TIPS FROM YOUR Financial Coach

TRI-STAR TRUST BANK

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Tax Cut and Jobs Act of 2017

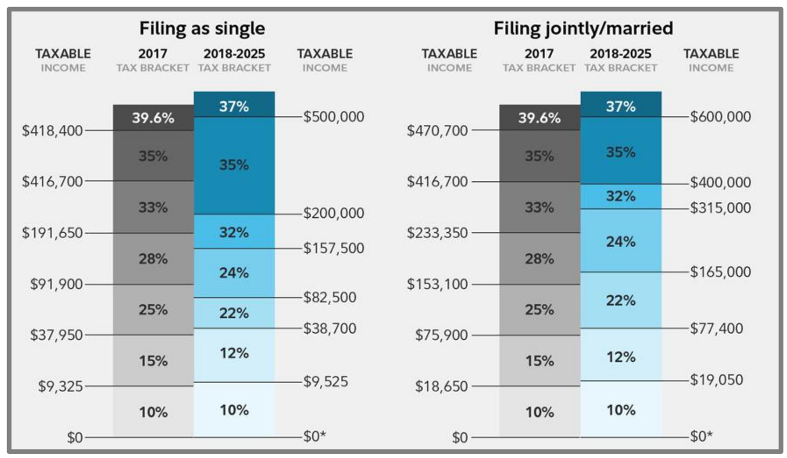
The Tax Cut and Jobs Act (TCJA) cleared the Senate, 51 to 48, followed by House approval, 224 to 201, and was signed into law on December 22, 2017 by President Donald Trump.

The bill calls for comprehensive changes to the tax code including the lowering of the individual and corporate tax rates, increasing the standard deduction, repealing personal and dependent exemptions, eliminating certain credits and deductions, boosting the child tax credit, repealing the Affordable Care Act individual penalty for not having health insurance, and doubling the estate tax exemption amount.

Key Tax Changes

<ins>Individual Tax Brackets</ins>
The new tax law will lower most marginal brackets resulting in lower tax liability for the majority of Americans from years 2018 to 2025.

In order to comply with congressional budget rules, these lower brackets, increased standard deductions and other tax cuts for families will expire at the end of 2025 and revert to 2017 figures in 2026.



Source: Fidelity

<ins>Standard Deduction</ins>
The 2017 rate for Single filers was $6,350, $9,350 for Heads of Household and $12,700 for Married Filing Jointly taxpayers. The new law increases the standard deduction to $12,000, $18,000 and $24,000, respectively.

<ins>Personal Exemptions</ins>
In 2017, taxpayers were able to deduct $4,050 per dependent. The TCJA fully repeals these exemptions for years 2018 through 2025.

<ins>Child Tax Credit</ins>
In 2017, the child tax credit was $1,000 per eligible child. This amount was fully refundable, meaning that it could constitute a tax refund for the filer even after tax liability reached zero. The TCJA has increased the child tax credit to $2,000 for children under 17, and $1,400 of this amount is refundable.

<ins>Non-child Credit</ins>
The TCJA added a tax credit for filers with non-child dependents, such as children over 17 and disabled parents or relatives. This is a $500 non-refundable credit for each qualifying dependent.

<ins>Corporate Tax Rate</ins>
The corporate tax rate has been reduced from a top marginal rate of 35% to a 21% flat rate. Unlike the individual tax changes, corporate tax adjustments are permanent and will continue beyond 2025.

<ins>Pass Through Income</ins>
Some business structures, including sole proprietorships, S Corporations, LLCs and partnerships, ‘pass income through’ to owners on the owners’ individual tax returns. The new tax law allows a deduction equal to 20% of the business’ net income.

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	Prior Law (2017)	H.R. 1 (2018)
Child tax credit	$1,000 (refundable up to $1,000)	▲ $2,000 (refundable up to $1,400)
Individual rates	10, 15, 25, 28, 33, 35, 39.6%	▼ 10, 12, 22, 24, 32, 35, 37%
Standard deduction	MFJ: $12,700 S: $6,350 HH: $9,350	▲ MFJ: $24,000 S: $12,000 HH: $18,000
Corporate rate	35% maximum rate	▼ 21% flat rate
Pass-through income	Same as individual rates	▼ 20% deduction
Alternative minumum tax	Ind: 26, 28% Corp: 20%	▼ Ind: exemption increased Corp: repealed
Personal exemptions	$4,050	✕ Repealed
State and local taxes	Deductible	▼ Maximum $10,000 deduction
Mortgage interest	$1 million limit	▼ $750,000 limit

Source: CCH Incorporated

Itemized Deductions

In 2017, tax filers were able to fully deduct all property taxes and state income taxes paid. The new tax law combines these two amounts and caps total deductions at $10,000.

Furthermore, all miscellaneous itemized deductions have been eliminated. This includes expenses for job hunting, investment management fees, tax preparation fees, safe deposit box fees and others.

In 2017, mortgage interest was deductible up to a $1 million loan, and home equity interest was deductible for debt up to $100,000. The TCJA has reduced the mortgage interest deductibility to a $750,000 loan, and eliminated the ability to deduct home equity interest entirely.

The deductibility of charitable gifts increased from 50 to 60 percent of Adjusted Gross Income (AGI).

Per the TCJA, medical expenses above 7.5% of AGI may be deducted for tax years 2017 and 2018. The deduction reverts to the amount over 10% of AGI in 2019.

Alternative Minimum Tax (AMT)

The corporate AMT of 20% has been fully repealed, while the individual AMT exemption amount has been increased to $70,300 for single filers and $109,400 for joint filers.

Education Tax Break

In addition to college and graduate study costs, the new tax bill permits 529 Savings Plans to be used for education expenses related to grades K-12. A maximum of $10,000 per year may be withdrawn from a 529 Plan to pay for qualified K-12 expenses.

Roth IRA Conversions

The new tax law repeals the ability for taxpayers to reverse a Roth IRA conversion.

Health Insurance Mandate

The TCJA has fully repealed the individual penalty for not carrying health insurance.

Estate Tax Exemption

The TCJA has doubled the estate tax exemption from $5.49 million to $11 million per person, or 22 million per couple. Beneficiaries will still be entitled to a step up in basis upon inheriting assets.

Examples of Tax Outcomes for Various Households

	Single no children	Married no children	Married 3 children under 17	Married grown children
Adjusted Gross Income	$50,000	$100,000	$110,000	$250,000
State Income & Property Taxes	$2,000	$3,000	$7,000	$32,000
Mortgage Interest Paid	$0	$7,000	$10,000	$22,000
Charitable Donations	$0	$4,000	$4,000	$24,000
Taxes Due - Prior Law	$5,491	$10,676	$6,285	$32,459
Taxes Due - TCJA	$4,370	$8,739	$4,799	$35,139
Tax Difference	$1,121	$1,937	$1,486	($2,680)

Source: USA Today

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