This Publication Brought To You Courtesy Of:

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CARTER FINANCIAL

CLIENT BULLETIN

2017 Tax Cuts and Jobs Act

➢ *It's Not Personal*

Congress passed, and President Trump is poised to sign the most significant overhaul of the US tax code in decades. Just looking at the changes to ***individual*** taxes you would be hard pressed to call the bill a "significant overhaul" and you'd be right. The changes to individual taxes are a mis-mash of giving with one hand and taking away with the other. The historic aspect of the bill is in regard to changes made to the dysfunctional U.S. ***corporate*** tax system.

➢ *Help Us Compete*

The primary goal of the bill is to make U.S. businesses more competitive with the rest of the world. The current U.S. tax regime imposes a 35% tax if a company brings the profits of a non-U.S. subsidiary back to the U.S. There is no tax if the profits are left with the non-U.S. subsidiary. The predictable result of this mal-incentive is that there are trillions of dollars sitting overseas in non-U.S. subsidiaries of U.S. companies.

➢ *Big Changes*

The bill represents a fundamental rethinking of business taxation and international tax rules including:

- Cutting the maximum corporate tax rate from 35 percent to 21 percent. This takes the U.S. from having the highest corporate tax rate among developed nations down to the global average
- Future earnings of overseas subsidiaries of U.S. companies can be brought back to the United States without any tax whatsoever
- Existing earnings held overseas can be brought back to the U.S. at a lower tax rate of approximately 15%
- 100% expensing of capital spending

➢ *Healthcare Impact*

Notably, the bill removes the most significant financial pillar of the Affordable Care Act by ending the federal penalty for not having health insurance. More on this topic in future editions of the Client Bulletin.

- ***Forget the Politics***

  As you digest the new tax law, don't get sidetracked by articles that talk about "winners" and "losers" under the tax bill. No one is average when it comes to income taxes – an average is merely a composite of individual situations. Someone who earns a high income as an executive in a high tax state with a large mortgage who was in the alternative minimum tax will fare much differently than a high-income business owner in a state with no tax who makes large charitable contributions. The effects must be judged on a case-by-case basis, which we will certainly be doing as part of financial plans in 2018 and beyond.

- ***What to Do***

The end of 2017 is approaching quickly, and it will take time to fully analyze the 1,000+ page bill, but here are some year-end 2017 tax planning considerations:

- **State and Local Income Taxes.** Starting next year, state and local income and property taxes will be deductible up to a combined $10,000 cap. If you expect to hit this limit next year and are not subject to AMT in 2017, it may be worth paying any remaining 2017 state tax liability, including Q4 estimated taxes, by the end of this year. The same is true if you have reason to believe your tax rate may be lower next year. The bill prohibits taxpayers from pre-paying 2018 state income taxes before the end of the year in order to deduct them on their 2017 returns.
- **Property Taxes.** While you cannot pre-pay 2018 **income** taxes, you can pay the second half of your **property** tax bill before the end of 2017. Again, the benefit of this strategy is dependent on if you expect to exceed the combined $10,000 state and local tax deduction cap and whether your tax rate is expected to decrease in 2018. As with state and local taxes, this strategy only works if you are not subject to AMT in 2017.
- **Alternative Minimum Tax.** The Alternative Minimum Tax (AMT) system is changing dramatically in 2018. If the AMT applies to you for the 2017 tax year, it is possible that deductions such as state, local and property taxes may be less valuable than they will be in 2018.
- **Charitable Contributions.** The tax overhaul nearly doubles the standard deduction, which creates a larger hurdle for claiming itemized deductions like charitable contributions. As a result, some taxpayers who currently itemize are likely to switch to the standard deduction next year and won't receive a tax benefit for their charitable giving. In that case, it may be advantageous to maximize contributions this year. A donor advised fund may be an ideal vehicle for making 2018 charitable contributions in 2017.
- **Medical Expenses**: The new law preserves itemized deductions for medical expenses and actually expands it to cover medical expenses in excess of 7.5% of adjusted gross income (AGI) for 2017 and 2018 (the old-law deduction threshold for 2017 was 10% of AGI for those under age 65). Since it is now easier to exceed the percent-of-AGI deduction threshold, consider accelerating any allowable medical expenses into 2017.