Tax Cuts and Jobs Act Overview

On December 22, 2017, President Trump signed into law the "Tax Cuts and Jobs Act", reflecting significant tax reforms in place for the immediate future. For individuals, some of the major changes include new income tax rates and brackets, increasing the standard deduction, suspending personal exemptions, increasing the child tax credit, and limiting the state and local tax deduction. For Corporations, some of the major changes include a flat tax rate, repeals the corporate alternative minimum tax, and changes of expenses and depreciation. Most of the new legislation changes will go into effect on January 1, 2018, impacting 2018 tax returns. Most individual tax changes under the new law are effective until January 1, 2027. All Corporate tax changes under the new law are permanent. Below are summaries of the biggest changes included in the new tax bill:

Income Tax Brackets

There will be seven tax rates that apply to individuals including 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Below is a comparison between the current tax law and new tax law for single taxpayers and married filed jointly taxpayers:

Single Taxpayers

Current Tax Law		
Taxable income over	But not over	Is taxed at
$ -	$ 9,325	10%
$ 9,325	$ 37,950	15%
$ 37,950	$ 91,900	25%
$ 91,900	$ 191,650	28%
$ 191,650	$ 416,700	33%
$ 416,700	$ 418,400	35%
$ 418,400		39.6%

New Tax Law		
Taxable income over	But not over	Is taxed at
$ -	$ 9,525	10%
$ 9,525	$ 38,700	12%
$ 38,700	$ 82,500	22%
$ 82,500	$ 157,500	24%
$ 157,500	$ 200,000	32%
$ 200,000	$ 500,000	35%
$ 500,000		37%

Married Filing Jointly Taxpayers

Current Tax Law		
Taxable income over	But not over	Is taxed at
$ -	$ 18,650	10%
$ 18,650	$ 75,900	15%
$ 75,900	$ 153,100	25%
$ 153,100	$ 233,350	28%
$ 233,350	$ 416,700	33%
$ 416,700	$ 470,700	35%
$ 470,700		39.6%

New Tax Law		
Taxable income over	But not over	Is taxed at
$ -	$ 19,050	10%
$ 19,050	$ 77,400	12%
$ 77,400	$ 165,000	22%
$ 165,000	$ 315,000	24%
$ 315,000	$ 400,000	32%
$ 400,000	$ 600,000	35%
$ 600,000		37%

Personal Exemptions

The deduction for personal exemptions is effectively eliminated.

Standard Deduction

The standard deduction is increased to $12,000 for single and married filing separately taxpayers, $18,000 for head-of-household taxpayers, and $24,000 for married filing jointly taxpayers.

State and Local Deduction

Taxpayers may claim an itemized deduction of up to $10,000 for married filing joint taxpayers, or $5,000 for married filing separately. This limitation is the aggregate of state and local property taxes, and state and local income taxes or sales taxes in lieu of income.

Medical Expense Deduction

For tax years beginning after December 31, 2016 and ending before January 1, 2019. The bill reduces the threshold for deduction of medical expenses to 7.5% of adjusted gross income.

Miscellaneous Itemized Deductions

All miscellaneous itemized deductions subject to the 2% floor are eliminated.

Mortgage Interest Deduction

The deduction for mortgage interest is limited to qualifying debt of up to $750,000 or $375,000 for married filing separately taxpayers. The new limit does not apply to existing home acquisition mortgage debt incurred prior to December 15, 2017 (i.e. mortgage debt up to $1,000,000 remains eligible). The deduction for home equity debt is eliminated, regardless of the loan's origination date.

Child Tax Credit

The child tax credit increases from $1,000 to $2,000. The refundable portion of the credit is increased to $1,400 per qualifying child.

Alimony Payments

Any divorce or separation executed after December 31, 2018, alimony and separate maintenance payments are not included in the income of the payee spouse and are not deductible by the payor spouse.

