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2017 U.S. Tax Reform Bill
What Will The New Changes in Tax Law Mean to You?

On Wednesday, December 20, 2017, Congress passed one of the most significant overhauls in the U.S. tax code since 1986 under President Ronald Reagan. The new tax bill, which is 1,097 pages long, contains a significant number of modifications to the personal and corporate tax code. We have put together a brief summary of key changes to help you understand the impact of this new law.

How Does This Potentially Impact You?

The new laws will be applied to your 2018 taxes. Most of these changes will sunset (the provision shall cease to have effect) in 2025. The Joint Committee on Taxation estimates the tax bill will increase the U.S. deficit by $1.46 trillion over the next decade. A breakdown of what we believe to be the key changes to the personal and corporate tax code are summarized below. Since this report is for informational purposes only, we recommend that you consult your tax advisor regarding what impact this bill may have on your tax situation for 2017 and the years ahead.

Changes to Personal Taxes

Tax Brackets

According to the new bill, the number of tax brackets would remain the same, but most income ranges will see decreases in rates and, in many cases, overall tax burden. Notably, the top tax rate is reduced from 39.6% to 37%. The two charts below provide you with the breakdown under current law and breakdown under the new bill.

Current 2017 tax brackets:

If taxable income is:	Then income tax equals:
Single Individuals	
Not over $9,325	10% of the taxable income
Over $9,325 but not over $37,950	$932.50 plus 15% of the excess over $9,325
Over $37,950 but not over $91,900	$5,226.25 plus 25% of the excess over $37,950
Over $91,900 but not over $191,650	$18,713.75 plus 28% of the excess over $91,900
Over $191,650 but not over $416,700	$46,643.75 plus 33% of the excess over $191,650
Over $416,700 but not over $418,400	$120,910.25 plus 35% of the excess over $416,700
Over $418,400	$121,505.25 plus 39.6% of the excess over $418,400

Married Individuals Filing Joint Returns and Surviving Spouses	
Not over $18,650	10% of the taxable income
Over $18,650 but not over $75,900	$1,865 plus 15% of the excess over $18,650
Over $75,900 but not over $153,100	$10,452.50 plus 25% of the excess over $75,900
Over $153,100 but not over $233,350	$29,752.50 plus 28% of the excess over $153,100
Over $233,350 but not over $416,700	$52,222.50 plus 33% of the excess over $233,350
Over $416,700 but not over $470,700	$112,728 plus 35% of the excess over $416,700
Over $470,700	$131,628 plus 39.6% of the excess over $470,700

Tax brackets under the new bill:

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	$4,453.50 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 $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

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	$64,179 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

Standard Deduction and Exemptions

The standard deduction nearly doubles, from $6,350 (in 2017) to $12,000 for single filers, and from $12,700 (in 2017) to $24,000 for married filing jointly. While this means that fewer taxpayers will have to itemize to reduce their tax burden, it is important to note that personal and dependent exemptions ($4,050 per exemption in 2017) are being eliminated effectively reducing the benefit of the higher standard deduction for many taxpayers.

State and Local Tax (SALT) Deduction

Residents in high-tax states will face a potentially large increase in taxes due to the changes to the state and local tax (SALT) deduction. What was previously an unlimited amount, the new SALT deduction will now be limited to $10,000. The deduction will not be indexed for inflation, and should be noted that filers cannot pre-pay their 2018 state and local income taxes in 2017 to avoid the new limit.

Mortgage Interest Deduction

Another reduced limit comes from changes to the mortgage-interest deduction. Currently (2017) the interest on mortgages with up to $1.1 million in debt is deductible (itemized). With the new bill the maximum amount of debt that can be considered for an interest deduction is reduced to $750,000 for new mortgages (obtained after December 31, 2017 and before January 1, 2026). The value of residences in more expensive real estate regions will likely be most impacted by these changes.

Child and Dependent Tax Credits

Families will get an increase in child and dependent tax credits with the new bill. The tax credit for each child under 17 will increase from $1,000 to $2,000, and $500 for non-child dependents. The phase out limits for the child and dependent tax credits have been increased as well, qualifying more affluent families than before. Single filer phase out has been increased to $200,000 from $75,000 (2017), and married filing jointly phase out has been increased to $400,000 from $110,000.

Alimony Deduction

Alimony deduction, a 75-year-old tax deduction for alimony payments, will be effectively repealed in 2019. The change applies to any divorce or separation instrument executed or modified after December 31, 2018. From 2019 and forward, the spouse paying alimony will no longer be able to deduct the alimony payments, and the spouse receiving the money will no longer need to pay taxes on them.

