



Tax Cuts & Jobs Act – Individuals



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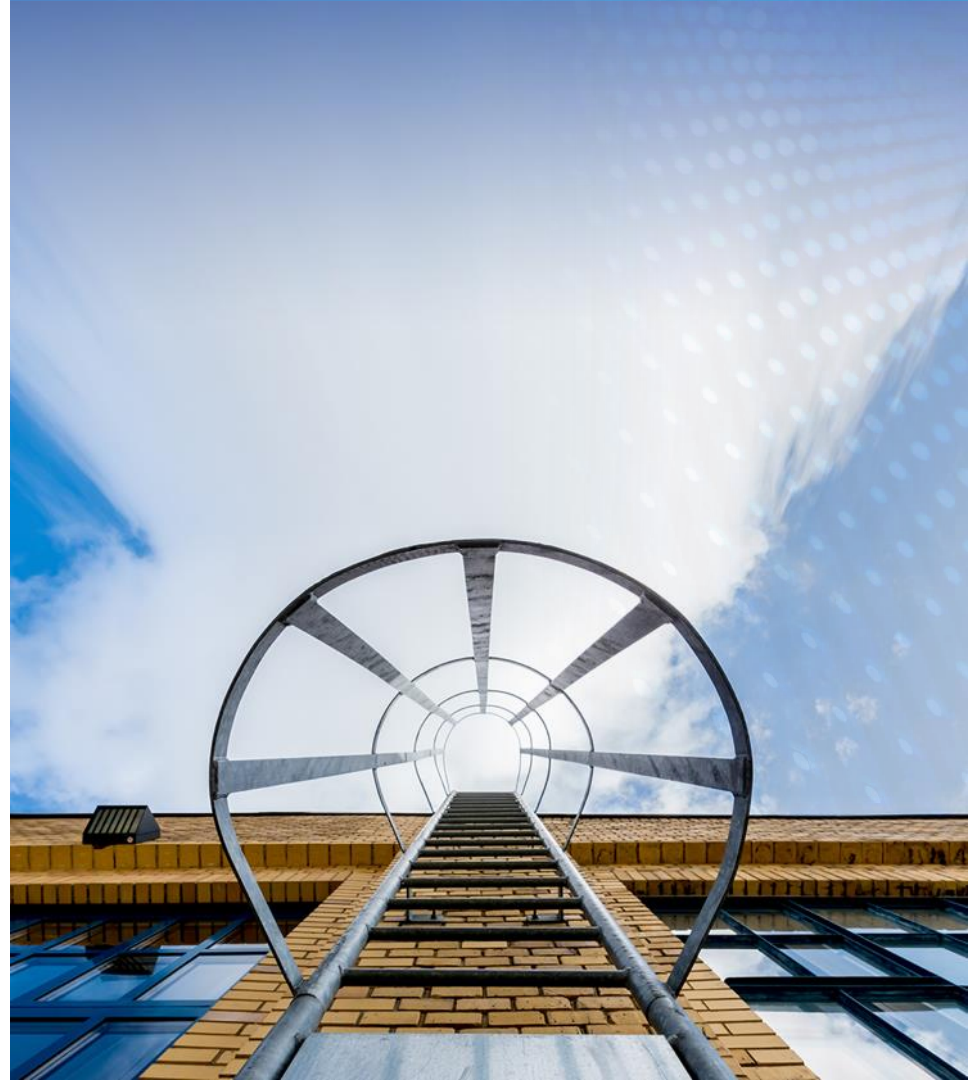
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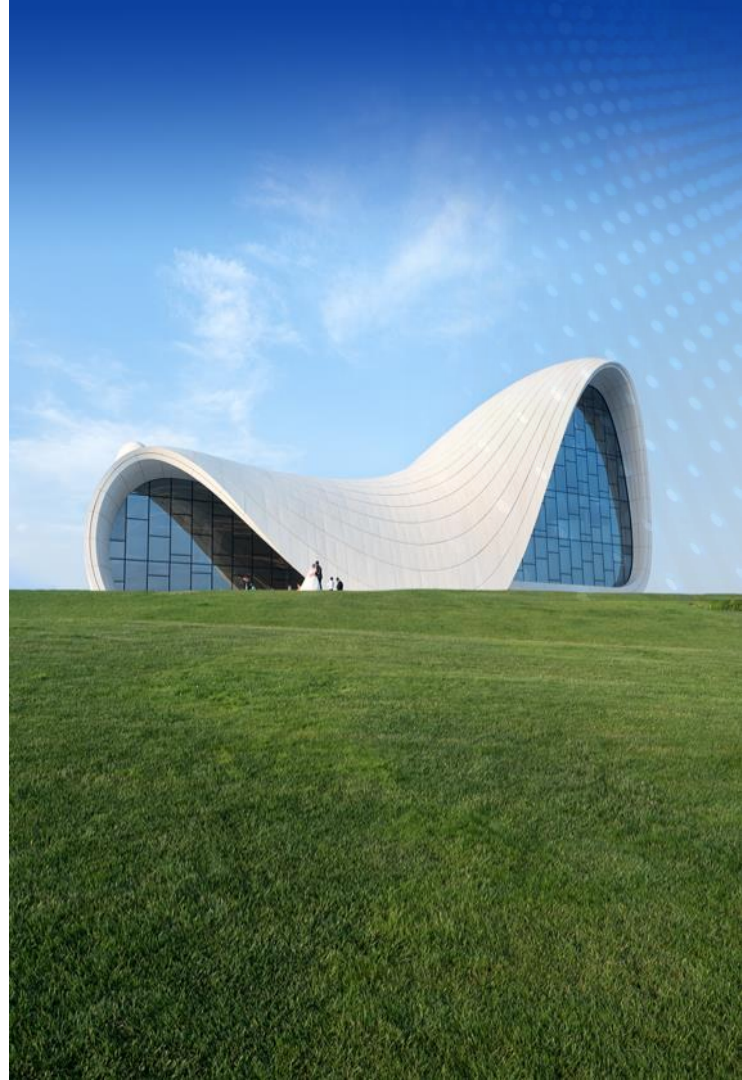
Many changes!

