Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Donald Trump signed into law H.R. 1, the Tax Cuts and Jobs Act of 2017 (TCJA). This new tax legislation, 185 pages in length, is the most significant revision to U.S. federal tax law since the Tax Reform Act of 1986. To some degree, almost every individual and business in the United States will be affected by it.

What follows is a *very* brief summary of some of the more notable individual and small business provisions contained in the TCJA. You can use this summary to begin talking with your clients about the changes in the new law and to review with each client how this legislation may affect his or her (or their) situation.

Because many clients will be impacted by the changes made to itemized deductions, we have attached at the end of this report a "guesstimate" of what Schedule A may look like for 2018. Please pay careful attention to the "Notes" at the end of the form.

Provisions Affecting Individual Taxpayers

Except where noted, all provisions are effective January 1, 2018 and "sunset" on December 31, 2025, when prior law will apply.

- **Pass-through income**: An individual taxpayer generally may deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20% of aggregate qualified REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income.
- **Alimony**: Generally, effective for any divorce or separation instrument executed after December 31, 2018, alimony will no longer be deductible by the payor, and alimony payments will no longer be includable in income by the recipient. This change is permanent.
- **Standard deduction:** TCJA temporarily increases the size of the standard deduction. For 2018, the standard deduction will be $24,000 for joint filers, $18,000 for heads of household, and $12,000 for all other taxpayers. The additional standard deduction for the elderly and blind remains the same.
- **"Chained" inflation adjustments:** The new Act specifies that inflation adjustments to a number of income tax items be made using a "chained" CPI-U, or C-CPI-U. The CPI-U is the Consumer Price Index for All Urban Consumers, a standard measure of inflation

calculated by the Bureau of Labor Statistics. Historically, the C-CPI-U has resulted in a smaller amount of calculated inflation than the CPI-U. This is a permanent change.

- **Personal Exemptions:** The Act suspends the deduction for personal and dependent exemptions.
- **Medical expense deduction floor:** For 2017 and 2018, the medical expense deduction floor is set at 7.5% of adjusted gross income (AGI) for all taxpayers. This 7.5% threshold also applies for purposes of the individual alternative minimum tax (AMT).
- **State and local taxes:** Generally, a taxpayer (individuals and married couples) may claim an itemized deduction of up to $10,000 ($5,000 for married filing separately - MFS) for the aggregate of personal state and local property taxes, state and local income taxes, war profits, and excess profits taxes. In place of state and local income taxes, a taxpayer may deduct state and local sales tax.
- **Home mortgage interest:** Under the TCJA, a taxpayer may treat as “acquisition indebtedness,” and thus deduct the interest on, up to $750,000 ($375,000 for MFS), on up to two homes. For acquisition indebtedness incurred before December 15, 2017, a taxpayer may treat up to $1,000,000 ($500,000 MFS) as acquisition indebtedness. For tax years beginning after December 31, 2025, a taxpayer may treat up to $1,000,000 ($500,000 for MFS) of debt as acquisition debt, regardless of when acquired. Further, the Act suspends the deduction for interest paid on home equity debt.
- **Itemized deduction subject to the 2.0% of AGI floor:** The Act suspends all current-law deductions subject to the 2.0% of AGI floor. Such deductions include expenses for the production or collection of income, tax preparation expenses, investment interest expense, and unreimbursed employee expenses.
- **Overall limit on itemized deductions:** The overall limitation on itemized deductions (the “Pease” limitation) is suspended.
- **Individual alternative minimum tax (AMT):** TCJA modifies the individual AMT by increasing the AMT exemption amount for 2018 to $109,400 for taxpayers filing jointly, $54,700 for MFS, and $70,300 single and head of household (HOH). The Act also increases the exemption phase-out threshold to $1,000,000 for MFJ, and $500,000 for MFS, HOH, and single. These amounts are indexed for inflation in future years.

- **Patient Protection and Affordable Care Act (PPACA) – individual mandate:** The Act reduces the penalty for not having minimum essential coverage as required under the PPACA to zero. This provision is permanent and is effective with respect to health coverage status for months beginning after December 31, 2018.

- **Individual tax rates and brackets:** TCJA provides a new individual tax rate structure, of 10%, 12%, 22%, 24%, 32%, 35%, and 37%. For estates and trusts, the new structure will be 10%, 24%, 35%, and 37%.

- **Child tax credit:** The new law temporarily increases the child tax credit to $2,000 per child and also provides for a $500 nonrefundable credit for qualifying dependents other than qualifying children. Any refundable credit is limited to $1,400 per qualifying child. The credit phase-out limits are increased to $400,000 (MFJ) and $200,000 for all other taxpayers.

