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TAX CUTS AND JOBS ACT

Tax Cuts and Jobs Act – Summary of Key Provisions

The Senate and the House of Representatives passed the "Tax Cuts and Jobs Act" on Wednesday, December 20, 2017. The Senate voted 51 to 48, along party lines, and the House voted 224 to 201, with no Democrat support, and 12 Republicans voting against it. The legislation is generally effective for tax years beginning after December 31, 2017, with most of the provisions for individuals expiring after 2025.

<u>Key Provisions</u>:

- **Increased Estate and Gift Tax Exemption:**
    - Effective in 2018, the exemption for estate and gift taxes increase from $5.5 million to $11.2 million per individual, or $22.4 million for married couples
- **Business Taxes:**
    - Effective in 2018, the maximum corporate tax drops from 35% to 21%
    - There is a new 20% business income tax deduction for certain "pass through" income. The limit would be set at whichever is higher – 50% of total wages paid or 25% of wage income, plus 2.5% of the cost of tangible depreciable property
    - No change to the current rates for capital gains
    - Under the new law, the United States is switching to a territorial system of taxation, which means that companies will no longer owe federal taxes on income they make offshore. Companies will be required to pay a one-time tax rate on their existing overseas profits: 15.5% on cash assets and 8% on non-cash assets
- **Individual Tax Rate Brackets:**
    - There are still seven tax brackets, most of the percentages have decreased: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Single			
Old Rates	**Old Bracket**	**New Rates**	**New Bracket**
10%	$0 - $9,525	10%	$0 - $9,525
15%	$9,526 - $38,700	12%	$9,526 - $38,700
25%	$38,701 - $93,700	22%	$38,701 - $82,500
28%	$93,701 - $195,450	24%	$82,501 - $157,500
33%	$195,451 - $424,950	32%	$157,501 - $200,000
35%	$424,951 - $426,700	35%	$200,001 - $500,000
39.6%	$426,701+	37%	$500,001+

Married, Joint Filer			
Old Rates	**Old Bracket**	**New Rates**	**New Bracket**
10%	$0 - $19,050	10%	$0 - $19,050
15%	$19,051 - $77,400	12%	$19,051 - $77,400
25%	$77,401 - $156,150	22%	$77,401 - $165,000
28%	$156,151 - $237,950	24%	$165,001 - $315,000
33%	$237,951 - $424,950	32%	$315,001 - $400,000
35%	$424,951 - $480,050	35%	$400,001 - $600,000
39.6%	$480,051+	37%	$600,001+

- **Standard Deduction Increase:**
    - The standard deduction increases from $6,500 to $12,000 for Single Filers
    - The standard deduction increases from $9,550 to $18,000 for Heads of Household
    - The standard deduction increases from $13,000 to $24,00 for Joint Filers

- **Alternative Minimum Tax (AMT):**
    - Expiring after 2025, the new bill temporarily raises the exemption amount and exemption phase-out threshold for the alternative minimum tax. The exemption has been raised to $70,300 for singles and to $109,400 for married couples, and phase-out would increase to $500,000 for single filers and $1,000,000 for joint filers
- **Charitable Contributions:**
    - The charitable cash contribution limited increases to 60% of adjusted gross income
- **Retirement Plans and IRAs:**
    - No changes were made to retirement plans and IRA solutions, nor changes to the contribution limits and distribution requirements
- **Personal Exemption:**
    - The new law removes the $4,050 personal exemption for yourself, spouse, and each dependent
- **Child Tax Credit:**
    - The Child Tax Credit has doubled to $2,000 for children under the age of 17. The credit can be claimed by single parents who make up to $200,000 and married couples who make up to $400,000
    - Taxpayers may also claim a temporary $500 credit for non-child dependents, which can apply to children over age 17, elderly parents or adult children with a disability
- **State Income, Sales and Property Tax Deductions**
    - The current law allows for unlimited State and Local Tax deductions. However, the new law limits taxpayers to deduct up to $10,000 in state income, sales or property taxes
    - This will impact residents in states with high state income taxes, as well as states with high sales taxes, and also residents of states with high average property tax rates.
- **529 College Savings Accounts:**
    - College savings accounts (529 plans) can now be used to pay for up to $10,000 of tuition expenses per year for "public, private or religious elementary or secondary school"
- **Mortgage Interest Deduction:**
    - The new law reduces the deduction on a new mortgage on a first or second home from $1,000,000 to $750,000
- **Medical Expenses:**
    - The new law permits deductions for medical expenses, however, the amount has decreased from 10% of adjusted gross income to now be 7.5% of adjusted gross income
- **Obamacare Individual Mandate:**
    - Effective in 2019, the tax law eliminates the individual mandate, which would penalize people who did not have health care insurance
- **Other Tax Breaks:**
    - The new law preserves deductions for student loan interest, classroom supplies, and the tax-free status of tuition waivers for graduate students
- **Other Removed Deductions:**
    - Alimony payments are no longer deductible, this applies to couples who sign divorce or separation paperwork after December 31, 2018
    - Moving expenses are no longer deductible when relocating for work
    - The cost of having taxes prepared by a professional, or the money spent on tax preparation software is no longer deductible
    - Business may no longer deduct any settlements, payouts or attorney's fees related to sexual harassment if the payments are subject to non-disclosure agreements

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