The US 2017 Tax Cuts and Job Act: What You Want to Know

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January 2018

The US Congress enacted sweeping tax reform in December, 2017. This has widespread effects on both individuals and businesses. It is the largest change to the U.S. Tax Code in years, with many changes taking effect January 1, 2018.

Below you find an overview of some of the changes that may impact US taxpayers. As these changes are rather big, it is very advisable to start a conversation with a tax and legacy advisor as soon as possible. Legal documents such as wills and trust may need to be reviewed and adjusted as well. As you navigate the new tax law, which encompasses hundreds of pages, it is urged to consult a trusted advisor to determine how the changes will impact you personally as well as your business. This information is only a starting point and by NO means should it be considered advice or recommendation.

For the individual US tax payers, the changes to the tax rates and the brackets represent the biggest levers.

There are seven (7) federal tax brackets, with a **top rate of 37 percent** as follows:

If taxable income is:

a) ***Single Individuals***

Not over $9,525
Over $38,700 but not over $82,500
Over $82,500 but not over $157,500
Over $157,500 but not over $200,000
Over $200,000 but not over $500,000
Over $500,000

Then income tax equals:
$952.50 + 12% of the excess over $9,525
$4,453.50 + 22% of the excess over $38,700
$14,089.50 + 24% of the excess over $82,500
$32,089.50 + 32% of the excess over $157,500
$45,689.50 + 35% of the excess over $200,000
$150,689.50 + 37% of the excess over $500,000

b) Married Individuals Filing Joint Returns and Surviving Spouses
Not over $19,050
Over $19,050 but not over $77,400
Over $77,400 but not over $165,000
Over $165,000 but not over $315,000
Over $315,000 but not over $400,000
Over $400,000 but not over $600,000
Over $600,000

Then income tax equals:
10% of the taxable income
$1,905 + 12% of the excess over $19,050
$8,907 + 22% of the excess over $77,400
$28,179 + 24% of the excess over $165,000
$64,179 + 32% of the excess over $315,000
$91,379 + 35% of the excess over $400,000
$161,379 + 37% of the excess over $600,000

Capital gains and dividend rates remain unchanged.

The estate tax exemption and gift tax exemption are generally doubled from $5 million per individual to $10 million as indexed for inflation occurring after 2011 for decedents dying after December 31, 2017 and before January 1, 2026. For 2018, the exclusion amount is $11.2 million.

In addition to rate and bracket changes, there are several other aspects to the new law affecting individuals:

- The standard deduction has nearly doubled, from what would have been $6,500 in 2018 for single taxpayers and $13,000 for married taxpayers filing jointly to $12,000 and $24,000 respectively.
- The Alternative Minimum Tax (AMT) was not repealed for individuals, the exemption amounts increased to $70,300 for single taxpayers and $109,400 for married filing jointly, and the exemption phase out now will not begin until $500,000 for single taxpayers and $1,000,000 for married filers.

- The “kiddie” tax has been simplified, and unearned income of children to whom this applies will now be taxed at trust and estate rates rather than at their parents’ rates. This also means there will no longer be a need to include siblings’ unearned income when calculating the tax.

Changes in current deductions used in arriving at adjusted gross income (AGI):

- The moving expense deduction is repealed except for members of the armed services, as is the exclusion for reimbursement of moving expenses, so employers will need to include such reimbursements in W2 income.
- Also, the Act eliminates the deduction for alimony paid effective for divorce agreements after December 31, 2018 (it also eliminates the taxability of alimony income to the recipient).

Many changes apply to itemized deductions of individual taxpayers:

- The deduction for state and local income, sales and property taxes is capped at $10,000 for married and single taxpayers and $5,000 for head of household filers.
- Most miscellaneous itemized deductions are eliminated, including tax preparation fees, investment fees, and unreimbursed employee business expenses. The medical expense deduction floor is reduced to 7.5 percent for 2017 and 2018.

Home owners:

- For mortgages incurred after December 16, 2017, interest is deductible for the principal residence and a second residence on loan principal of $750,000 (previously the loan limitation was $1,000,000). Current mortgages are grandfathered at the $1 million amount. Refinancing of grandfathered mortgages is also grandfathered but not beyond the term and amount of the original mortgage.
- Interest on home equity loans will no longer be deductible.

The limit for charitable contributions to public charities increases to 60 percent of AGI from the previous 50 percent, however the deduction for contributions made in exchange for college athletic event seating rights is no longer allowed.

The individual mandate which requires most Americans to purchase health insurance or pay a penalty is also repealed effective in 2019.

Business taxpayers: Important changes

Maybe the most notable is the **new flat 21 percent corporate tax rate** for corporation tax years beginning after December 31, 2017.

Alternative minimum tax has been repealed for corporations. This move may lead to a shift away from AMT-Free Municipal Bonds buying by corporation.

There is also a provision for **immediate 100 percent expensing for the purchase of business equipment** which applies to equipment placed in service after September 27, 2017 and before January 1, 2023.

The depreciation cap on luxury autos has been raised, and the limitation for Section 179 expensing has been set at $1 million.

The deduction for net interest expenses will now be limited to 30 percent of adjusted taxable income.

Net operating loss carry-forwards will be limited to 80 percent of taxable income. Section 1031 like kind exchanges will be limited to real property.

There is also modification of the USD 1 Million deduction limit on executive compensation.

Deductions for any activity deemed entertainment, amusement or recreation including club membership dues has been repealed (50 percent of business meals will still be deductible).

New provisions for pass-through business income include S corporations, partnerships and sole proprietorships. There will be a 20 percent deduction against qualified business income of these pass-through entities.

The deduction amount will be the lesser of:

- 20 percent of the taxpayer's qualified business income; or
- The greater of 1) 50 percent of W2 wages paid with respect to the business or 2) the sum of 25 percent of the W2 wages paid plus 2.5 percent of unadjusted basis of all qualified property

The deduction is further limited to the net of taxpayer's taxable income less taxpayer's net capital gain.

The wage limitation does not apply to married taxpayers with taxable income under $315,000 ($157,500 for single taxpayers). Specified service businesses (accountants, attorneys, doctors, etc.) are excluded from the deduction unless they are under the $315,000 / $157,500 taxable income thresholds.