



The Tax Cuts and Jobs Act (TCJA) – Tax Reform for Individuals

PREPARED BY

Gary L. Riedlinger, CPA,PFS and Yeo & Yeo's Tax Services Group

January 11, 2018

Individual Rates- sunset on 12/31/25

Rate	Taxable Income	
	Single	Married
10%	\$0 to \$9,525	\$0 to \$19,050
12%	\$9,525 to \$38,700	\$19,051 to \$77,400
22%	\$38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	\$500,001 or more	\$600,001 or more

Capital Gain Rates & Medicare/Net Investment Tax

Rate	Taxable Income			
Single	Married	Capital Gain/Qualified Dividend	Medicare Tax on Earned Income	Medicare Tax on Net Investment Income
\$0	\$0	0%	2.9%	0%
\$38,600	\$77,200	15%	3.8%	3.8%
\$200,000	\$250,000			
\$425,800	\$479,000	20%		

Standard Deduction/Exemption

- Married filing joint - \$24,000
- Single - \$12,000
- HOH - \$18,000
 - Sunset 12/31/2025
- Repeals personal exemptions
 - Sunset 12/31/2025

Credits

- Child Tax Credit – sunsets on 12/31/25
 - Increases it to \$2,000, with refundable amount of \$1,400
 - Child under 17
 - Must have SSN
 - \$500 nonrefundable credit for non-child dependent
 - Phases out \$200,000/\$400,000

Itemized Deductions

- Repeals overall limitations on itemized deductions – sunset
- Prior law
 - Itemized deductions were limited to the amount overall deductions exceeded 3% of AGI
 - Thresholds - \$287,650/Single and \$313,800/Married

Itemized Deductions - Mortgage

- Mortgage interest – sunset
 - Limits deduction to \$750,000 mortgage – applies to mortgages incurred after December 15, 2017.
 - No deduction for home equity loans (no exceptions for home equity incurred before December 15, 2017.)
 - Refinanced debt can maintain its “grandfathered” status to the extent debt does not exceed amount refinanced.
 - Special rule if agreement to purchases entered into before December 15, 2017.

Itemized Deductions - SALT

- State and local tax deduction - sunset
 - Allows up to \$10,000 for property tax and sales or income tax
 - Can still deduct full amount property and sales tax incurred in carrying on a trade or business – even if on a Schedule C or pass-through income
 - Can also still deduct SALT for C corporations
 - Prohibits pre-payment of 2018 income taxes in 2017

Itemized Deductions - Miscellaneous

- 2% miscellaneous itemized deductions – repealed – sunset
 - Unreimbursed employee expenses
 - Tax Prep Fees
 - Other Expenses
 - Investment fees and expenses
 - Appraisal fees for casualty loss determination
 - Excess deductions of an estate

Itemized Deductions – Personal Casualty Loss

- Personal casualty loss - sunset
 - Repealed except for losses incurred in a Presidentially declared disaster
 - Special rules for 2016 disasters (discussed later)

Itemized Deductions - Charitable

- Charitable contributions
 - Increases limit to 60% of AGI for cash paid to public charities
 - Removes deduction for amounts paid for right to purchase tickets to athletic events

Itemized Deductions

- Moving expense – repealed except for those incurred by a member of the Armed Forces - sunset
- Medical expenses – maintained and brings it back to pre-ACA 7.5% for 2017 and 2018
- Investment interest expense – allowed
- Gambling losses – includes additional expenses in “wagering losses” limited to gambling wins - sunset

Other Deductions

- Alimony expenses – repealed for divorce decrees entered into on or after 1/1/2019; Corresponding inclusion into income is also repealed
- Most “above the line” deductions were retained, including contributions to HSA, educator expenses, and contributions to retirement plans

Fringe Benefits

- Qualified bicycle commuting reimbursement – repealed - Sunset
- Exclusion for qualified moving expenses reimbursement, except those incurred by members of Armed Forces – repealed – Sunset
- Employee achievement awards – in order to be excluded, it must be tangible personal property, which is defined to not include cash, cash equivalents, gift cards, gift coupons, gift certificates, vacations, meals, lodging, tickets to events, stocks, bonds, or similar items.

Retirement

- Conversion from traditional IRA to Roth IRA is permitted. However, recharacterization of that conversion back to a traditional IRA is not permitted.
- New Planning Issue
 - If you are a business owner and you receive the benefit of the 20% deduction, you are going to defer income and that income will likely be taxed at a higher rate upon withdrawal of that income.

Education

Can use 529 plan dollars for K-12 up to \$10k per year

Discharge of student loan by reason of death or disability excluded from income

AMT

- Individual – Modified exemption amounts subject to AMT
 - \$86,200 amount to \$109,400
 - \$55,400 amount to \$70,300
 - Significantly increases AMTI exemption phase out amounts
- Corporate – Repealed
 - AMT Credit – allowed to the extent of regular tax liability, then 50% of excess is refundable. Any remaining credit is 100% refundable in 2021.

