Taxes

Tax Cuts and Jobs Act (TCJA) of 2017: Major changes in Federal law, but CA did not follow suit.

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

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
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

	2017 Single	2017 MFJ	2018 Single	2018 MFJ
Standard deduction	$6,350	$12,700	$12,000	$24,000
Additional … age 65+	$1,550	$1,250	$1,600	$1,300
Additional … blind	$1,550	$1,250	$1,600	$1,300

Itemized deductions

	2017	2018
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 (Single) / $313,800 (MFJ)	Not applicable

	2017	2018
Personal exemption	$4,050	$0
AMT exemption amount	$54,300 / $84,500	$70,300 for singles, $109,400 for MFJ

Pass-Thru entities

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

	2017	2018
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.

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 after January 1, 2019.

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.

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

Tax Diversification	**Traditional IRA**	**Taxable Account**	**Roth IRA**
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.

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

Risk Management / Insurance: March 13th, 2019 **Social Security/Medicare**: April 10th, 2019

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