- Generally effective after 12/31/17
- Most changes are temporary
 - Sunset after 2025
- Guidance is needed
- Future legislation?
- State conformity to changes?



The basics

- Still seven tax brackets
 - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- No more dependent exemption
- Higher child tax credit (\$2,000)
 - New \$500 non-child dependent credit
- Increase in standard deduction
- Individual AMT not repealed
 - But exemption amounts have increased



Dividend and capital gains rates unchanged

- The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies).

Here's the breakdown:

**0% for MFJ taxpayers
with < \$77.2k taxable
income**

**15% for MFJ taxpayers
with between \$77.2k
and \$479k taxable
income**

**20% for MFJ taxpayers
with taxable income
greater than \$479k**

Itemized deductions changes

- Repeal of the overall limitation on itemized deductions
- Medical deduction threshold is 7.5% for 2017 & 2018
 - Reverts to 10% starting in 2019
- Mortgage interest limited to \$750k of debt
 - Debt prior to 12/15/17 is grandfathered
- Home equity interest no longer deductible
- State and local tax deduction is limited to \$10k (\$5k if MFS)
- Misc. deductions subject to 2% threshold no longer deductible

Misc. itemized deductions subject to 2% AGI

- Unreimbursed employee expenses
- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit fee

...are no longer deductible

Expired provisions (at the end of 2016)

- Exclusion of discharge of indebtedness on principal residence
- Deduction of mortgage insurance premiums
- Above-the-line deduction for qualified tuition and fees
- Credits for qualified energy property



20% pass-through deduction

- 20% of qualified business income
- Qualified business income definitions
 - Qualified trade/business income
 - Not a specified trade/business
 - Trade/business involving performance of services
 - Does not include investment income
 - Does not include reasonable compensation paid from S corporation or guaranteed payments paid to a partner
 - Phase-out limitation

