Summary of Tax Cuts and Jobs Act
Important Provisions Affecting Individuals

The Tax Cuts and Jobs Act has a number of significant changes. In addition to the changes listed below, there are a variety of additional provisions that carry less impact to our individual clients. Please contact us with any questions you may have on the following items.

Important – The information below does NOT impact the preparation of your 2017 personal income tax return. However, there are several items that are eliminated from 2018 taxes. Therefore, there is a planning opportunity over the next ten days to obtain benefits in 2017 that are NOT available in the future.

1. **Tax Rates:** Individual tax brackets maintain a seven-bracket structure. The marriage penalty is significantly reduced as most of the married brackets are two times the single brackets. The top tax bracket has been reduced from 39.6% to 37%.

 Single				
Old Law			New Law	
Up to $9,525	10 %		Up to $9,525	10%
9,525 – 38,700	15 %		9,525 – 38,700	12%
38,700 – 93,700	25 %		38,700 – 82,500	22%
93,700 – 195,450	28 %		82,500 – 157,500	24%
195,450 – 424,950	33 %		157,500 – 200,000	32%
424,950 – 426,700	35 %		200,000 – 500,000	35%
Over $426,700	39.6%		Over $500,000	37%

 Married Filing Jointly				
Old Law			New Law	
Up to $19,050	10 %		Up to $19,050	10%
19,050 – 77,400	15 %		19,050 – 77,400	12%
77,400 – 156,150	25 %		77,400 – 165,000	22%
156,150 – 237,950	28 %		165,000 – 315,000	24%
237,950 – 424,950	33 %		315,000 – 400,000	32%
424,950 – 480,050	35 %		400,000 – 600,000	35%
Over $480,050	39.6%		Over $600,000	37%

2. **Standard Deduction and Itemized Deductions:** All taxpayers are eligible for a standard deduction to be subtracted from total income. You may deduct the larger of the IRS standard amount or your personal itemized amounts.

Standard Deduction	**Old Law**	**New Law**
Single Taxpayer	6,500	12,000
Married, Filing Jointly	13,000	24,000

Critical Issue: There are significant changes in the types of itemized deductions that are permitted. Please review the information below carefully:

 **Itemized Deductions**	**Old Law**	**New Law**
Medical Expenses		
Deductible amount in excess of a percentage of income	10.00%	7.50% (**retro to 1/1/17)
State and Local Income Taxes, Real Estate Taxes, Payroll Withholdings, Sales Taxes	No limitation	Maximum of $10,000
Interest Expense		
Mortgage Interest	On debt up to $1.0 million	On debt up to $750,000
Home Equity Interest	On debt up to $100,000	Not deductible
Investment Interest	Deductible up to investment income	No change
Cash Donations to Charity		
Maximum Deduction	50% of income	60% of income
Miscellaneous Itemized Deductions		
Tax Preparation Fees	100% Deductible	Not Deductible
Legal Fees		
Employee Expenses (licenses, clothing, small tools, mileage, etc.)		
Overnight Meals for Truckers		
Investment Fees		
IRA Fees		
Other Deductions		
Gambling	Limited to winnings	No change
Casualty & Theft Losses	Limited Deductibility	Not Deductible (unless in Federal Disaster Zone)
Overall Limitation	Deductible if Exceeds Standard Deduction of $13,000 (joint) and $6,500 (single)	Deductible if Exceeds Standard Deduction of $24,000 (joint) or $12,000 (single)
Phaseout of Itemized Deductions based on high income	3% phaseout above $320,000 (joint) and $266,700 (single)	No phaseout limitations

Important regulatory notice – the IRS will not permit you to prepay 2018 state and local taxes by 12/31/17 in order to compound the state tax deductions. However, you should consider paying your fourth quarter estimates and final real estate taxes by 12/31/17.

