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Summary of the Provisions of the Tax Cuts and Jobs Act

Below is a brief summary of some of the most commonly referenced provisions of the new Tax Cuts and Jobs Act. This is not a complete summary of all changes under the new law, and your personal tax situation will depend on a number of factors, including your income and filing status. If you have any questions or comments after reviewing this summary, please contact your counsel at Conn Kavanaugh for additional guidance and clarification.

Estate and Gift Taxes

Estate Tax Exclusion and Rate.

The basic exclusion amount increases for both lifetime gifts and at death dispositions to $11.2 million per individual (subject to inflation adjustment) and $22.4 million per married couple. Absent additional legislative action, the exclusion amounts will revert back to the lower thresholds in 2025. The maximum federal tax rate remains unchanged at 40%.

Annual Exclusion Gifts.

The amount you can give to any individual and not have it counted against your lifetime basic exclusion amount increases to $15,000 annually per individual donee.

Actions to Consider

- Make large gifts either directly or to irrevocable trusts before the sunset date in 2025.
- Don't overlook the continued need for Massachusetts tax planning as Massachusetts law has not changed (the exclusion amount in Massachusetts remains at $1 million per individual).

Individual Income Taxes

In General.

The new tax law appears on its face to offer federal tax cuts for many taxpayers, with a reduction in the tax rate for 5 of the 7 tax brackets and a shift in the levels of income at which each bracket kicks in. For example, the highest marginal rate in 2017 was 39.6% and applied to taxable income over $470,00 for Married Filing Jointly (MFJ), $444,550 for Head of Household (HOH), and $418,400 for Single filers. In 2018, the highest marginal rate is 37% and applies to taxable income over $600,000 for MFJ ($500,000 for HOH and Single). In practice, however, whether or not you will enjoy a lower tax liability in 2018 will depend on your specific circumstances, as highlighted below.

Deductions, Exemptions, and Credits.

If you take the standard deduction. The standard deduction nearly doubles for all filers – to $24,000 from $12,700 for MFJ, to $18,000 from $9,350 for HOH, and to $12,000 from $6,350 for Single.

If you itemize deductions. Itemized deductions are now more limited:

- The deduction for state and local taxes (e.g. real estate taxes, state income taxes, auto excise taxes) is now capped at $10,000. Foreign real property taxes are no longer deductible.
- The deduction for interest on mortgages is now limited to indebtedness up to $750,000 (down from $1,000,000), with grandfathering for mortgages in existence prior to December 15, 2017. The new law still allows for indebtedness on a taxpayer's primary residence and one other residence. The deduction for interest on home equity loans, which was previously allowed for up to $100,000 of home equity indebtedness, no longer applies.
- Miscellaneous itemized deductions in excess of 2% of adjusted gross income (AGI) are no longer deductible.

If you have dependent children. Personal exemptions (including dependency exemptions) are no longer allowed. In 2017, the exemption was $4,050 per person and phased out at certain income thresholds. The child tax credit, however, increases to $2,000 from $1,000 per child and is now fully allowed for modified adjusted gross income (MAGI) up to $400,000 for MFJ

($200,000 for HOH and Single). In 2017, the credit began to phase-out where MAGI was above $110,000 for MFJ ($75,000 for HOH and Single).

Other Taxes.

If you have investment income. The rates on long term capital gains and qualified dividends (0%, 15%, or 20% depending on your level of income) have not changed, but the income levels associated with the rates have increased slightly. The 3.8% net investment tax on investment income for taxpayers with MAGI over $250,000 for MFJ ($200,000 for HOH and Single) remains unchanged.

If you are subject to the alternative minimum tax (AMT). The AMT exemption increases to $109,400 from $84,500 for MFJ (to $70,300 from $54,300 for HOH and Single). In addition, the phase-out of the AMT exemption increased dramatically, to $1,000,000 from $160,900 for MFJ (to $500,000 from $120,700 for HOH and Single).

Business Related.

If you own your own business. Individuals business owners are now entitled to a deduction equal to 20% of qualified business income, which includes income from sole-proprietorships, partnerships, S corporations, and limited liability companies (LLCs). The deduction applies on a per-business basis, not a per-taxpayer basis, and is subject to limitations depending on your income. Certain types of service businesses, notably, the health, law, and accounting fields, are excluded from taking the deduction in certain circumstances. Also, the new tax law changed the 50% deduction for business related meals and entertainment. While the 50% deduction for meals still applies, business related entertainment expenses are no longer deductible.

Actions to Consider.

- Understand how different types of income will be taxed in 2018 to ensure that tax implications are considered prior to taking any action.
- Re-evaluate whether the payment of certain expenses will result in tax savings, and consider aggregating deductions in alternate years to maximize the benefit.
- Review how your business is organized, as planning opportunities may exist depending on the type of entity used.
- Have a plan for any tax savings: use the savings to invest or to pay down debt.