TFC FINANCIAL
The Financial Counselors

FINANCIAL PLANNING UPDATE
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OUR VIEW

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The Tax Cuts and Jobs Act of 2017: Key Provisions Related to Personal Income Taxes

The Tax Cuts and Jobs Act of 2017 was signed into law by the president this morning. The legislation includes the most extensive changes to the tax code since 1986. Significant, permanent changes apply to corporations. For individuals, however, many changes will expire after 2025. This newsletter highlights provisions that may impact your personal income taxes and we recommend that you consult with your CPA regarding how the changes affect you.

Current vs Proposed Tax Brackets

Most taxpayers should experience a lower marginal rate under the new law:

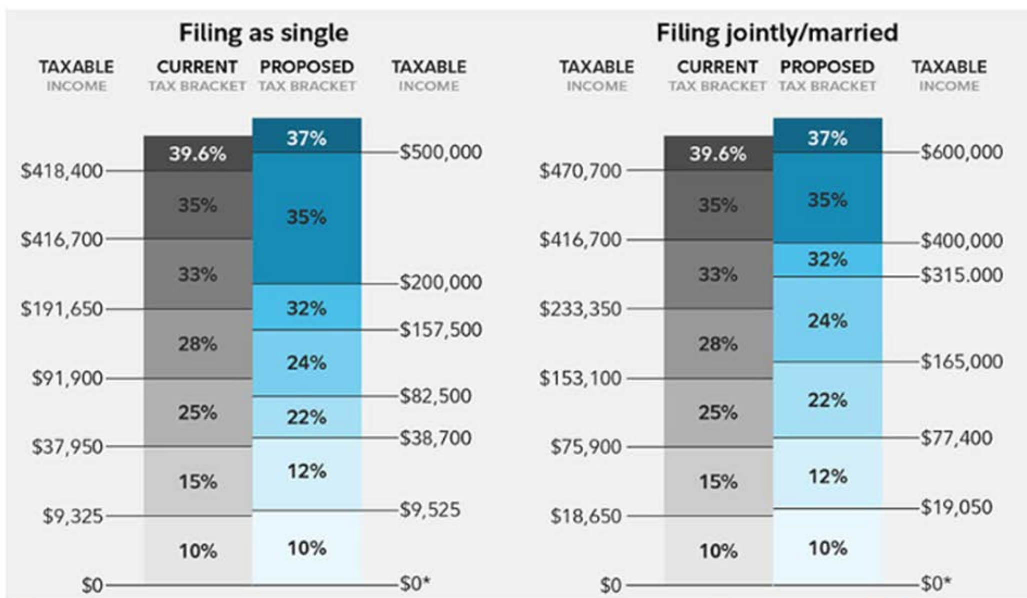

*Chart does not account for the Medicare surtax on high earners. Source: House of Representatives, Tax Cuts and Jobs Act, December 16, 2017

Standard vs. Itemized Deductions

The Standard Deduction is increased from $6,500 to $12,000 (single filers) and from $13,000 to $24,000 (married filing jointly), which means that fewer filers will need to itemize deductions, especially since a number of the more common deductions have been reduced by the Act, effective January 1 2018:

- Personal Income Tax Exemptions are repealed;

The increased standard deduction coupled with limitations to some itemized deductions means that fewer filers will need to itemize.

- SALT Deductions (State and Local Taxes including property taxes) are limited to $10,000, and the legislation specifically bars an itemized deduction in 2017 for pre-payment of state income taxes for a future taxable year. Additionally, any benefit received from prepayment of taxes in 2017 may be reduced or eliminated for taxpayers subject to the alternative minimum tax (AMT);
- Mortgage Interest Deduction is limited to $750,000 of acquisition indebtedness and the deduction for interest on home equity loans is repealed;
- Job Expenses & Miscellaneous Deductions subject to the 2% floor are repealed, although many above-the-line deductions remain;
- Moving Expenses deduction is repealed;
- Alimony paid will no longer be deductible for divorce or separation instruments executed after December 31, 2018.

