

Do You get a Trump Tax Cut ?

(Tax Cuts and Jobs Act)

Generalities

Tax Cut

- People who usually take the Standard Deduction
- People who usually Itemize Deductions, and those deductions are under \$8,000 (single), \$20,000 (MFJ)
- Corporations and most small businesses

No Tax Cut

- People who usually Itemize Deductions and
 - Those deductions exceed \$8,000 (single), \$20,000 (MFJ), and
 - Pay over \$10,000 in state and local taxes
- People with annual income \$200M-500M (single), \$400M-600M (MFJ)
- Hollywood actors/actresses and rich athletes
- There are exceptions to all of the Generalities above !

Overview

- Biggest tax change in 30 years
- Effective with 2018 income
- Law does not affect 2017 income taxes
 - Except medical expense exclusion
- Changes generally expire effective 2026
- “85-94%” of Americans will have a simpler tax return
- Most (but not all) will get a tax cut

Important Features

Tax Rates

- Lower in most brackets
- Higher rate if: \$200M-500M income (single), \$400M-600M (MFJ)

Income Tax Rate		Income Levels for Those Filing As:	
<u>2017</u>	2018-2025	Single	Married-Joint
10%	10%	\$0-\$9,525	\$0-\$19,050
15%	12%	\$9,525-\$38,700	\$19,050-\$77,400
25%	22%	\$38,700-\$82,500	\$77,400-\$165,000
28%	24%	\$82,500-\$157,500	\$165,000-\$315,000
33%	32%	\$157,500-\$200,000	\$315,000-\$400,000
33%-35%	35%	\$200,000-\$500,000	\$400,000-\$600,000
39.6%	37%	\$500,000+	\$600,000+

Important Features

Standard Deduction

- Almost doubles
 - Single: from \$6350 to \$12,000
 - Married: from \$12,700 to \$24,000
 - If 65+: add \$1600 (single), \$2600 (married)

Child Tax Credit

- Increased from \$1000 to \$2000

Personal Exemptions

- Eliminated !
- 2017: \$4050
- Most taxpayers will find that the higher Standard Deduction and Child Tax Credit will more than offset the loss of Personal Exemptions

Marriage Penalty

- Eliminated for all except couples making \$600,000 +
- See new tax brackets

Important Features

Interest Deductibility

- Existing mortgages
 - **Not affected** (existing \$1 million debt limit applies)
- Refinance of existing mortgage
 - **Not affected**
- New mortgages (after December 14, 2017)
 - Limited to first \$750,000 of debt
- Home equity loans - HELOC (up to \$100,000)
 - **Deductible if used to improve, buy, or build home**
 - Not deductible if used for any other purpose
 - If used to both improve and for another purpose: allocate
 - No grandfathering for existing HELOCs

Miscellaneous Deductions

- Most are eliminated
- Revenge on Hollywood ?
 - Actors can no longer deduct their agent's fees
 - Also applies to rich athletes

Important Features

529 Plans

- Can now be used for K-12 schooling (not just higher education)
- Up to \$10,000 annually for K-12 tuition
- California does not comply, tax and penalties for California income tax
 - Will our California politicians take action ??

Medical expense deductions

- Obamacare changed disallowance from 7.5% to 10% of AGI
 - Except age 65+ persons kept 7.5% thru 2016
- New law:
 - Disallowance drops from 10% to 7.5% for 2017-2018
 - Disallowance returns to 10% to 2019 & after

Deductions for state and local taxes (SALT)

- Limited to \$10,000

Important Features

Alimony: current tax handling reversed !

- Effective with divorces after 2018
 - No longer deductible by payer
 - **Not taxable to recipient**
- Reduces after-tax funds available for alimony
- Opportunity for lawyers: redo prenuptial agreements ?

