Impact of the Tax Cuts and Jobs Act

December 22, 2017

This material reflects our understanding of HR 1, passed by the Senate on December 19, 2017; passed by the House of Representatives; and signed by the President on December 22, 2017. Many provisions will require action by the Treasury Department, the Internal Revenue Service, or both so that they can be fully implemented. It is not intended to cover all provisions of the Act or its potential impacts.

The information provided is not written or intended as specific tax or legal advice. MassMutual, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

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Current (2017) Law	Final Bill Signed December 22, 2017	Possible Impact of Change
Individual Income Tax Provisions		
7 income tax brackets – 10%, 15%, 25%, 28%, 33%, 35%, 39.6%	7 income tax brackets – 10%, 12%, 22%, 24%, 32%, 35%, 37%; top bracket begins at $600,000 for joint returns, $500,000 for singles and heads of households. Married filing separately top rate begins at $300,000 Effective through 2025	Initially reduces income taxes for most Americans. Projections are that if Congress does not extend the tax rates after 2025, it will cause taxes to increase for most Americans Provides a "marriage bonus" because the highest tax rate for joint returns begins at $600,000, compared to $500,000 for single taxpayers and heads of households
Inflation adjustments based on CPI, generally with 1992 as the base year	Inflation adjustments based on Chained CPI, using 2016 as the base year with the first adjustment for 2019	Reduces inflation adjustment and increases taxes, compared to current law
Standard deduction of $6,350 for single taxpayers and $12,700 for joint returns	Increases deduction to $12,000 for single returns and $24,000 for joint returns Effective through 2025	Would significantly reduce the number Americans who itemize deductions. Eliminates benefit of deductions for mortgage interest and charitable contributions for those who don't itemize
Capital gains rates of 0, 15%, and 20%, with brackets based on individual income tax brackets	Same rates with brackets corresponding to the current brackets	No change
"Kiddie tax" causes net unearned income of children above $2,100 to be taxed at the parents' tax rates	Applies ordinary and capital gains rates for trusts and estates to net unearned income of children	Simplifies kiddie tax. Depending on the parents' rates, may increase or decrease the tax imposed
Non-business taxes paid to state and local governments are deductible	Allows itemized deduction of up to $10,000 for the total of (1) non-business state and local property taxes and (2) either non-business state and local income taxes or non-business sales taxes Effective through 2025	Reducing the deduction increases the number of people who will claim the standard deduction; increases effective total tax rate for residents of states with high state and local taxes
Mortgage interest deductible on first $1 million of mortgage debt to purchase, construct or substantially improve a first or second residence (acquisition debt) and $100,000 of home equity debt	Mortgage interest deduction allowed for acquisition debt up to $750,000; repeals deduction for interest on home equity debt. Applies through 2025 to debt incurred on or after December 15, 2017 Suspends deduction for interest on home equity loans through 2025	Reducing the mortgage limit and suspending the home equity interest deduction increases the number of people who will claim the standard deduction

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Child credit of $1,000 for children 16 or younger, phased out if AGI exceeds $110,000 (joint) or $75,000 (single), limited refundable	Increases credit to $2,000 with $1,400 refundable, phased out beginning at $200,000 of income single and $400,000 joint Additional $500 nonrefundable credit for qualifying dependents other than qualifying children Effective through 2025	Reduces tax for qualifying families with children or other dependents. Depending on tax bracket and number of children, may not offset the loss of the personal exemption
Personal and dependency exemption of $4,050 per person	Suspended through 2025	Can increase tax due unless offset by increase in standard deduction
Individual mandate – penalty imposed for not having minimum health insurance coverage	Penalty set to $0	Eliminates incentive for individuals to have health insurance coverage to avoid penalty; reduces federal subsidies paid to assist persons obtain health insurance
AMT imposed to limit benefit of certain tax benefits	Increases exemption amounts and phase-out ranges for exemption amounts through 2025	Reduces number of taxpayers who will be subject to the AMT
Casualty losses are deductible subject to overall 10% AGI limit and $100 per casualty floor	Loss must be attributable to disaster declared by the President Effective through 2025	Reduces number of taxpayers and casualty losses that qualify for the deduction
Medical expenses are deductible to the extent they exceed 10% of AGI	Reduces 10% limit to 7.5% (House bill would have eliminated the deduction entirely) Applies to 2017 (retroactive) and 2018 only	Retroactive for 2017 Allows more people to claim medical expense deduction and increases deduction for those already claiming it. With increased standard deduction, may not be significant
Student loan interest is deductible without itemizing deductions, subject to an annual limit	No repeal	No change
Excludes $5,250 of benefits per year under qualified educational assistance programs	No change	No change
Section 529 plans allow tax advantages for qualified accounts used for post-secondary education expenses	Allows up to $10,000 of accounts to be used for K-12 tuition and related expenses annually in addition to post-secondary expenses	Permits 529 plans to be used for qualifying education expenses
Deductible cash contributions to public charities are limited to 50% of the taxpayer's AGI. Unused deductions can be carried forward 5 years	Increases percentage limitation to 60% effective through 2025	Few people are affected by the 50% limitation for cash contributions. With increased standard deduction, may not be significant.

