Considerations for the New Tax Bill

Senior Estate Planner, Mike Repak, highlights some important considerations for the new tax bill.

About Michael Repak

Vice President/Senior Estate Planner

Mike provides advice and guidance in all aspects of financial, tax, and estate planning issues.

He earned his Bachelor's degree from William Paterson University in Wayne, New Jersey, and has a Master's degree from the University of Wisconsin in Madison, Wisconsin. He has a CPA/PFS credential, and Series 7 and 66 securities licenses. He received his J.D. from the University of Florida and his LL.M. in Tax Law from NYU. He has been an adjunct professor in the MBA program at Temple University and is a sought-after speaker for professional conferences and events. He is also frequently featured as a Money Doctor on www.360financialliteracy.org, the public education site of the American Institute of Certified Public Accountants. Mr. Repak has served on several non-profit and civic boards, is a graduate of Leadership Philadelphia, and a member of the Union League of Philadelphia.

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Understanding the Changes

The greatly anticipated tax bill emerged from conference late on Friday, December 15. The law, at almost 1,100 pages long, and the accompanying Congressional statement of 570 pages, should prove beyond any doubt that simplification is difficult. Of course, the law is complex because life is complex. This law represents a massive overhaul of the tax code in a way that touches just about everybody. Tax experts everywhere are scrambling to absorb these changes so they can advise people who may be most significantly impacted. From these tax experts, we can expect a steady stream of information about the effect that these changes might have on existing plans, as well as information on planning opportunities as they emerge.

Surprises are often found each time a law is changed, and that understanding will likely be true here as well. Most of the major changes have been exposed in advance of the bill's passing. For those keeping score, in the case of differences between the House and Senate versions of the bill, the more significant changes essentially adopted the Senate point of view. The combination of rate reductions and changes to itemized deductions/personal exemptions make it challenging to generalize about the impact of this bill on any taxpayer's bottom line. For many taxpayers, the net effect may be negligible. Because tax advice needs to match a person's particular situation, taxpayers should seek advice from a qualified advisor specifically on their individual circumstances. And, as the old maxim goes: The tax tail shouldn't wag the dog.

Of particular interest for business owners and equity investors: Many of the rate reductions, capital recovery provisions, and other liberalizations were aimed at increasing profitability and overall economic activity, especially in the U.S. However, we will have to wait to see if the ultimate results are as intended.

In the meantime, the following pages contain summary charts highlighting just a selection of the changes to consider.

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Proposed New Rates

If taxable income is:	Then income tax equals:
Single Individuals	
Not over $9,525	10% of the taxable income
Over $9,525 but not over $38,700	$952.50 plus 12% of the excess over $9,525
Over $38,700 but not over $82,500	$4,553.50 plus 22% of the excess over $38,700
Over $82,500 but not over $157,500	$14,089.50 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$32,089.50 plus 32% of the excess over $157,500
Over $200,000 but not over $500,000	$45,689.50 plus 35% of the excess over $200,000
Over $500,000	$150,689.50 plus 37% of the excess over $500,000
Heads of Households	
Not over $13,600	10% of the taxable income
Over $13,600 but not over $51,800	$1,360 plus 12% of the excess over $13,600
Over $51,800 but not over $82,500	$5,944 plus 22% of the excess over $51,800
Over $82,500 but not over $157,500	$12,698 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$30,698 plus 32% of the excess over $157,500
Over $200,000 but not over $500,000 Over $500,000	$44,298 plus 35% of the excess over $200,000 $149,298 plus 37% of the excess over $500,000
Married Individuals Filing Joint Returns and Surviving Spouses	
Not over $19,050	10% of the taxable income
Over $19,050 but not over $77,400	$1,905 plus 12% of the excess over $19,050
Over $77,400 but not over $165,000	$8,907 plus 22% of the excess over $77,400
Over $165,000 but not over $315,000	$28,179 plus 24% of the excess over $165,000
Over $315,000 but not over $400,000	$67,179 plus 32% of the excess over $315,000
Over $400,000 but not over $600,000	$91,379 plus 35% of the excess over $400,000
Over $600,000	$161,379 plus 37% of the excess over $600,000
Married Individuals Filing Separate Returns	
Not over $9,525	10% of the taxable income
Over $9,525 but not over $38,700	$952.50 plus 12% of the excess over $9,525
Over $38,700 but not over $82,500	$4,453.50 plus 22% of the excess over $38,700
Over $82,500 but not over $157,500	$14,089.50 plus 24% of the excess over $82,500
Over $157,500 but not over $200,000	$32,089.50 plus 32% of the excess over $157,500
Over $200,000 but not over $300,000	$45,689.50 plus 35% of the excess over $200,000
Over $300,000	$80,689.50 plus 37% of the excess over $300,000
Estates and Trusts	
Not over $2,550	10% of the taxable income
Over $2,550 but not over $9,150	$255 plus 24% of the excess over $2,550
Over $9,150 but not over $12,500	$1,839 plus 35% of the excess over $9,150
Over $12,500	$3,011.50 plus 37% of the excess over $12,500

Source: Joint Explanatory Statement of the Committee of Conference from the Joint Committee on Taxation

Items of Interest

The following page contains highlights of many of the provisions that will affect individuals and business owners. For a complete summary of all provisions in the bill, please visit http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-466.pdf or view the Joint Explanatory Statement found at http://docs.house.gov/billsthisweek/20171218/Joint%20Explanatory%20Statement.pdf.