Affordable Care Act impact

- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- **HOWEVER**, still in effect for 2017 and 2018
- 2017 penalty:
 - Higher of 2.5% of yearly household income, **or**
 - \$695 per person (\$347.50 per child under 18)

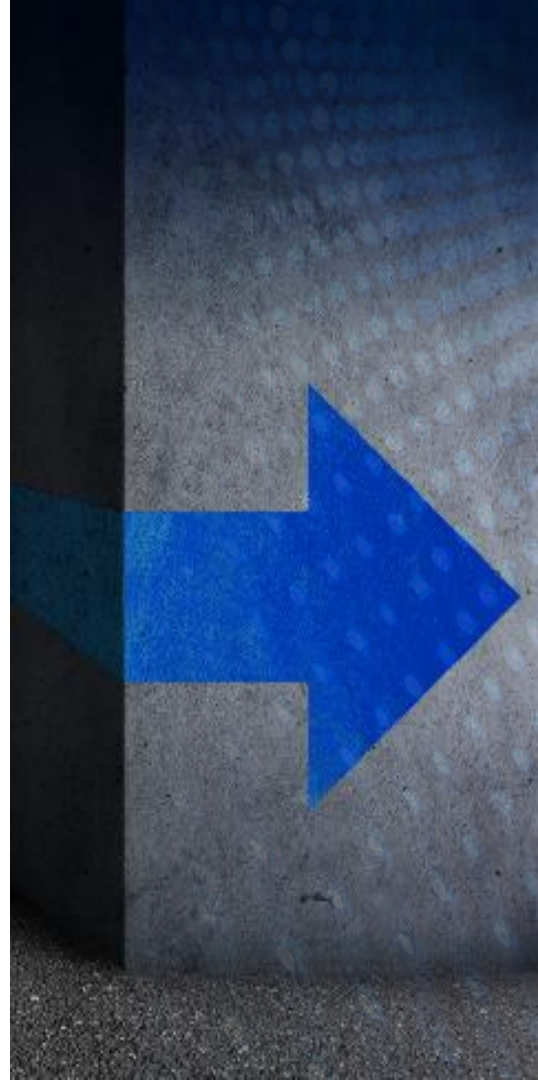


Affects on the net investment income tax (NIIT)

- No change to NIIT itself, but.....
- Investment fees and state income tax (amount attributable to investment income) reduce investment income to lower amount subject to NIIT
- Since investment fees are no longer deductible and state income tax is limited to \$10k, this will likely cause an increase in the amount subject to NIIT