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Various miscellaneous expenses are deductible subject to 2% floor	Suspends all miscellaneous expenses subject to the 2% floor through 2025	With increased standard deduction, may not be significant. Provides some simplification
Itemized deductions (with certain exceptions) reduced by 3% of AGI above a threshold amount	Suspended through 2025	Increases allowable itemized deductions
Alimony is deductible by the payor and taxable to the recipient	Repeals deduction and income exclusion Effective for divorce decrees and separation instruments executed in 2019 and later	For payors, Increases taxes by eliminating deduction. For recipients, reduces taxes
ABLE account contributions cannot exceed the gift tax annual exclusion amount ($14,000 for 2017). If ABLE account balance exceeds $100,000, SSI benefits are suspended until the balance is less than $100,000	In addition to contributions equaling the gift tax annual exclusion amount, the ABLE account beneficiary can also contribute the lesser of (1) the federal poverty line for a one-person household ($12,060 for 2017 in all states other than Alaska and Hawaii); or (2) the beneficiary's compensation for the year. No contribution to a defined contribution plan can be made for the beneficiary for the year	Allows ABLE account additional contributions but does not change $100,000 limit for suspending SSI benefits
Estate, Gift, and GST Provisions; Trust and Estate Income Tax Rates		
Estate and gift tax exemption of $5 million, adjusted for inflation ($5.49 million in 2017)	Doubles exemption to $10 million, plus inflation adjustment, resulting in $11.2 million exemption for 2018	Reduces the number of estates subject to estate tax; larger exemption provides more opportunity for lifetime planning
Generation-skipping transfer tax imposed on generation-skipping transfers at 40% rate, with exemption equal to estate and gift tax exemption	Doubles exemption to $10 million, plus inflation adjustment, resulting in $11.2 million exemption for 2018	Allows more to pass to grandchildren and younger generations
Maximum rate of 40%	No change	None
Basis adjusted to estate tax value ("stepped-up basis")	No change	Combination of stepped-up basis and higher exemption will reduce income and transfer taxes
5 trust income tax brackets – 15%, 25%, 28%, 33%, 39.6%, top bracket begins at $12,500	4 income tax brackets – 10%, 24%, 35%, 37%, top bracket begins at $12,500 Change repealed after 2025	Slight reduction in trust and estate income taxes

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Business Tax Provisions		
Graduated tax rates up to 39% rate with phase-out producing 35% flat rate above $18,333,333	Flat rate of 21%	Makes C corporations more attractive for business owners. S corporations may decide to terminate their S election Split dollar arrangements will be more attractive than executive bonus for many C corporation owners Employer sponsored retirement plans may be less attractive because the tax savings will be reduced
Personal service corporations taxed at flat 35%	Special rate for personal service corporations eliminated so they will be taxed at 21%	C corporation treatment for personal service corporations will be more attractive
Corporations can deduct 70% of all dividends received from another corporation. If they own at least 20% of the payor, the deduction is 80%. 100% is deductible if paid by a member of the same affiliated group	Reduces deduction to 50% for dividends received from another corporation and to 65% for dividends received if at least 20% of the payor is owned	Designed to produce approximately same tax on dividends after considering the 21% corporation tax rate
Pass-through entity income is taxed as ordinary income	An individual may deduct 20% of qualified business income from a pass-through entity. Generally limited to 50% of taxpayer's "W-2 wages" from the entity, except for taxpayers whose taxable income doesn't exceed $315,000 on joint returns or $157,500 on all other returns Includes rules intended to reduce the possibility for abuse, including a provision that the 20% rate is phased out for income above $315,000 on joint returns or $157,500 on all other returns from performing personal services in a variety of fields. Fields affected include health, law, accounting, consulting, and financial or brokerage services	May make it more attractive for service providers to be treated as independent contractors rather than employees Provides significant incentives for taxpayers to attempt to qualify income for pass-through rates Employer sponsored retirement plans may be less attractive because the tax savings will be reduced. Increases complexity and opportunities for attorneys and CPAs to develop strategies to take advantage of the pass-through rates
C corporations are subject to AMT designed to limit benefits of certain tax preferences	Repeals corporate AMT	Simplifies corporate tax computation, allows corporations to receive benefits of tax preferences
Business interest is generally deductible	Deduction is limited to total of business's interest income plus 30% of its adjusted taxable income. For entities taxed as partnerships or S corporations, the limit is applied at the entity level. Any unused deduction can be carried forward indefinitely, except that partnerships are subject to certain	Makes debt financing less attractive

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	restrictions Does not apply to businesses with less than $25 million of average gross receipts for the 3 years ending with the prior taxable year	
Property generally must be depreciated. An additional deduction of 50% of the property's basis is allowed for qualified property, subject to phase-out beginning in 2018 for most assets	Increases additional deduction to 100% of basis for property placed in service after 9/27/17 and phased out beginning in 2023, with different phase-out periods for different types of property	Increases incentive for businesses to buy new equipment
Taxpayers may elect to deduct the full amount of qualifying property, limited to $500,000 annually and phased out above $2,000,000 of qualifying property	Increases limit on qualifying property for deduct full amount to $1,000,000 with phase-out starting at $2,500,000 of qualifying property	Increases incentive for businesses to buy new equipment
Net operating losses (NOLs) may be carried back two years and forward 20 years	Limits carryover to 80% of taxable income. Carryovers are adjusted to reflect the limitation and may be carried forward indefinitely. NOLs arising in years beginning after 12/31/17 are increased by an inflation adjustment. Repeals two-year carryback except for certain farming losses	Reduces ability to use NOLs to zero out income Elimination of carryback for most businesses prevents businesses from receiving refund of taxes paid in profitable years, which may make weathering down years more difficult
Allows gain on exchange of like-kind property held for productive use in a trade or business or for investment (section 1031 exchanges)	Limits section 1031 exchanges to real property not held primarily for sale	Will make owners more likely to hold onto properties that no longer qualify for 1031 treatment and have a gain

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