Clarification – Interest Expense Deductions for Existing Mortgage Loans and Home Equity Loans

It appears that your mortgage interest and home equity loan interest that existed PRIOR TO 12/15/17 will be receive "grandfathered" tax treatment. In other words, this interest will remain deductible and the eventual refinance of these loans will remain deductible.

Planning Point – As a result, we recommend that you avoid paying off these types of loans earlier than their scheduled maturity if you desire to deduct the interest associated with these loans.

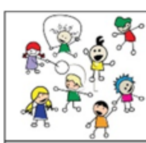
3. **<u>Personal Exemptions</u>:** Taxpayers have historically been allowed to take a personal exemption deduction for dependents listed on their tax return.

Personal Exemption	**Old Law**	**New Law**
Deduction for each dependent	4,150	No deduction

The new tax bill eliminates the personal exemptions deduction. This means a family of five would lose a $20,750 deduction in 2018.

Note: In completion of a W-4 for your employer, you will still indicate the number of exemptions. The nature of your personal tax withholdings is not impacted by this rule change.

4. **<u>Child Tax Credit</u>:** The child tax credit increases from $1,000 to $2,000 and is phased out at $400,000 for married taxpayers filing jointly and $200,000 for all other taxpayers. A portion of the credit is refundable based upon a certain set of criteria.

 **Child Tax Credits**	**Old Law**	**New Law**
Age of Child	Under Age 17	Under Age 17
Amount per Child	1,000	2,000
Phased out at Adjusted Gross Income of ...		
Married	110,000	400,000
Single	75,000	200,000

5. **<u>Non-Child Dependents</u>:** A new $500 nonrefundable credit for certain non-child dependents is provided.

6. **<u>Kiddie Taxes:</u>** Historically, children under the age of 24 have been subject to tax on unearned income at the parent's highest personal income tax bracket. There were certain deductions against this income. The new law will allow earned income (wages) to be taxed at the single tax bracket. However, unearned income (interest, dividends, capital gains, etc.) will be taxed at the trust tax rates.

Trust Tax Table		
Taxable Income:		Rates
0	2,550	10%
2,550	9,150	24%
9,150	12,500	35%
Over 12,500		37%

7. **<u>Pass-Through Income Deduction</u>:** A taxpayer may be able to take a 20% deduction for qualified business income (QBI) received from a partnership, S corporation, limited liability company (LLC), or sole proprietorship, subject to certain dollar limitations. We believe this appears to indicate that you will be taxed on 80% of your business income.

- Income from service businesses (accounting, legal, etc.) will not qualify for this deduction unless the individual's personal income is below $315,000 (joint) or $157,500 (single)
- Architects and engineers are not considered service businesses and will be able to utilize the deduction
- Rental income and other passive income is excluded from the special deduction. It is for active businesses only.

Business Income Example	**Wage Income**		**Business Income**	
	Old Law	**New Law**	**Old Law**	**New Law**
Total Income	300,000	300,000	300,000	300,000
Itemized Deductions	-40,000	-40,000	-40,000	-40,000
Personal Exemptions	-20,750	n/a	-20,750	n/a
Business Income Deduction	n/a	n/a	n/a	-60,000
Taxable Income	239,250	260,000	239,250	200,000
Total Taxes	53,680	50,980	53,680	36,580
Less Child Tax Credits	0	-6,000	0	-6,000
Net Federal Taxes Paid	53,680	44,980	53,680	30,580
Potential Savings		8,700		23,100

8. **<u>Estate and Gift Taxes</u>:** The base amount for the estate and gift tax exemption has increased. The portability provision from one spouse to another spouse appears to continue.

 **Gift and Estate Taxes**	**Old Law**	**New Law**
Lifetime Exclusion (per person)	$5,600,000	$11,200,000
Annual Giving (per person)	$15,000	$15,000
Top Tax Rate on Taxable Estates	40%	40%

9. **<u>529 Education Plans</u>:** Distributions from 529 plans can be used for tuition at an <u>elementary or secondary public, private, or religious school</u>. A separate 529 Plan must be established for each child with specific distributions specific to that child. The beneficiary can be changed in the future if needed.

