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An Overview of the 2017 Tax Legislation: Impact to Individuals

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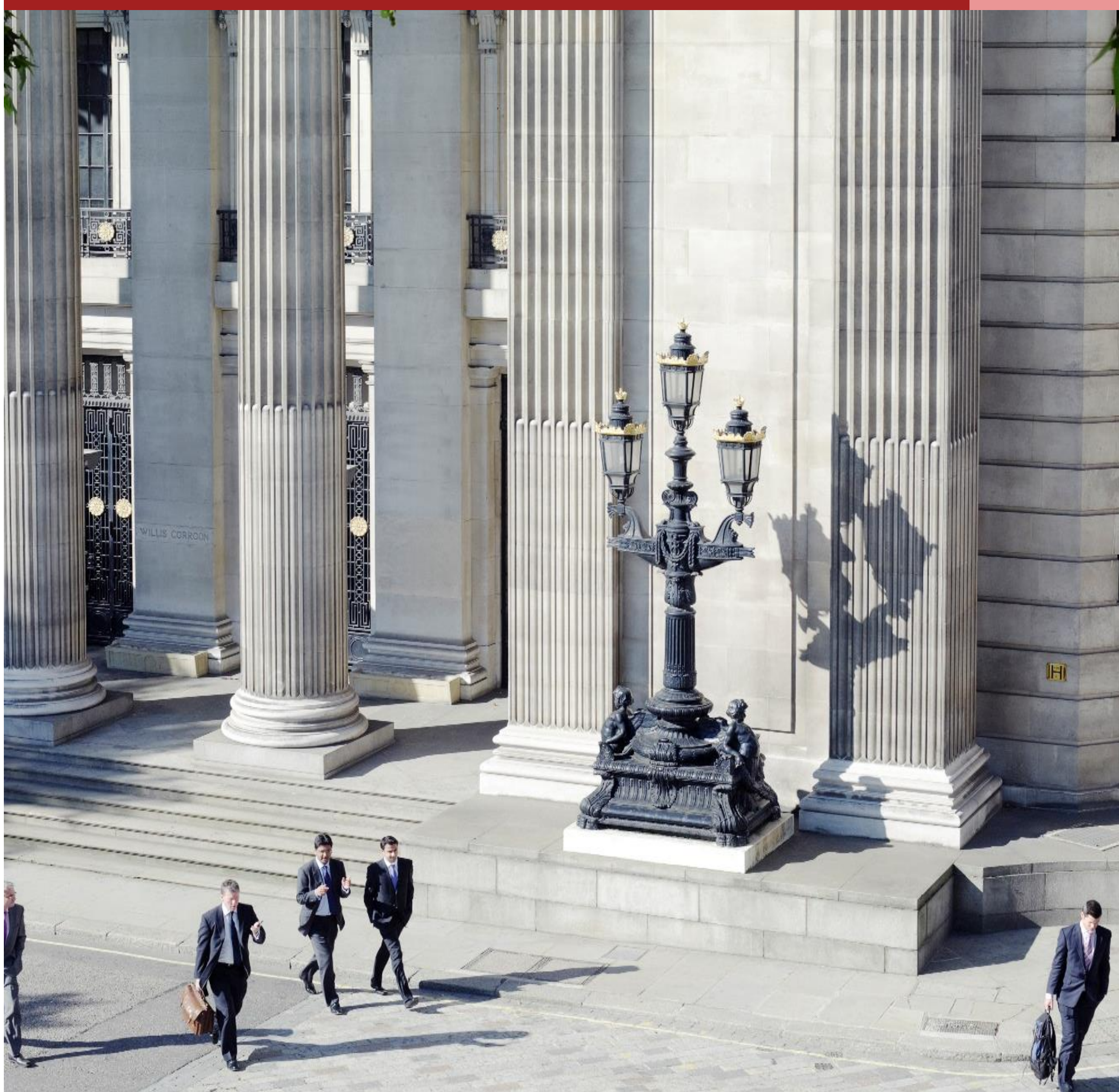

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Overview of the bill

On Wednesday, December 20th, 2017, Congress passed a comprehensive tax reform bill (otherwise known as "H.R.1"). It is now awaiting the President's signature. Except where noted, the provisions of H.R.1 outlined in this summary are generally effective **January 1, 2018** through December 31, 2025. After that date, with some noted exceptions, the rules revert back to existing law.

The Act will have a significant impact on the taxation of corporations and individuals, and we encourage you to work with a tax professional to understand how these changes specifically impact your financial picture. The purpose of this document is to provide a high level overview of the impact of selected provisions of H.R.1 on US individuals, and to present topics to discuss with your financial advisor and tax professional as part of year-end planning.