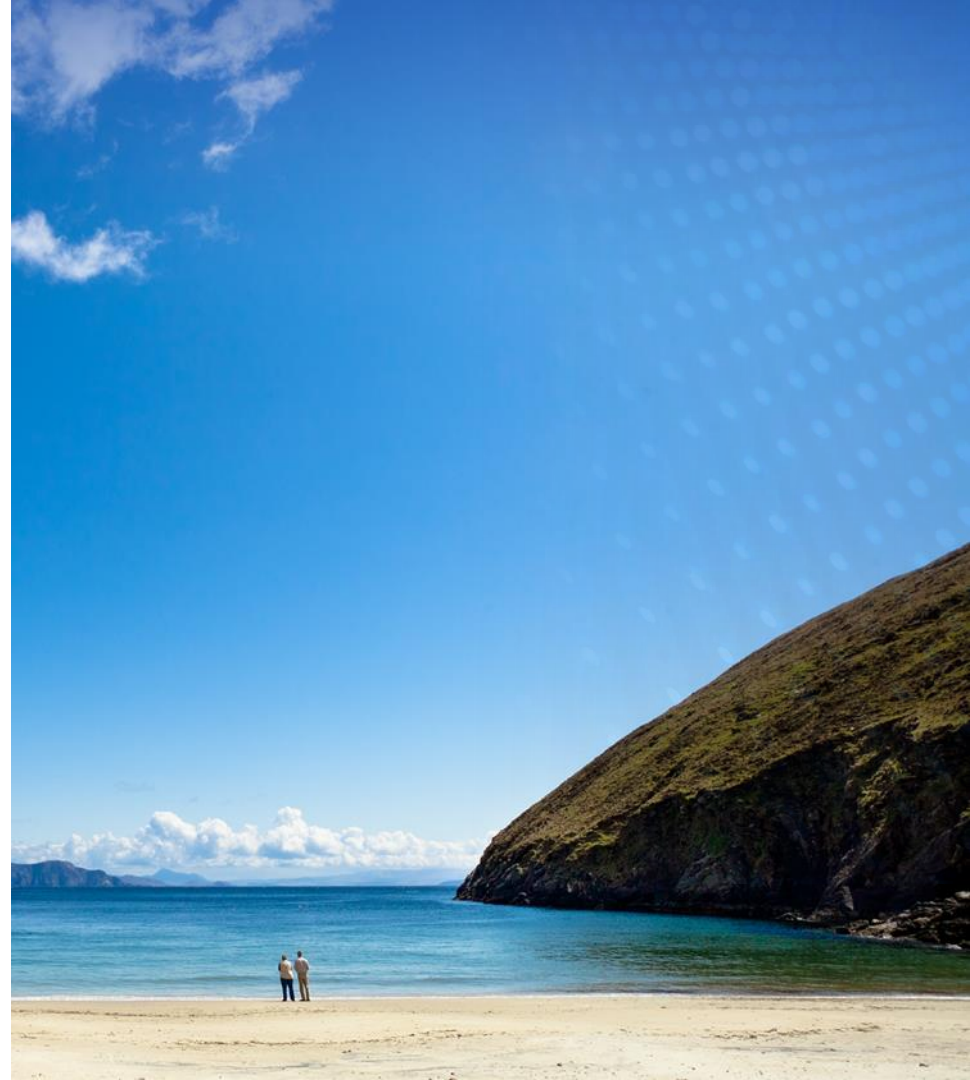
Alternative minimum tax (AMT) changes

- Alternative tax system that parallels the regular federal tax (with different rates and rules for deductions)
- Increase in exemption amount
- Due to limit on state/local tax deduction and repeal of miscellaneous deductions, impact should be less



Changes to retirement planning

- Ability to recharacterize a Roth conversion to a traditional IRA is removed after 2017
- Extension of rollover period for plan loan offsets



Estate and gift taxes changes

- 2018 estate tax exemption: \$11.2 million
- 2018 gift tax annual exclusion: \$15,000
- Estate planning is **more than minimizing estate taxes.**
 - Updating documents
 - Repurposing insurance
 - Privacy
 - Asset protection

Education tax benefit changes

- Sec 529 plan distributions for private school tuition
- Sec 529 plan assets can transfer to ABLE accounts for family members
- Student loan forgiveness will not be taxable income to student upon death/total disability



Other individual changes to note

- Casualty losses: only from federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Kiddie tax now at trusts/estate tax rates

Charitable contribution changes

- AGI limitation increased to 60% for cash contributions (from 50%)
- No 80% deduction for right to purchase athletic tickets
- Exception to contemporaneous written acknowledgement requirement is repealed (must be obtained now for any contribution of \$250 or more)

