

Special Report

Tax Cuts and Jobs Act of 2017

Alvin H. Blitz, Esq.

The new tax law attempts to simplify our lives by doubling the standard deduction and eliminating or limiting a number of itemized deductions. Depending upon your own personal financial circumstances this could be good or bad news for you. Outlined below are some highlights of the individual taxpayer changes and how charitable giving may be impacted by these changes.

Tax Brackets and Tax Rates Change

Most tax filers will see their tax rate will see their tax rate drop in 2018. There are still seven tax rates but the income brackets are modified. It is highly recommended to review what bracket you are now in and how any additional income in 2018 could move you into a higher tax bracket.

The Standard Deduction

Beginning in 2018 the personal exemption increases from \$13,000 to \$24,000 for married couples and from \$6,500 to \$12,000 for single filers. In addition, the additional standard deduction for those 65 and older of \$1,600 for singles and \$1,300 for each spouse remains.

The Personal Exemption

The personal exemption of \$4,150 for each individual is reduced to \$0, thereby eliminating this deduction. However, this loss could be mitigated or even beneficial to those families which can take advantage of the child tax CREDIT of \$2,000 per child under age 17 (remember a credit is better than a deduction since it is a dollar for dollar reduction of your tax liability). And for those that pay little taxes, a refundable amount of up to \$1,400 per child is available. A SSN for each child is required to take advantage of the credit. The phase-out of his credit by AGI was increased to \$400,000 for couples and \$200,000 for individuals.

New Credit for Non-Child Dependents

A new \$500 credit per non-child dependent is also available. This is helpful for college students and children 17 and older. A SSN is not required but an ITIN or ATIN is required.

Miscellaneous itemized deductions subject to 2% floor (Tax prep fees, investment interest and employee business expenses) are eliminated.

Personal Casualty and Theft Losses eliminated/ Wagering Losses Limited

The personal casualty and theft loss deduction is eliminated in 2018 unless it is in a federally declared disaster area. Gambling loss deductions are limited to gambling winnings even if expenses include special expenses such as transportation and fees.

Modified Deductions and Losses (some pertinent provisions)

- Single person or married couple can only itemize up to \$10,000 in state or local property taxes and income taxes
- home equity indebtedness interest deduction is eliminated
- interest deduction on acquisition indebtedness is limited to \$750,000 for any mortgage taken out after December 14, 2017.
- for mortgages dated prior to December 15, 2017, the interest deduction is available for up to \$1M of existing acquisition indebtedness on first and second homes
- Medical expense deductions are available for ALL taxpayers when exceeding 7.5% of AGI for years 2017 and 2018 and then the threshold increases to 10% of AGI in 2019.
- Cash Charitable contributions to qualifying charities are increased from 50% to 60% of AGI

Above the Line Tax Deduction Eliminated, Limited or Modified or Eliminated

- Alimony deduction for payments made under an order dated after December 31, 2018 is eliminated
- Tuition and fees deduction which ended in 2016 was not revived
- Moving Expenses were eliminated except for active military members who relocate pursuant to military orders

Stays the Same

- Educator Expense deduction for up to \$250 of unreimbursed education supplies
- Student Loan Interest deduction of up to \$2,500 for qualifying students
- Health Savings Account Deduction (HSA)
- IRA Deduction
- Deductions for self-employed taxpayers

Repeal of Obamacare Individual Mandate Starting in 2019

Qualified educational expenses under a Section 529 account now include up to \$10,000 per year per student for public, private and religious elementary or secondary schools

Estate and Gift Tax Exclusion was doubled so that one can exclude up to \$11.2M per person from the Federal estate and gift tax

PLEASE BE AWARE THAT ALMOST ALL OF THE ABOVE PROVISIONS SUNSET IN THE END OF 2025

Charitable Giving Observations

Charities to discuss whether a charitable giving strategy may be beneficial for you

1. For those 70 1/2 and older the qualified charitable distribution of all or part of your required minimum distribution to charity each year is even more attractive since such distributions are free of income tax and regular gifts of after-tax cash contributions are less likely to be tax deductible due to the higher standard deduction
2. The exclusion of long term capital gain property such as stock, mutual funds and real estate from taxation is still available making such contributions to charity attractive even if the itemized charitable deduction is not available
3. The funding of life income gifts such as charitable gift annuities and charitable remainder trusts with long term capital gain property can be very attractive strategy for reducing long term capital gains, increasing the chance to itemize your charitable deduction and unlocking income payments for life from such property.
4. REMEMBER. The new law only deals with Federal income, capital gain and estate and gift taxes. If you are a Pennsylvania resident, then up to 15% of your property at your death could be subject to PA Inheritance Tax and certain charitable giving strategies could greatly reduce this exposure.
4. Sign up for "The BLITZ" to receive monthly information on various tax and estate planning topics.
5. RELAX. Enjoy life while you can and don't be too proud to seek advice on what is best for you going forward. We are all in this together. Happy 2018!

Notes

What Should I Do?

1. See your tax advisor to review your personal financial circumstances and develop a tax strategy that is right for you.
2. Review your W-4 for 2018 to see if you should reduce your tax withholding or if you are making estimated tax payments, you may be able to reduce such payments in order to avoid a surprise refund in 2019
3. Contact a gift planner at the Masonic

These results differ from our previous analysis of the original House version of the Tax Cuts and Jobs Act and the original Senate version of the Tax Cuts and Jobs Act, due to the multitude of changes during each chamber's markup process and agreements made during the conference committee.

Changes to the Individual Income Tax

- Lowers most individual income tax rates, including the top marginal rate from 39.6 percent to 37 percent. Retains the current seven-bracket structure, but bracket widths are modified. (Table 1 and Table 2)

Table 1. Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

| Single Filer | | | |
|--------------|---------------------|-----------------------|---------------------|
| Current Law | | Tax Cuts and Jobs Act | |
| 10% | \$0-\$9,525 | 10% | \$0-\$9,525 |
| 15% | \$9,525-\$38,700 | 12% | \$9,525-\$38,700 |
| 25% | \$38,700-\$93,700 | 22% | \$38,700-\$82,500 |
| 28% | \$93,700-\$195,450 | 24% | \$82,500-\$157,500 |
| 33% | \$195,450-\$424,950 | 32% | \$157,500-\$200,000 |
| 35% | \$424,950-\$426,700 | 35% | \$200,000-\$500,000 |
| 39.6% | \$426,700+ | 37% | \$500,000+ |

Table 2. Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

| Married Filing Jointly | | | |
|------------------------|---------------------|-----------------------|---------------------|
| Current Law | | Tax Cuts and Jobs Act | |
| 10% | \$0-\$19,050 | 10% | \$0-\$19,050 |
| 15% | \$19,050-\$77,400 | 12% | \$19,050-\$77,400 |
| 25% | \$77,400-\$156,150 | 22% | \$77,400-\$165,000 |
| 28% | \$156,150-\$237,950 | 24% | \$165,000-\$315,000 |
| 33% | \$237,950-\$424,950 | 32% | \$315,000-\$400,000 |
| 35% | \$424,950-\$480,050 | 35% | \$400,000-\$600,000 |
| 39.60% | \$480,050+ | 37% | \$600,000+ |

Note: The Head of Household filing status is retained, with a separate bracket schedule.

- Indexes tax brackets and other provisions by the chained CPI measure of inflation.
- Increases the standard deduction to \$12,000 for single filers, \$18,000 for heads of household, and \$24,000 for joint filers in 2018 (compared to \$6,500, \$9,550, and \$13,000 respectively under current law).