Impact of tax reform on individuals – What exactly is changing?

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Individual tax rates	• Maximum tax rate is 39.6% • Rates associated with specific income brackets are designated below:	• Maximum tax rate reduced to 37% • Rates associated with specific income brackets are designated below:

Taxable income			Taxable income		
Rate	**Single**	**Married**	**Rate**	**Single**	**Married**
10%	\$0-\$9,525	\$0-\$19,050	10%	\$0-\$9,525	\$0-\$19,050
15%	\$9,526 - \$38,700	\$19,051 - \$77,400	12%	\$9,526 - \$38,700	\$19,051 - \$77,400
25%	\$38,701 - \$93,700	\$77,401 - \$156,150	22%	\$38,701 - \$82,500	\$77,401 - \$165,000
28%	\$93,701 - \$195,450	\$156,151 - \$237,950	24%	\$82,501 - \$157,500	\$165,001 - \$315,000
33%	\$195,451 - \$424,950	\$237,951 - \$424,950	32%	\$157,501 - \$200,000	\$315,001 - \$400,000
35%	\$424,951 - \$426,700	\$424,951 - \$480,050	35%	\$200,001 - \$500,000	\$400,001 - \$600,000
39.6%	Over \$426,700	Over \$480,050	37%	Over \$500,000	Over \$600,000

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Alternative minimum tax (AMT)	• Exemption amounts of \$86,200 (married) and \$55,400 (single) • Phase-out of exemption amount begins at \$164,100 (married) and \$123,100 (single)	• Exemption amounts increased to \$109,400 (married) and \$70,300 (single) • Phase-out of exemption amount begins at \$1,000,000 (married) and \$500,000 (single)
Individual standard deduction/personal exemptions	• Standard deduction is \$13,000 (married) and \$6,500 (single) • Personal exemption of \$4,150 phased out for higher incomes	• Standard deduction nearly doubled to \$24,000 (married) and \$12,000 (single) • Personal exemptions repealed at all income levels

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Itemized deductions	• Deductions allowed but subject to the "PEASE limitation," which reduces availability of itemized deductions at income levels starting at $320,000 (married) and $266,700 (single)	• Individual deduction for state and local taxes (SALT) for income, sales and property is limited in the aggregate to $10,000 (married and single filers) and $5,000 (married filing separately) • "PEASE limitation" (including for charitable contributions) is repealed • Most miscellaneous itemized deductions that were subject to the 2% of AGI floor will no longer be allowed (e.g. tax preparation and investment expenses)
Capital gain /qualified dividend rate	• Maximum tax rate on long-term capital gains and qualified dividend income (before 3.8% net investment income tax) is 20%	• Unchanged
Medical expense deduction	• Floor of 10% of AGI before deduction can be taken	• Floor reduced to 7.5% of AGI for tax years 2017 and 2018
Cost of securities	• Investors have the ability to "specifically identify" which tax lot of a security is sold	• Unchanged
Mortgage interest	• Individuals are generally allowed an itemized deduction for interest on 1. Principal residence and second residence mortgages up to $1,000,000 (married) or $500,000 (single) (limit applies on a combined basis) 2. Home Equity Line of Credit (HELOC) up to $100,000	• Individuals are generally allowed an itemized deduction for interest on principal residence and second residence mortgages up to a combined $750,000 • Pre 12/16/17 mortgages are grandfathered and new purchase money mortgages may be grandfathered if the purchase contract is dated before 12/16/17 and other conditions are met • Refinancing of grandfathered mortgages are grandfathered, but not beyond the original mortgage's term/amount (some exceptions apply for "balloon payment" mortgages) • Interest on a HELOC is no longer deductible

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Capital gain exclusion for primary residence	• Allows individuals to exclude gain of up to $500,000 (for joint filers) from the sale of a primary residence • Taxpayer must own and use the house as primary residence for 2 out of the previous 5 years and exemption can be used only once every 2 years	• Unchanged
Like-kind exchanges	• Allows for the disposal of an asset and the acquisition of another replacement asset without generating a current tax liability from the gain on the sale of the first asset • Applies to like-kind exchanges of real property as well as certain categories of personal property	• Limits applicability to like-kind exchanges of real property that is not held primarily for sale **This does not expire in 2025
Section 529 plans	• Distributions may be used for expenses relating to higher (post-secondary) education	• In addition to higher (post-secondary) education, distributions from 529 plans of up to $10,000/year per student can be used for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school **This does not expire in 2025
Pass-through deduction	• Income received from partnerships, S corporations, or sole proprietorships is passed-through to the owner's individual tax returns, where it is taxed as ordinary income	• There is a new 20% deduction for qualified business income from a partnership, S corporation, or sole proprietorship
Charitable deduction changes	• Cash gift to public charities is deductible as long as it doesn't exceed **50%** of the taxpayers Adjustable Gross Income (AGI) • 80% of value spent on university athletics seating rights can be deducted	• Cash gift to public charities is deductible as long as it doesn't exceed **60%** of the taxpayers Adjustable Gross Income (AGI) • 80% deduction for university athletic seating rights is repealed
Gift/estate/generation-skipping transfer (GST) tax exemption	• Estate, gift and GST tax exemptions are each $5.6 million per US domiciliary	• Doubles the estate, gift and GST tax exemptions to $11.2 million per US domiciliary • Like most individual provisions, the exemptions sunset after 2025 and revert back to the law in effect for 2017 with inflation adjustments; possibility for "clawback" at death if law is not changed