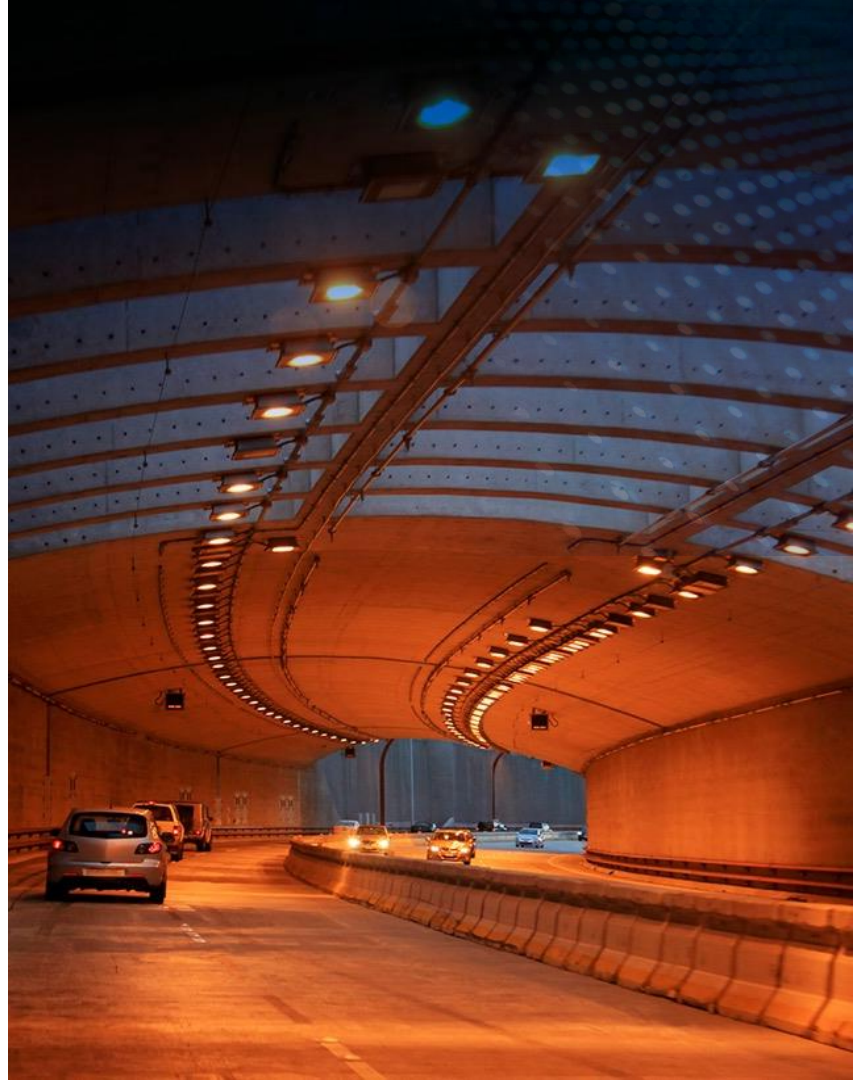
State and local tax issues

- Total deduction limit of \$10k (\$5k if MFS)
 - Combination of income/sales and state/local property taxes
- Exceptions
 - Tax imposed at entity level
 - Property taxes for residential rental property/business property
- Prepayment of 2018 state income taxes in 2017
- Prepayment of 2018 real estate taxes in 2017



Planning now to avoid underpayment penalties

- Estimated tax payments/withholding



Proposed changes not included in final bill (but were in either House or Senate bill) include ...

- Additional standard deduction for elderly and blind
- \$250 above-the-line teacher deduction is not changed
- Exclusion for employer-provided dependent care assistance
- Exclusion for adoption assistance programs
- Reduction of capital gain rates/changes to taxation of interest income
- Sec. 121 exclusion of gain on sale of principal residence
- Required use of FIFO to determine basis of stock dispositions
- Charitable driving remains at 14 cents/mile (rather than actual)
- Consolidation and modification of education provisions not included (only change is to expand 529 plans)
- Plug-in electric vehicle credit (Sec. 30D)

Depreciation changes

- Additional first year/bonus depreciation- 100% for property acquired after 9/27/17
- Phase down schedule for years after 2022
- Now allowed for new and used property
- Qualified improvement property no longer qualifies
- Luxury auto limits – (note that additional \$8k depreciation has been extended for 2017)
- Increases to Sec. 179 (\$1M and threshold \$2.5M)
- SUV limitation remains at \$25,000
- Limits are indexed for inflation
- Expansion for certain real property (roofs, HVAC)
- Allows residential rental property

Planning tips

Requires rethinking and planning in many areas

- Choice of entity for business ventures
- Charitable giving planning
- Estate/gift planning with temporary increased exemption
- Stock option and restricted stock exercise planning
- Interplay of Sec. 199A with remaining rules such as NIIT, passive activity loss limits



The Tax Reform Impact Summary shows the impact of the Tax Cuts and Jobs Act as if it had been in effect this tax year. It does not attempt to forecast next year's tax return.

