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TAX ACT of 2017 – SELECTED HIGHLIGHTS

Effective Date: 1/1/2018 – 12/31/2025

INCOME BRACKETS AND MARGINAL TAX RATES: There are still 7 different tax brackets, but the "bookends" have been increased significantly. For instance, up until 2018, a married couple filing jointly who had earned income of $153,000 would have been in the 25% tax bracket. Thanks to the new tax law, that same couple saw their BRACKET decrease to 22% AND they could earn up to $165,000 before moving up to the next bracket…which still would only be 24%.

- Another example – a married couple filing jointly with taxable income of $700,000 would pay $222,431 under pre-ACT law and $198,379 under the ACT (ignoring any applicable credits).

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MARRIED JOINT FILERS

Current Tax Brackets	Current Thresholds	New Tax Brackets	New Thresholds
10%	$0 to $18,650	10%	$0 to $19,050
15%	$18,651 to $75,900	12%	$19,051 to $77,400
25%	$75,901 to $153,100	22%	$77,401 to $165,000
28%	$153,101 to $233,350	24%	$165,001 to $315,000
33%	$233,351 to $416,700	32%	$315,001 to $400,000
35%	$416,701 to $470,700	35%	$400,001 to $600,000
39.6%	More than $470,700	37%	More than $600,000

Source of chart: TurboTax

One catch: a different measure of inflation will be used for indexing. The "chained CPI" approach will put more taxpayers in higher tax brackets over time than under the previous indexing approach. AND, the chained CPI approach DOES NOT sunset after 2025.

(The chained CPI approach uses the DOL Chained Consumer Price Index for All Urban Consumers, which takes into account anticipated consumer shifts from products whose prices increase to products whose prices do not increase or increase at a lower rate, resulting in slower inflation adjustments and higher tax levels over the long term).

The shift in brackets also removed what used to be an unintentional tax penalty for married filers.

STANDARD DEDUCTION: The standard deduction increased from $12,700 for couples MFJ to $24,000. Quite an increase! However, the IRS giveth, and the IRS taketh away. What they took away was the personal exemption. That's the amount a taxpayer used to be able to deduct from their taxable income for themselves and any dependents claimed on their return.

- Many taxpayers will not realize ANY income tax benefits from charitable contributions, home mortgage interest payments, state and local tax payments, or payments still qualifying as deductions to those who itemize deductions.

CHILD TAX CREDIT: The Child Tax Credit got a boost. Prior to 2018, if parents made less than $110,000 MFJ, they received a $1,000 child tax credit for qualified children under the age of 17. The 2018 tax reform bill increases that credit to $2,000 per child AND raises the income limits for the credit to $400,000 MFJ. That's HUGE. So huge, in fact, that its revenue impact is projected to be $537.4 billion over the next 10 years.

529 PLANS: You can now use assets in a 529 plan for education other than college, for example, private schools K – 12.

STATE AND LOCAL TAX DEDUCTION: The SALT deduction is now limited to $10,000, including income, sales and property taxes. Therefore, if you live in a high-tax state, you may not be able to deduct all of your state and local taxes. (Think about the potential effect on state municipalities)

MORTGAGE DEDUCTION: Prior to the implementation of the TCJA, homeowners could deduct interest on up to $1,000,000.00 of home acquisition debt and up to an additional $100,000.00 of home equity debt. Under the TCJA, homeowners can only deduct interest on a maximum of $750,000.00 of home acquisition debt, and the $100,000.00 home equity debt deduction was eliminated. These thresholds are not indexed up for 2019.

Fortunately, there is an exception. The TCJA does not limit the deductibility of home acquisition debt (up to $1,000,000.00) that was incurred prior to December 16, 2017, or debt incurred by a legally binding contract executed before December 15, 2017, to purchase a principal residence before January 1, 2018, where the purchase was completed by April 1, 2018.

MEDICAL EXPENSES: Medical Expenses can now be deducted to the extent they exceed 7.5% of your adjusted gross income, down from 10%. That's a good thing.