A few itemized deductions are increased, although some only for the short term:

- Medical Expenses are expanded for 2017 and 2018, allowing deductions for expenses above 7.5% of adjusted gross income (AGI) for all taxpayers, then it reverts to 10% in 2019;
- Charitable Contributions Percentage Limit has increased from 50% to 60% of AGI;
- Child Tax Credit doubles from $1,000 to $2,000 and the phase-out is increased to $200,000 (single filers) and $400,000 (married filing jointly). Up to $1,400 is refundable, which would allow more lower-income families to benefit;
- Pease Limitation, which reduced the value of itemized deductions for high income taxpayers, is repealed.

The increased standard deduction and the limitations on the deductibility of mortgage interest may reduce the financial incentive to buy a home rather than rent. This could result in declining demand for homes in states with expensive real estate markets, such as California, New York, New Jersey, Connecticut and Massachusetts.

Alternative Minimum Tax (AMT)

AMT was designed as a parallel tax system intended to prevent high income earners from avoiding "their fair share" of income taxes. Taxpayers are required to calculate their income tax liability under regular tax rules and AMT and pay the higher of the two. The AMT structure, however, was not indexed to inflation resulting in many more taxpayers being captured by AMT than originally intended.

The Tax Cuts and Jobs Act of 2017 increases the exemption amounts and phase-out thresholds. These changes combined with the limited deductions allowed will dramatically reduce the number of taxpayers subject to AMT:

	Projected 2018 (old rules)	2018 (new legislation)
AMT Exemption:		
Individuals	55,400	70,300
Married Couples	86,200	109,400
AMT Exemption Phase-out Thresholds:		
Individuals	123,100	500,000
Married Couples	164,100	1,000,000

The new legislation expands the scope of 529 Plans for education funding.

Education Savings – 529 Plans

The new legislation expands the scope of 529 Plans for education funding. Up to $10,000 from a 529 plan may now also be used for "qualified expenses" for primary and secondary education, and includes public, private and religious schools. Certain expenses related to homeschooling may also be covered by a 529 plan. Previously, 529 Plan funds have been limited to college education expenses.

Estate and Gift Taxes

The Estate, Gift and Generation Skipping Transfer tax exemptions are doubled beginning in 2018 from $5.6 million to $11.2 million (indexed for inflation), but the provision is scheduled to sunset at the end of 2025.

The much talked about proposal to eliminate the step-up in cost basis upon death was not adopted, so heirs will continue to receive a step-up in basis upon the death of the owner.

Roth Conversion Rules

The decision to make a Roth conversion needs to be more strategic as a result of a rule change. Until now, an individual has been allowed to essentially "undo" a conversion until October 15 (tax filing deadline with extension) of the year following the conversion if circumstances warranted. This option, known as recharachterization, has been eliminated.

A recharacterization, however, is still permitted as it relates to Roth contributions. In circumstances in which a contribution was made but an individual exceeds the income limits for the year, the contribution to a Roth can still be reversed.

Sale of Principal Residence Exclusion

Both the House and Senate versions of the bill included limitations on the exemption of gains of on the sale of a residence owned and used as the primary residence for two of the last five years $250,000/ $500,000 (single filers/married filing jointly). Surprisingly, the final Bill did not make any changes to the existing exclusion rules and they remain unchanged.

Obamacare Individual Mandate

The Individual Mandate penalizing taxpayers for failing to have health insurance is eliminated beginning in 2019.

Final Thoughts

The new rules introduce added complexity to your personal income tax planning so it is important to consult with your tax professional to fully understand the implications for your individual situation. The same action taken by two individuals could result in very different outcomes. Changes should be made judiciously given the short-term nature of some of these provisions, many of which sunset on December 31, 2025.

As always, we welcome your comments and questions.

Happy Holidays!

Sincerely,

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