	2017 Tax Law	2018 Tax Law
INCOME		
Total income.....	27,008	27,008
ADJUSTMENTS TO INCOME		
Total adjustments.....	0	0
Adjusted gross income.....	27,008	27,008
ITEMIZED DEDUCTIONS		
Medical & dental.....	1,621	1,621
Taxes.....	4,125	4,125
Interest.....	7,381	7,381
Contributions.....	450	450
Total itemized deductions.....	13,577	13,577
TAX COMPUTATIONS		
Standard deduction.....	15,200	26,600
Larger of itemized or standard deduction.....	15,200	26,600
Income prior to exemption deduction.....	11,808	408
Exemption deduction.....	8,100	0
Taxable income.....	3,708	408
Tax before credits.....	373	41
NONREFUNDABLE CREDITS		
Total nonrefundable credits.....	0	0
Tax after credits.....	373	41
OTHER TAXES		
Total tax.....	373	41
REFUNDABLE CREDITS		
Total refundable credits.....	0	0
Total tax due.....	373	41

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	2017 Tax Law	2018 Tax Law
INCOME		
Total income.....	93,075	93,075
ADJUSTMENTS TO INCOME		
Total adjustments.....	0	0
Adjusted gross income.....	93,075	93,075
ITEMIZED DEDUCTIONS		
Taxes.....	6,021	6,021
Interest.....	5,324	5,324
Contributions.....	2,397	2,397
Total itemized deductions.....	13,742	13,742
TAX COMPUTATIONS		
Standard deduction.....	15,200	26,600
Larger of itemized or standard deduction.....	15,200	26,600
Income prior to exemption deduction.....	77,875	66,475
Exemption deduction.....	8,100	0
Taxable income.....	69,775	66,475
Tax before credits.....	9,016	7,180
NONREFUNDABLE CREDITS		
Other credits.....	2	2
Total nonrefundable credits.....	2	2
Tax after credits.....	9,014	7,178
OTHER TAXES		
Total tax.....	9,014	7,178
REFUNDABLE CREDITS		
Total refundable credits.....	0	0
Total tax due.....	9,014	7,178

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	2017 Tax Law	2018 Tax Law
INCOME		
Total income.....	175,288	175,288
ADJUSTMENTS TO INCOME		
Total adjustments.....	0	0
Adjusted gross income.....	175,288	175,288
ITEMIZED DEDUCTIONS		
Taxes.....	14,253	10,000
Interest.....	11,357	11,357
Contributions.....	495	495
Total itemized deductions.....	26,105	21,852
TAX COMPUTATIONS		
Standard deduction.....	12,700	24,000
Larger of itemized or standard deduction.....	26,105	24,000
Income prior to exemption deduction.....	149,183	151,288
Exemption deduction.....	16,200	0
Taxable income.....	132,983	151,288
Tax before credits.....	24,723	25,162
NONREFUNDABLE CREDITS		
Child tax credit.....	0	4,000
Other credits.....	1,200	1,200
Total nonrefundable credits.....	1,200	5,200
Tax after credits.....	23,523	19,962
OTHER TAXES		
Total tax.....	23,523	19,962
REFUNDABLE CREDITS		
Total refundable credits.....	0	0
Total tax due.....	23,523	19,962

The Tax Reform Impact Summary shows the impact of the Tax Cuts and Jobs Act as if it had been in effect this tax year. It does not attempt to forecast next year's tax return.

