate taxpayers. For tax years beginning after Dec. 31, 2018, the DPAD is repealed for C corporations.

Employer's Deduction for Fringe Benefit Expenses Limited

Pre-Act Law	New Law
• A taxpayer may deduct up to 50% of expenses relating to meals and entertainment. Housing and meals provided for the convenience of the employer on the business premises of the employer are excluded from the employee's gross income. Various other fringe benefits provided by employers are not included in an employee's gross income, such as qualified transportation fringe benefits.	• For amounts incurred or paid after Dec. 31, 2017, deductions for entertainment expenses are disallowed, eliminating the subjective determination of whether such expenses are sufficiently business related; the current 50% limit on the deductibility of business meals is expanded to meals provided through an in-house cafeteria or otherwise on the premises of the employer; and deductions for employee transportation fringe benefits (e.g., parking and mass transit) are denied, but the exclusion from income for such benefits received by an employee is retained. In addition, no deduction is allowed for transportation expenses that are the equivalent of commuting for employees. • For tax years beginning after Dec. 31, 2025, the Act will disallow an employer's deduction for expenses associated with meals provided for the convenience of the employer on the employer's business premises, or provided on or near the employer's business premises through an employer-operated facility that meets certain requirements.

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