Estate/Gift/GST

- Increase the basic exclusion to \$10 million for estates and gifts, indexed for inflation beginning in 2011
- Exemption for 2018 will be approximately \$11.2M
- Retain step up in basis
- Increased exemption sunsets 12/31/25

Tax Reform - ACA

- Repeal of the ACA's Individual Mandate beginning after December 31, 2018
- Mandate still exists for 2018

2016 Disaster Relief

- Retirement Plan
 - Allowed to take \$100,000 from retirement plan between 1/1/16 and 1/1/18 without 10% penalty if taxpayer resided in presidentially declared disaster areas and suffered a loss
 - Report the income over 3 year period
 - Can contribute distribution back to plan during 3 year period to avoid income recognition
- Casualty loss
 - Not limited to 10% of AGI, but must exceed \$500 per casualty
 - Loss is in addition to standard deduction
- Available if you lived in a presidentially declared disaster area and suffered an economic loss

Example – Single Filer

Single	Prior Law	Tax Reform
Income	\$75,000	\$75,000
Itemized Deductions	n/a	n/a
Standard Deduction	\$6,350	\$12,000
Personal Exemptions	4,050	n/a
Taxable Income	\$64,600	\$63,000
Marginal Tax Rate	25%	22%
Tax	\$11,804	\$9,800

Example – Family of 4 with Qualifying Children

Married filing Joint	Prior Law	Tax Reform
Income	\$75,000	\$75,000
Itemized Deductions	n/a	n/a
Standard Deduction	\$12,700	24,000
Personal Exemptions	\$16,200	n/a
Taxable Income	\$46,100	\$51,000
Marginal Tax Rate	15%	12%
Child Tax Credit	\$2,000	\$4,000
Tax	\$3,962	\$1,739

Example – Family of 4 with Qualifying Children

Married filing Joint	Prior Law	Tax Reform
Income	\$175,000	\$175,000
Itemized Deductions	\$31,135	\$30,000
Standard Deduction	n/a	n/a
Personal Exemptions	\$16,200	n/a
Taxable Income	\$127,675	\$145,000
Marginal Tax Rate	25%	22%
Child Tax Credit	n/a	\$4,000
Tax	\$23,226	\$19,779

- \$6,125 State Tax
- \$5,000 Property Tax
- \$5,000 Charitable Contributions
- \$15,000 Mortgage Interest

Example – Family of 4 with College Children

Married filing Joint	Prior Law	Tax Reform
Income	\$175,000	\$175,000
Itemized Deductions	\$31,135	\$30,000
Standard Deduction	n/a	n/a
Personal Exemptions	\$16,200	n/a
Taxable Income	\$127,675	\$145,000
Marginal Tax Rate	25%	22%
Child Tax Credit	n/a	\$1,000
Tax	\$23,226	\$22,779

- \$6,125 State Tax
- \$5,000 Property Tax
- \$5,000 Charitable Contributions
- \$15,000 Mortgage Interest

Example – High Income Earner

Single	Prior Law	Tax Reform
Income	\$450,000	\$450,000
Itemized Deductions	\$35,250	\$30,000
Standard Deduction	n/a	n/a
Personal Exemptions	n/a	n/a
Taxable Income	\$414,750	\$420,000
Marginal Tax Rate	33%	35%
Child Tax Credit	n/a	n/a
Tax	\$119,938	\$122,689

- \$15,750 State Tax
- \$ 8,000 Property Tax
- \$ 5,000 Charitable Contributions
- \$15,000 Mortgage Interest

Example – High Income Earner

Single	Prior Law	Tax Reform
Income	\$750,000	\$750,000
Itemized Deductions	\$70,750	\$35,000
Standard Deduction	n/a	n/a
Personal Exemptions	n/a	n/a
Taxable Income	\$704,250	\$715,000
Marginal Tax Rate	39.6%	37%
Child Tax Credit	n/a	n/a
Tax	\$233,825	\$230,240

- \$26,250 State Tax
- \$12,000 Property Tax
- \$5,000 Charitable Contributions
- \$20,000 Mortgage Interest
- \$30,000 Miscellaneous

Example – High Income Earner (Business Owner)

Single	Prior Law	Tax Reform
Income	\$750,000	\$750,000
Itemized Deductions	\$40,750	\$35,000
Standard Deduction	n/a	n/a
Personal Exemptions	n/a	n/a
Business Deduction		\$150,000 *
Taxable Income	\$709,250	\$565,000
Marginal Tax Rate	39.6%	35%
Child Tax Credit	n/a	n/a
Tax	\$235,805	\$174,739

- \$26,250 State Tax
- \$12,000 Property Tax
- \$5,000 Charitable Contributions
- \$20,000 Mortgage Interest

* Does not reflect possible limitation calculations on business income deduction

Winners and Losers

- **Winners**

- Most individuals will see a tax decrease in 2018
- Super winner if you are a pass-through business owner and receive the 20% deduction
- CPAs

- **Losers**

- U of M Season Ticket Holders
- Individuals living in high tax states (possibly)
- Individuals with high unreimbursed employee expenses
- Investors with high investment management fees

Still More to Come

The 2017 Tax Cuts and Jobs Act will be the topic of conversation for months and years to come. And, undoubtedly proposed and some passed corrections/changes. We still have much to learn, including the effect on some state tax systems.

DISCLAIMER

The information provided is a general summary and is being distributed with the understanding that Yeo & Yeo, P.C. is not rendering tax, accounting, legal or other professional services advice or opinions on specific facts or matters and, accordingly, assumes no liability in connection with its use. The information is not intended to be used as a basis for any decision or action that may affect your business, organization or situation. Consult a qualified professional advisor before making any such decisions.

Copyright © 2017 Yeo & Yeo, P.C.

CONNECT with Us
yeoandyeo.com



Thank you!

Gary L. Riedinger, CPA, PFS
garrie@yeoandyeo.com
989-793-9830