Planning Point - Existing 529 plans can be used to pay for this eligible expense in 2018

Planning Point - Contributions to a 529 Plan create a tax credit in PA equal to 3.07% of the contribution. However, there is no federal tax benefit. You could establish a 529 Plan by 12/31/17 and make a contribution. In January, you can withdraw the funds in payment of the remainder of school tuition for the year.

10. **<u>Other Miscellaneous Items</u>**

- **<u>Obamacare Individual Mandate</u>:** Taxpayers will no longer be required to purchase individual health insurance coverage for months beginning in 2019. This means the PENALTY for not having affordable care will be discontinued in 2019 but <u>will remain for 2018.</u>

- **<u>Capital Gains and Qualified Dividends</u>:** Capital gains and qualified dividends will continue to be taxed at the same rates as prior to the new tax bill and at similar income levels.

- **<u>Alternative Minimum Tax (AMT)</u>:** The AMT exemption thresholds have increased, hopefully meaning fewer individuals will be subject to the additional AMT.

- **<u>Moving Expense Deduction</u>:** The moving expense deduction is eliminated except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station.

- **<u>Alimony</u>**: Alimony will not be deductible by the payor spouse nor included in income of the recipient for divorce or separation agreements executed after 12/31/18.

- **<u>Tax Free Moving Expense Reimbursements:</u>** Currently, employers can reimburse employees for certain moving expenses on a tax-free basis. Under the new law, this is disappearing.

Planning Point – If you are waiting on an employer reimbursement in early January 2018, consider requesting that your employer issue the reimbursement by 12/31/17 to receive the money tax free.

Illustration of Impact of Tax Rate, Standard Deduction, and Child Tax Credits

The impact of the various tax changes will affect each of you uniquely. We have created three scenarios to help provide a framework on whether the changes may benefit you. In each case, we have reflected the impact on a taxpayer claiming the standard deduction and a taxpayer claiming itemized deductions.

The illustrations reflect potential tax savings at various levels of income and filing status.

Single Individual	Standard Deduction Old Law	Standard Deduction New Law	Itemized Deductions Old Law	Itemized Deductions New Law
Total Income	60,000	60,000	60,000	60,000
Standard Deduction	-6,500	-12,000	n/a	n/a
or Itemized Deductions	n/a	n/a	-13,000	-13,000
Personal Exemptions	-4,150	n/a	-4,150	n/a
Taxable Income	49,350	48,000	42,850	47,000
Total Federal Taxes	7,990	6,500	6,360	6,280
Potential Savings		1,490		80

Married Couple with No Dependents	Standard Deduction Old Law	Standard Deduction New Law	Itemized Deductions Old Law	Itemized Deductions New Law
Total Income	120,000	120,000	120,000	120,000
Standard Deduction	-13,000	-24,000	n/a	n/a
or Itemized Deductions	n/a	n/a	-25,000	-25,000,
Personal Exemptions	-8,300	n/a	-8,300	n/a
Taxable Income	98,700	96,000	86,700	95,000
Total Federal Taxes	15,980	13,000	12,980	12,780
Potential Savings		2,980		200

Married Filing Jointly with Three Children	Standard Deduction Old Law	Standard Deduction New Law	Itemized Deductions Old Law	Itemized Deductions New Law
Total Income	120,000	120,000	120,000	120,000
Standard Deduction	-13,000	-24,000	n/a	n/a
or Itemized Deductions	n/a	n/a	-25,000	-25,000,
Personal Exemptions	-20,750	n/a	-20,750	n/a
Taxable Income	86,250	96,000	74,250	95,000
Total Taxes	12,870	13,000	10,185	12,780
Less Child Tax Credits	-2,500	-6,000	-3,000	-6,000
Net Federal Taxes Paid	10,370	7,000	7,185	6,780
Potential Savings		3,370		405