	Pre-Reform 2018 Tax Rules	Post-Reform 2018 Tax Rules
Child Tax Credit	• $1000/qualified child	• Increases to $2,000/qualified child, with $1,400 being refundable
	• Phase-out of credit begins at $75,000 (single) and $110,000 (married)	• Phase-out of credit begins at $200,000 (single) and $400,000 (married)
Individual mandate / Health Insurance	• Requires most Americans to purchase health insurance coverage; taxpayers must submit proof of healthcare coverage with their tax return or pay a penalty	• Individual mandate is repealed **This does not expire in 2025
Future Inflation Adjustments	• In general, tax brackets and many other tax code limits are inflation adjusted using Consumer Price Index – Urban (or CPI-U)	• Many but not all of the indexed limits would now be indexed using Chained-CPI-U, which generally leads to slightly slower cost of living adjustments each year **This does not expire in 2025

Questions to consider with your professional tax advisor between now and year-end 2017

Should I defer/minimize income?

As the chart on page 3 indicates, there are many income tax brackets which will have a lower tax rate in 2018. If taxpayers are in a marginal tax bracket which is decreasing, they should consider deferring income to 2018 to be taxed at a more favorable rate.

Taxpayers should talk to their tax and financial advisors to see if there are ways income can be deferred by:

1. Contributing to qualified retirement plans (401(k), SEP IRA, etc.)

2. Realizing capital losses to offset realized capital gains (and up to $3,000 of ordinary income; $1,500 if married filing separately)

3. Delaying exercising stock options until 2018

4. Utilizing installment sales or like-kind exchange opportunities

5. Deferring IRA distributions other than required minimum distributions

6. Finally, "pass through" business owners, might also consider:

    a. Pre-paying business expenses before year-end
    b. Placing assets in service to utilize 100% depreciation deduction on qualified capital expenditures

Additional observation

A number of taxpayers who are subject to a lower marginal statutory rate in 2018 may still be subject to a higher marginal effective tax rate in 2018 (e.g., as the result of the loss of SALT and/or miscellaneous itemized deductions).

Are there items I should be accelerating?

Income

Because of the elimination of certain deductions (e.g., SALT), some taxpayers will actually be taxed at a higher effective rate in 2018. These taxpayers should consult with their tax advisors about ways to accelerate the recognition of income into 2017. In addition, a taxpayer subject to AMT in 2017 (at a 28% tax rate) that does not expect to be subject to AMT in 2018 may be incentivized to accelerate some amount of ordinary income/short-term capital gains in 2017.

This could potentially be achieved by:

1. Triggering gains on investment property
2. 2017 Roth conversions of traditional IRA and 401(k) accounts
   - Converting a 401(k) or IRA into a Roth IRA will trigger current taxation (and accelerate state tax liability, which is generally deductible in 2017), but may be less advisable to the extent the taxpayer is currently subject to state income tax but expects to be subject to a lower effective tax rate in the future (e.g., as the result of a change in residency or a lower income in retirement)
3. Withdrawing more than just the required minimum distribution from IRA accounts

Like-kind exchanges

Because like-kind exchanges for non-real property will no longer be available beginning in 2018, taxpayers should consider initiating a like-kind exchange of personal property (e.g., artwork) by disposing of the property or acquiring the replacement property during 2017.

Deductions

Unfortunately, beginning in 2018, several popular itemized deductions will be unavailable or severely limited compared to 2017. Certain taxpayers who previously itemized deductions may find that the nearly doubled standard deduction is more favorable in 2018.