Alternative Minimum Tax

The bill permanently eliminates AMT for corporations. Individual AMT remains in effect in its entirety, with increases to the exemption amounts.

C-Corporation Corporate Tax Rate

The corporate-level tax rate for C-Corporation net income is now subject to a flat rate of 21%.

NOL Deduction

The NOL two-year carryback deduction is eliminated. However, the NOLs can be carried forward indefinitely. The NOL carryforward deduction is limited to 80% of taxable income.

Domestic Production Activities Deduction

The tax bill repeals the domestic production activities deduction.

Bonus Depreciation

The following changes generally apply to property acquired and placed into service after September 27, 2017 in tax years ending after that date:

- The first-year bonus depreciation for property is increased from 50% to 100%, with a phase-down beginning after Dec. 31, 2022 (Dec. 31, 2023 for certain property with longer production periods). The phase-down of the 50% bonus depreciation of property in service after Dec. 31, 2017 is repealed.

- The deadline for placing property into service for bonus depreciation and AMT is extended from Dec. 31, 2019 to Dec. 31, 2026 (Dec. 31, 2020 to Dec. 31, 2027 for certain property with longer production periods).

- Used property is now eligible for bonus depreciation.

Entertainment Expense

The bill excludes deductions for entertainment expenses incurred by businesses; including expenses incurred for activities generally considered to be entertainment, amusement, or recreation.

Section 179 Expense

For property placed into service after December 31, 2017, the dollar limit a taxpayer can deduct is increased from $500,000 to $1 million, and the phase-down threshold is increased from $2 million to $2.5 million.

Passthrough Income Deduction

For tax years beginning in 2018, an additional deduction is offered to recipients of Qualified Business Income ("QBI") reported by S-Corporations, Partnerships, LLCs, and Sole Proprietorships. The deduction, applied as a reduction of taxable income at the taxpayer level (for individuals, trusts, and estates) is up to 20% of QBI for the year. QBI generally reflects the operating activity of a qualified trade or business, excluding investment activities and certain payments to partners/shareholders.

All individuals will be eligible for the passthrough income deduction (regardless of service type, as discussed below) if the taxpayer's taxable income falls below $315,000 (joint filers), and $157,500 (individual filers). Individuals with total taxable income above the thresholds are subject to additional limitations, reflecting the *lessor of:*

- 50% of W-2 wages paid by the qualified trade or business, or
- 25% of W-2 wages paid by the qualified trade of business plus 2.5% of the unadjusted basis, immediately after acquisition, of qualified property.

Taxpayers with total income in excess of the above threshold amounts may be limited from the Passthrough Income Deduction for income originating from "specified service businesses". Such specified service businesses which may be subject to limitation include those engaged in the following:

- Performance of services in the fields of health, law, accounting, consulting, athletics, financial services, brokerage services; or any trade or business where the principal asset of the trade or business is the reputation or skill of 1 or more of its employees;
- Any business of operating a hotel, motel, restaurant, or similar business.

The deduction for specified service businesses is phased-out at the taxpayer level for joint filers with total income between $315,000 and $415,000, and married filing separately and single filers with total income between $157,500 and $207,500.

Estate Tax

As of 2018, the basic federal exclusion amount for estates is increased to $11.2 million for individuals, and $22.4 million for married couples.

There will be four tax rates that apply to estates including 10%, 24%, 35%, and 37%. This change will expire after 2025, and rates will return to the current tax brackets on January 1, 2026. Below is a comparison between the current tax law and new tax law for estate taxes:

Current Tax Law		
Taxable income over	But not over	Is taxed at
$ -	$ 2,550	15%
$ 2,550	$ 6,000	25%
$ 6,000	$ 9,150	28%
$ 9,150	$ 12,500	33%
$ 12,500		39.6%

New Tax Law		
Taxable income over	But not over	Is taxed at
$ -	$ 2,550	10%
$ 2,550	$ 9,150	24%
$ 9,150	$ 12,500	35%
$ 12,500		37%