Miscellaneous Itemized Deductions

One of the changes that may impact individuals who work with financial advisor comes from the changes to miscellaneous itemized deductions. Clients will no longer be able to take an itemized deduction for investment management fees that costs more than 2% of their total adjusted gross income. In fact, all miscellaneous deductions which exceed 2% of your AGI will be eliminated including deductions for tax preparation expenses, unreimbursed employee expenses, and home office expenses.

Medical Expense Deduction and Affordable Care Act

More people will qualify for the medical expense deduction as minimum thresholds have been reduced from 10.0% of adjusted gross income (AGI) to 7.5% of AGI. This threshold reduction is a temporary change as it will only apply for the 2017 and 2018 tax years, reverting back to 10% in 2019. While the Affordable Care Act has not been repealed, consumers will no longer have to pay a penalty for not having health insurance.

Alternative Minimum Tax (AMT)

The exemption amounts and phase-out thresholds have been increased for both single and joint filers, which should reduce the amount of calculated taxes under AMT. The changes are as follows:

2017 AMT	Exemption	Phase-out Threshold		**2018 Tax Reform AMT**	Exemption	Phase-out Threshold
Single	$54,300	$120,700		Single	$70,300	$500,000
Married	$84,500	$160,900		Married	$109,400	$1,000,000

Estate Taxes

The estate tax will remain in place, however the universal estate tax exemption amount will be doubled, and effectively meaning fewer estates will be hit by the tax. With the new law the estate tax exemption will increase to $11.2 million ($22.4 million for couples) from $5.6 million ($11.2 million for couples).

529 Plans

An additional benefit has been added to the use of 529 plans. With the new tax changes, up to $10,000 can be used for public, private, and religious elementary and secondary schools, as well as home school students.

CHANGES TO CORPORATE TAXES

Corporate Tax Bracket and AMT

Among those impacted from the new tax bill, at first glance corporations seem to benefit the most. One of the biggest modifications of the new tax bill is the reduction of the corporate tax rate. The top corporate tax rate will drop from 35% (2017) to 21% (2018) under the new bill. The business version of the alternative minimum tax (AMT) will also be repealed. Unlike some of the personal tax changes, the corporate tax reduction is permanent.

Pass-Through Taxation

Taxpayers who have “pass-through” income (some or all of their business income taxed on their individual return - S corporations, LLCs, partnerships, sole proprietorships) could benefit from changes to the bill. Owners could qualify for a 20% deduction of their income if they make less than $157,500 (single) or $315,000 (joint), with the top rate dropping from 39.6% to 29.6%.

International Business Taxation (Repatriation of Foreign Income)

International business taxation will also see quite a few changes in efforts to “repatriate” foreign asset holdings overseas by domestic companies. Changes in the bill will reduce the tax rate on reinvested foreign earnings from 35% to 8% and reduce the tax on foreign cash from 35% to 15.5%. Companies can elect to pay the tax liability over eight years in equal annual installments for the total tax amount due.

Things you can do now that may help (prior to 2018)

Everyone’s situation is unique so please consult with your tax advisor, however, here are the things you can do right now that may be beneficial to you given the bill’s upcoming provisions. You’ll just have to act before December 31, 2017.

Prepay property taxes.

With the change to state tax deductions now limiting filers to $10,000 per year, it may make sense to prepay your second property tax installment before December 31. (If you are subject to alternative minimum tax in 2017, prepaying state taxes may not provide much benefit.) Also, if you can complete any large capital gains sales in 2017 and prepay the state tax, you may get a more favorable after-tax rate this year than in 2018.

Maximize contributions to Retirement accounts.

Eligible contributions reduce your gross taxable income, so the more you add to your accounts for 2017, the more you can deduct from your taxes. Those eligible can make a 2017 IRA contribution in 2018 before April 15 or later if they qualify to make a SEP IRA contribution.

Shift income, such as bonuses or other compensation, to 2018.

You may be paying a lower marginal tax rate in 2018 than in 2017. So if possible, try to get your year-end bonus, raise or other compensation delayed until next year. And if you are a business owner or consultant, delay your mid-to-late December billings until after January 1. (Note that checks received before the 2018 count as 2017 income, regardless of when you cash them.)

Acquire business assets in 2018 vs. 2017.

Under the new law, the first-year bonus depreciation for new assets is scheduled to be 100%, up from 50% in 2017. So if you do not absolutely need it now, delay the purchase to get a bigger write-off.

Consult with your Tax Professional

This new tax law will make planning for 2018 important. Unfortunately, it will take some time before the specific regulations are finalized. We recommend you consult with your tax advisor early in 2018 to learn what adjustments, if any, may be beneficial to you given your specific situation.

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