Alternate Minimum Tax (AMT)

- **Exemption increased to \$70,300 (single), \$109,400 (MFJ)**
- **AMT effectively eliminated for the middle class**

Estate Tax

- **Exemption doubled to \$11.2 million (single), \$22.4 million (MFJ)**
- **Effectively eliminates this tax for middle class**
- In 2027, exemption returns to 2017 levels (\$5.49 & \$10.98)
 - Contact Doctor Kevorian's grandson in 2026 ?
 - Families with large estates should consider setting up trusts and fund them now to utilize higher exemption before it reverts down

Important Features

Corporate income tax

- Tax rate dropped from 35% to 21%
- AMT eliminated

Small business deduction

- Sole proprietors, Sub. S Corporation shareholders, Partnerships
- 20% deduction for qualified business income
 - Deduction phases out if income \$315,000 - \$415,000 for personal service professionals (doctors, lawyers, accountants, athletes, stock brokers)
 - But architects and engineers can take deduction
 - “Real estate businesses” might qualify
- Should you convert your S Corporation to a C Corporation ?

Important Features

Investments: generally no changes

- Capital gains
 - Long Term gains continue to get lower rates (0%, 15%, 20%, or 23.8%)
 - Short Term gains continue to get ordinary rates
- Qualified Dividends continue to get lower rates
- Obamacare investment surcharge continues
- Real estate, Home sales
- Traditional IRAs, 401k, Pensions
 - Deductible contributions are still available, itemizing or not
- Roth IRAs: recharacterizations being eliminated
- Annuities
- Social Security

Strategies to Consider

Charitable Contributions

- Overall AGI limit increased from 50% to 60%
- New higher Standard Deduction
 - Might deter some from making charitable contributions
 - Were some people making contributions just to get a deduction?
 - Deductibility depends on amount of other Itemized Deductions
 - Might lead you to change your contribution strategy
- Contribution stacking
 - Make large contributions every other year
 - Alternate years: use Standard Deduction
- “Donor Advised Funds”
 - Offered by many financial institutions, including Fidelity & Schwab
 - Make large contribution to such account to get deductibility
 - Deductible in year contributed to account
 - You can direct the pay-outs over several years to your charities
 - Can contribute cash or property to account

Strategies to Consider

Charitable Contributions (continued)

- **Qualified Charitable Distribution (QCD) from an IRA**
 - This pre-existing strategy still works
 - Direct contribution from your IRA to a charity
 - Must be at least age 70½ at time of contribution
 - Satisfies RMD requirement
 - Note: first withdrawals from an IRA each year after age 70½ are automatically considered RMD, including QCDs
 - RMD/QCD will be excluded from your AGI and Taxable Income
 - QCD is not be an Itemized Deduction
 - QCD's reduction of your AGI and Taxable Income
 - May reduce income tax on your Social Security
 - May reduce your Medicare premium surcharge
 - May allow other income-related deductions to be taken
 - Rental income losses
 - Medical expense deductions

Strategies to Consider

Charitable Contributions (continued)

- **Contribution of property instead of cash**
 - Property that has risen in value
 - This pre-existing strategy still works
 - Avoids tax on appreciation/capital gains of property contributed
 - You receive deduction for full current market value
- **Charitable Remainder Trusts/Annuities**
 - A pre-existing strategy
 - Donate to a large charity
 - Best strategy: donate appreciated property
 - You get a deduction for the current fair market value of property
 - You are never taxed on the appreciation of property
 - They pay you a monthly annuity for your lifetime
 - Due to upfront charitable deduction, payments are usually tax-free
 - Upon your death, balance is retained by charity

Strategies to Consider

Mortgages

- Review new rules before taking out a new loan

Roth IRA conversions

- **Still viable**
- But recharacterization strategy no longer works
 - For conversions in 2018 and after
- You can recharacterize 2017 conversions until October 15, 2018
- New “kiddie tax” rules result in additional tax benefit for RIRA vs. TIRA
 - If grandchildren are beneficiary and under age 18 or student under 24

Gifting

- **Annual gift exclusion is \$15,000**
 - This amount or less = no gift tax, no gift tax return, no diminishing of your lifetime exemption
- New higher lifetime exemption (\$11.2 million - single, \$22.4 million – MFJ) means that annual gifts exceeding \$15,000 won't result in estate tax for most families.

Did You get a Trump Tax Cut ?