	2017 Tax Law	2018 Tax Law
INCOME		
Total income.....	504,164	504,164
ADJUSTMENTS TO INCOME		
Other adjustments.....	42,460	42,460
Total adjustments.....	42,460	42,460
Adjusted gross income.....	461,704	461,704
ITEMIZED DEDUCTIONS		
Taxes.....	39,567	10,000
Contributions.....	2,000	2,000
Overall itemized deductions limitation.....	-4,437	0
Total itemized deductions.....	37,130	12,000
TAX COMPUTATIONS		
Standard deduction.....	15,200	26,600
Larger of itemized or standard deduction.....	37,130	26,600
Income prior to exemption deduction.....	424,574	435,104
Exemption deduction.....	0	0
Taxable income.....	424,574	435,104
Tax Before AMT and excess APTC repayment.....	113,086	101,176
Alternative minimum tax.....	7,513	0
Tax before credits.....	120,599	101,176
NONREFUNDABLE CREDITS		
Total nonrefundable credits.....	0	0
Tax after credits.....	120,599	101,176
OTHER TAXES		
Other taxes.....	33,317	33,317
Total tax.....	153,916	134,493
REFUNDABLE CREDITS		
Total refundable credits.....	0	0
Total tax due.....	153,916	134,493

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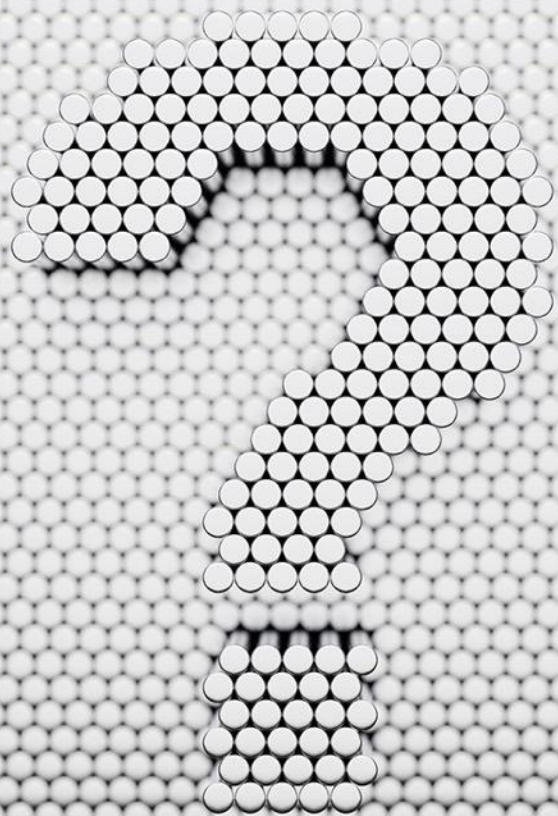
	2017 Tax Law	2018 Tax Law
INCOME		
Total income.....	1,375,563	1,375,563
ADJUSTMENTS TO INCOME		
Total adjustments.....	0	0
Adjusted gross income.....	1,375,563	1,375,563
ITEMIZED DEDUCTIONS		
Taxes.....	96,188	10,000
Interest.....	95,056	95,056
Contributions.....	50,434	50,434
Overall itemized deductions limitation.....	-31,853	0
Total itemized deductions.....	209,825	155,490
TAX COMPUTATIONS		
Standard deduction.....	15,200	26,600
Larger of itemized or standard deduction.....	209,825	155,490
Income prior to exemption deduction.....	1,165,738	1,220,073
Exemption deduction.....	0	0
Taxable income.....	1,165,738	1,220,073
Tax before credits.....	406,863	390,806
NONREFUNDABLE CREDITS		
Total nonrefundable credits.....	0	0
Tax after credits.....	406,863	390,806
OTHER TAXES		
Other taxes.....	2,029	2,029
Total tax.....	408,892	392,835
REFUNDABLE CREDITS		
Total refundable credits.....	0	0
Total tax due.....	408,892	392,835

Planning opportunities

**Complexity =
possible
savings
opportunities**

**Consider
evaluating
tax structure**

**A CPA can
provide financial
planning services**





Thank you