As the tax law reform moves at a rapid pace, there are many complex aspects of the new bill that remain unclear. That being said, Janney continues to educate clients on the different components of this bill and their implications to the best of our ability. However, we always recommend that clients seek advice from their individual tax advisor on all tax-related matters.

Topic	Current Law	Change / Planning Idea
Maximum Corporate Tax Rate	35%	21% for C corps only.
Maximum Individual Tax Rate	39.6%	37%
Capital Gains Tax Rate	0%–20%	Unchanged.
Standard Deduction	$12,700 (MFJ) / $9,350 (HOH) / $6,350 (S)	$24,000 (MFJ) / $18,000 (HOH) / $12,000 (S)
Personal Exemption	$4,050 per person.	Eliminated.
State and Local Tax (SALT) Deduction	Unlimited.	Limited to $10K of local income, property, or sales taxes. Note that deductions for pre-paying 2018 state and local taxes in 2017 is not allowed.
Student Loan Interest Deduction	Up to $2,500 in student loan interest deductible per year. Deduction phases out for single earners making over $80,000 and married couples over $165,000.	Unchanged.
Mortgage Interest Deduction	Mortgage interest deductible on mortgage balances less than $1.1 million. Interest on up to $100,000 in home equity debt is also deductible.	Limit on deductibility of mortgage interest is reduced to loans less than $750,000 and home equity interest will no longer be deductible.
Limits on Itemized Deductions	Itemized deductions phase out at $313,800 for married couples and $261,500 for individuals.	No income limits on allowability of itemized deductions. Miscellaneous itemized deductions that exceeded 2% of AGI are now disallowed, including unreimbursed job expenses, investment advisory fees, and tax expenses.
Pass thru Business Income Deduction	N/A	20%, but not over 50% of W-2 wages.
Individual Alternative Minimum Tax (AMT)	Married couples filing jointly receive an AMT exemption in 2017 of $84,500 with single filer receiving an exemption of $54,300. These exemptions phase out at $160,900 for married couples and $120,700 for single taxpayers.	The AMT Exemption is increased to $109,400 for married couples with a phaseout above $1,000,000. For single filers, the exemption is increased to $70,300 phasing out at $500,000.
Estate Tax	The estate tax exemption applies to estates under $5.6 million, or $11.2 million per married couple.	The estate tax limit is doubled to $11.2 million or $22.4 million per married couple.
Child Tax Credit	Married couples filing jointly earning less than $110,000 receive a tax credit of $1,000 for each child under the age of 17 that they claim as a dependent.	The tax credit is doubled to $2,000 and the income limit for married couples is increased to $400,000. Up to $1,400 of the credit is refundable, meaning if it reduces your tax liability below zero, you would still be able to receive it as a credit.
529 Plans	Plans provide tax free growth and withdrawals for higher education uses only.	The new law expands the allowable usage of 529 plans to include up to $10,000 per year in tax-free withdrawals for elementary, high school, and homeschooling expenses.
Non 529 Education Savings	Coverdell plans can currently be used to save for and fund education expenses.	No new contributions to Coverdell accounts post-2017.
Medical Expense Deduction	Medical expenses that exceed 10% of Adjusted Gross Income (AGI) may be deducted.	The AGI limit is reduced to 7.5% in 2017 and 2018, then reverts back to 10% beginning in 2019.
Graduate Student Tuition Waivers	Not counted as income.	Unchanged.
Cash Accounting for Business	Allowed < $5 million.	The allowable corporate income limit is increased to $25 million.
Individual Mandate Penalty	For taxpayers who can afford health insurance, but choose not to buy it, they must pay a penalty equal to 2.5% of net income up to a maximum of $695 per adult and $347.50 per child under 18 to a household maximum of $2,085.	This penalty has been removed and reduced to $0 (2019).
Net Investment Income Tax ("Obamacare surcharge")	The net investment income tax applies a rate of 3.8% net investment income for married couples earning over $250,000 and individual taxpayers with an AGI over $200,000.	Unchanged.
Above-the-Line Deductions	Allowed.	Repeals deductions for alimony (2019) and moving expenses (except military).
Alimony	Alimony is currently deductible by the payer and taxable as income to the receiving spouse.	After December 31, 2018, alimony payments will no longer be deductible to the payer or taxable to the recipient.
Family Tax Credit	N/A	For dependents who do not qualify for the child tax credit, there's a new $500 family tax credit for qualifying dependent children.
Roth Recharacterization	A recharacterization allows you to undo a rollover or conversion to a Roth IRA by a specific deadline.	Recharacterizations are no longer allowed.
Capital Investment Recovery (Sec. 179 Bonus Depreciation)	A deduction is allowed up to 50% of machinery and equipment expenses with cap of $500,000. This is phased out for income over$2 million.	The deduction is increased to 100% machinery and equipment with cap of $1 million. The phaseout remains the same at $2 million.
Business Interest	Business interest is deductible as an ordinary business expense.	The business interest deduction is capped @ 30% of Earnings Before Interest, Taxes, Depreciations, and Amortization (EBITDA) for 4 years, then modified to allow 30% of EBIT.
Net Operating Loss	Net operating losses, the amount by which a taxpayer's business deductions exceed gross income, can currently be carried back 2 years or carried forward up to 20 years.	The carryback of net operating losses is eliminated. Losses may be carried forward indefinitely but are limited to 80% of net income.
Specific Lot Identification – Stock Sales	Allowed.	Unchanged.

Tax Term Abbreviations

MFJ: Married Filing Jointly

S: Single

HOH: Head of Household

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