

Taxes: Tax Cuts and Jobs Act (TCJA) of 2017

Corporate tax: Cut from 35% maximum in 2017 to 21% maximum in 2018

Pass-Thru entities

New 20% deduction for certain pass-thru entities such as LLPs, LLCs, etc. Talk to your attorney.

Individual taxes; most provisions expire on December 31, 2025

2017			2018		
Rate	Single	MFJ	Rate	Single	MFJ
10%	\$0 - \$9,325	\$0 - \$18,650	10%	\$0 - \$9,525	\$0 - 19,050
15%	\$9,326 - \$37,950	\$18,650 - \$75,900	12%	\$9,526 - \$38,700	\$19,051 - \$77,400
25%	\$37,950 - \$91,900	\$76,900 - \$153,100	22%	\$38,701 - \$82,500	\$77,401 - \$165,000
28%	\$91,900 - \$191,650	\$153,100 - \$233,350	24%	\$82,501 - \$157,500	\$165,001 - \$315,000
33%	\$191,650 - \$416,700	\$233,350 - \$416,700	32%	\$157,501 - \$200,000	\$315,001 - \$400,000
35%	\$416,700 - \$418,400	\$416,700 - \$470,700	35%	\$200,001 - \$500,000	\$400,001 - \$600,000
39.6%	\$418,400+	\$470,700+	37%	\$500,001+	\$600,001+

The 0.9% additional **Medicare tax** and 3.8% surtax on **net investment income** (NII) are unchanged, and apply to singles with incomes above \$200,000 and MFJ files above \$250,000.

Short-term gains and non-qualified dividends are still taxed as ordinary income in TCJA

Long-term capital gains and qualified dividends

Rate	2017		2018	
	Single	MFJ	Single	MFJ
0%	Taxpayers in 15% bracket or lower		Taxable inc. below \$38,600 / \$77,200 maximum	
15%	Taxpayers in 25% - 35% bracket		Taxable income up to \$425,800 / \$479,000	
20%	Taxpayers in 39.6% bracket		Taxable income over \$425,800 / \$479,000	
	Standard deduction			
	Additional ... age 65+			
	Additional ... blind			
	Itemized deductions			
	Medical expenses	>10% of AGI		>7.5% of AGI (>10% in 2019+)
	HELOC interest	Interest on \$1M loan maximum		Interest on \$750,000 total loan maximum
	Cap on state/local income tax +property tax +sales tax	None		\$10,000 for single and MFJ filers
	Miscellaneous deductions	>2% of AGI		No longer deductible
	Deduction phaseout	\$261,500 \$313,800		Not applicable
	Personal exemption	\$4,050		\$0
	AMT exemption amount	\$54,300 \$84,500		\$70,300 for singles, \$109,400 for MFJ
	Estate taxes	40%		40%
	Exclusion	\$5.6M per spouse (portable)		\$11.2M per spouse (portable)

Challenge: How do you do estate planning (inherently long range) with a tax law that sunsets in 7 years? Hint: There's a lot more to estate planning than saving taxes.

Deduction bunching

Pulling deductions into a year when you plan to itemize may save on taxes; then take the standard deduction the following year.

A **Donor Advised Fund**, DAF, may be a great tool to help bunch charitable deductions.

Inflation adjustment for breakpoints, deductibles, etc.

TCJA switches from a traditional CPI adjustment for inflation to a chained CPI; slower rate of price increases.

Alimony payments used to be deductible for the paying spouse, and declared as income by the receiving spouse. With the TCJA the paying spouse can no longer deduct the payments, and the receiving spouse need not declare them as income.

Tax Diversification	<u>Traditional IRA</u>	<u>Taxable Account</u>	<u>Roth IRA</u>
Contributions taxed as	Deductible	Ordinary income	Ordinary income
Distributions taxed as	Ordinary income	Ord. income / Cap gains	No tax
Inheritance taxed as	Ordinary income	Step-up in basis	No tax
Fixed income / Non-qual divs CDs, bonds, value stocks, etc.	*****	*	*
Stocks/Qualified dividends Everything else !	***	***	***
High growth / Non-qual divs REITs, Small caps, Emerg.Mkts, etc.	*	*	*****

Roth IRAs

Recharacterization of a Roth IRA conversion has been repealed effective immediately
..... except a conversion made in 2017 can still be recharacterized up to the tax-filing date in 2018.

Qualified Charitable Distributions, QCDs

Very tax-efficient way to make charitable donations from your traditional IRA; must be over 70½
Make donation directly from your IRA to an accredited charity; counts towards your RMD
Pay no taxes on the withdrawal; does not add to your AGI, no impact on Medicare charges
Cannot be used with a Donor Advised Fund, DAF

Alternative #1 to QCD

Take RMD from traditional IRA; use some/all RMD to make charitable donation to DAF
RMD will add to your AGI which may bump you into a higher Medicare bracket ...
... but charitable donation is deductible and does not increase taxable income

Alternative #2 to QCD

Make charitable donation from appreciated stock in your taxable account
Avoid paying capital gain tax; You get a deduction of the full value of the stock ...
... but your AGI may bump you into a higher Medicare bracket

Final take-away: Don't let the tax tail wag the financial planning dog!

Risk Management / Insurance: May 9th, 2018

Estate Planning: June 13th, 2018

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