MISCELLANEOUS DEDUCTIONS: Miscellaneous Deductions that got the AXE:

- Casualty and theft losses
- Unreimbursed employee expenses
- Tax preparation fees
- Alimony payments
- Moving expenses
- Investment advisory fees

CHARITABLE DONATIONS: Charitable deductions were enhanced, with an increased percentage limitation on contributions made entirely in cash to public charities (60% of AGI vs 50%). Again, though, something that was taken away was the 80% deduction for contributions made for university athletic seating rights.

PEASE: The Pease limitation is eliminated for 2018-2025. Recall that the Pease limitation reduced most itemized deductions by 3% of the amount by which AGI exceeds a threshold amount ($313,800 in 2017 for MFJ) but with a maximum reduction of 80%. This elimination can still be important for those itemizers who have substantial charitable or home mortgage interest deductions.

Deduction Chart:

Deductions and Credits 2017 versus 2019		
Deduction/Credit	**2017 (Married/Individual)**	**2019 (Married/Individual)**
Standard Deduction	$12,700.00/$6,350.00	$24,400.00/$12,200.00
Personal Exemption	$4,050.00/person	Eliminated
Child Tax Credit	$1,000.00/child (phaseout began at $110,000.00/$75,000.00)	$2,000.00/child (phaseout begins at $400,000.00/$200,000.00)
State and Local Taxes	Unlimited	Maximum Deduction of $10,000.00
Mortgage Interest Deduction	Interest on certain debt up to $1,000,000.00	Interest on certain debt up to $750,000.00
Miscellaneous Itemized Deductions (including investment management fees and losses of surrendered annuities)	Deductible if greater than 2% AGI	Eliminated
Pease Phaseouts (limitations on itemized deductions)	Itemized deductions limited at $313,800.00/$261,500.00	Eliminated
Charitable Deductions	Maximum Deduction: 50% of AGI	Maximum Deduction: 60% of AGI

Chart sources:

IRS, Publication 501 (2017), “Exemptions, Standard Deduction, and Filing Information,” for use in filing 2017 returns.

IRS, Internal Revenue Bulletin: 2018–10, March 5, 2018.

Kitces.com, Final GOP Tax Plan Summary Tax Strategies, “Individual Tax Planning Under The Tax Cuts And Jobs Act Of

2017," December 18, 2017.

CNN Money, "SALT deductions - Making sense of new state and local tax caps," December 20, 2017.

IRS, Publication 936 (2017), "Home Mortgage Interest Deduction for use in preparing 2017 returns," February 16, 2018.

Kitces.com, "The Favorable Tax Treatment Of Financial Advisor Commissions Over Fees After Tax Cuts And Jobs Act 2017," p. 5.

IRS Publication 575 (2017), "Pension and Annuity Income," March 8, 2018.

H.R.1, January 3, 2017.

IRS, Publication 972, "Child Tax Credit for use in preparing 2017 returns," January 23, 2018.

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DIVORCE AND ALIMONY: Alimony payments will not be deductible and will not be income to the recipient. These do not sunset after 2025.

ALTERNATIVE MINIMUM TAX: AMT is not eliminated, but the AMT exemption for individuals increased from $78,750 to $109,400 (indexed) and the phase-out threshold is increased from $150,000 to $1,000,000 (indexed) for MFJ taxpayers.

TESTAMENTARY PLANNING: A framework.

- Couples with assets under $5 million – address whether assets will be left outright to the surviving spouse or in trust, and cause estate inclusion at the surviving spouse's subsequent death to receive a basis adjustment.
- Couples with assets over $5.5 million but under $11 million – make use of the first decedent-spouse's exclusion amount with an outright gift (with disclaimer planning). This creates flexibility for the potability election.
- Couples with over $11 million of assets – same as bullet #2, but also consider gifts using some of the increased gift exclusion amount to save estate tax in case the exclusion amount is reduced back to $5.5 million.

Portability becomes increased in importance, while the use of credit shelter trusts (for estates under $10 million) becomes less so.

March 5, 2019

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