That being said, in 2017, in light of some of these deductions being repealed or otherwise unavailable, filers should see if they can accelerate any of these payments during 2017. Taxpayers should consider:

1. Giving priority to accelerating miscellaneous itemized deductions (to the extent they exceed the 2% floor) that will not be deductible beginning in 2018, e.g., investment expenses
   - However, one should consider whether such deductions will actually reduce tax liability to the extent a taxpayer will be subject to the AMT in 2017
2. Paying ***2017*** state estimated *income* tax payments prior to January 1, 2018 (Note: Prepayment of 2018 state and local income taxes will not generate a federal tax deduction)
3. Some taxpayers may be eligible to prepay 2018 property taxes (for example, where the property taxes were assessed prior to January 1, 2018). Consult your tax advisor as to whether you may be eligible to prepay and deduct your 2018 property tax liability on your 2017 tax return.
4. Accelerating charitable contributions (see discussion below)

Charitable Contributions

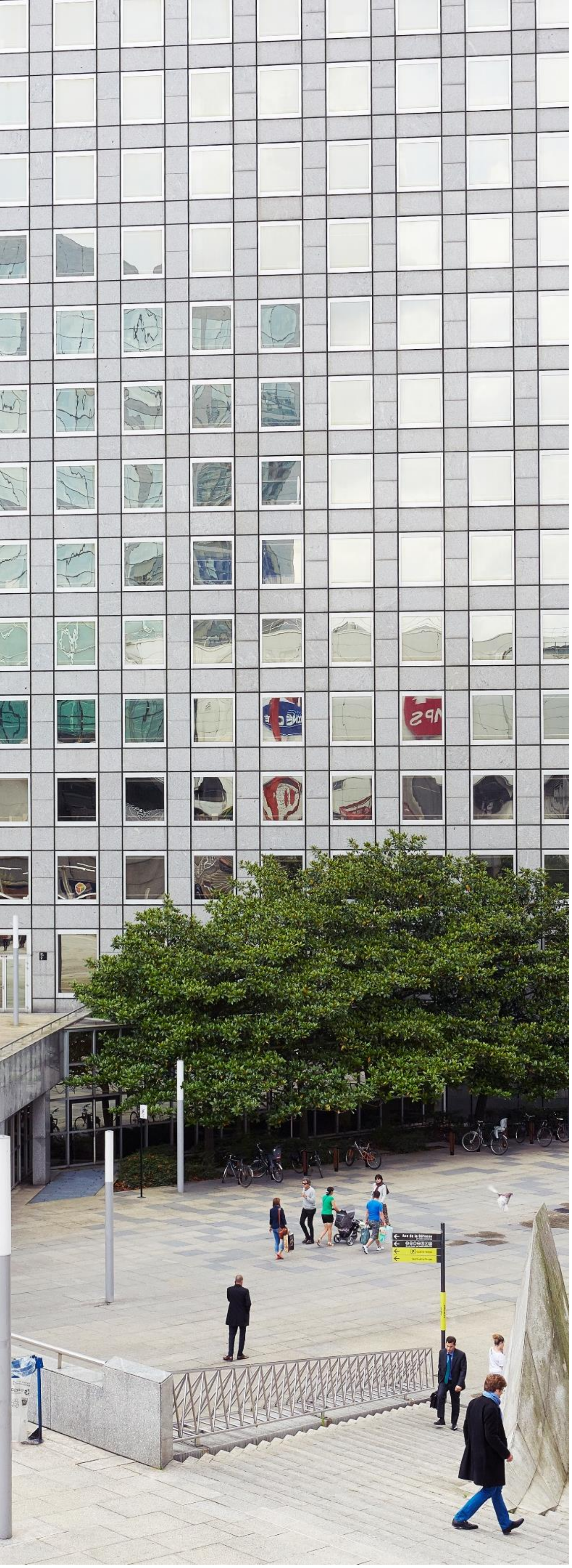
Filers who plan on utilizing the nearly doubled standard deduction in 2018 will not receive a tax benefit for charitable contributions that year. Those taxpayers may consider accelerating charitable contributions to 2017 to realize the tax benefit now. Such charitable contributions may be paid directly to a charity or to a donor advised fund.

However, taxpayers should consider whether any incremental increase of 2017 charitable contributions may be somewhat limited by the "PEASE limitation", which kicks in when AGI exceeds $300,000 (married) or $250,000 (single). Taxpayers should work with their tax professionals to see if the accelerated 2017 donations would be subject to the itemized deduction phase out. (Note: the "PEASE limitation" has been repealed for 2018.)

529 Contributions

While no federal income tax deduction will be allowed for these contributions, taxpayers should still consider increasing contributions to a Section 529 Plan given its expanded scope.

Section 529 plans are now much more versatile considering distributions may be used for many situations outside of higher education. These contributions are often deductible for state tax purposes (subject to annual limits), which makes them even more valuable beginning in 2018 when the deduction for state taxes are limited.



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