- **Estate and gift tax exemption:** TCJA doubles the estate and gift tax exemption for estates of decedents dying and gifts made after December 31, 2017 and before January 1, 2026. This is achieved by doubling the basic exclusion amount specified in IRC Sec. 2010(c)(3) from $5,000,000 to $10,000,000, with the $10,000,000 amount being adjusted for inflation for years after 2011. In Revenue Procedure 2018-18, the IRS announced that the individual estate and gift tax exemption for 2018 would be $11,180,000. For a married couple, this would be equal to $22,360,000.

Provisions Affecting Business Taxpayers

- **Reduction in corporate tax rate:** The new law eliminates the graduated corporate income tax rate structure and instead taxes corporate taxable income at 21%. The provision is permanent and applies to tax years beginning after December 31, 2017.

- **Repeal of corporate AMT:** TCJA repeals the corporate alternative minimum tax. The provision is permanent and applies to tax years beginning after December 31, 2017.

- **Bonus depreciation:** The new Act allows for 100% first-year "bonus" depreciation for specified new and used business property. The 100% deduction allowance applies to property (including specified plants) acquired and placed in service after September 27, 2017 and before January 1, 2023 (January 1, 2024 for certain, longer-lived property). The 100% allowance is phased down by 20% per calendar year for property placed in service in tax years beginning after 2022 (2023 for certain longer-lived property).

- **Section 179 Expensing:** TCJA increases the maximum amount a taxpayer may expense under IRC Section 179 to $1,000,000, and increases the phase-out threshold amount to $2,500,000. The provision expands the definition of Section 179 property and provides that the $1,000,000 and $2,500,000 amounts be indexed for inflation for tax years after 2018. The provision is permanent and applies to property placed in service in tax years after December 31, 2017.

- **Net Operating Loss (NOL) Deduction:** A net operating loss (NOL) generally means the amount by which a taxpayer's business deductions exceed its gross income. The new Act limits the deduction for an NOL to 80% of taxable income (determined without regard to the deduction), eliminates the current two-year carryback, and allows for an indefinite carryforward. The provision is permanent and applies to tax years beginning after December 31, 2017.

- **Deduction of business interest paid:** TCJA generally limits the deduction for business interest paid to the sum of business interest income plus 30% of the taxpayer's adjusted taxable income. Exceptions are provided for "small" businesses (average gross receipts less than $25 million in three prior tax years), a real property trade or business, "floor plan" financing (such as for a car dealer), and certain regulated public utilities. Unused interest deductions may generally be carried forward indefinitely. The provision is permanent and applies to tax years beginning after December 31, 2017.

- **Domestic Activities Production Deduction:** The Act repeals the deduction for income attributable to domestic production activities. The provision is permanent and applies to tax years beginning after December 31, 2017.

- **Research and Experimentation Expenditures:** Under the TCJA, research and experimental expenditures are required to be amortized ratably over a 5-year period. Expenditures attributable to research and experimentation performed outside the U.S. must be amortized over a 15-year period. The provision is permanent and applies to expenditures made after December 31, 2021.

2018 Itemized Deductions under the TCJA of 2017

This is NOT an official IRS Worksheet.
It should be used only to estimate allowable itemized deductions for 2018.

	MEDICAL EXPENSES		
1	Medical and Dental Expenses	$	
2	Adjusted Gross Income:	$	
3	Multiply Line 2 by 7.5% (0.075)	$	
4	Subtract Line 3 from Line 1		$
	TAXES YOU PAID		
5	State & Local Income or Sales Taxes	$	
6	Real Estate Taxes	$	
7	Personal Property Taxes	$	
8	Other Taxes	$	
9	Add Lines 5 -8		$
	INTEREST YOU PAID		
10	Home Mortgage Interest	$	
11	Investment Interest	$	
12	Add Lines 10 - 11		$
	GIFTS TO CHARITY		
13	Gifts by Cash or Check	$	
14	Gifts Other Than by Cash or Check	$	
15	Carryover from Prior Year	$	
16	Add Lines 13 - 15		$
	CASUALTY AND THEFT LOSSES		
17	Casualty & Theft Losses		$
	OTHER MISCELLANEOUS DEDUCTIONS		
18	Other Miscellaneous Deductions		$
	TOTAL ITEMIZED DEDUCTIONS		
19	Add lines 4, 9, 12, 16, 17, and 18		$

Notes

Line 5	You may include either state and local income taxes or state and local sales taxes, but not both.

Notes	
Line 9	Limited to no more than $10,000 ($5,000 if filing Married Filing Separately).
Line 10	Under the TCJA, a taxpayer may treat as "acquisition indebtedness," and thus deduct the interest on, up to $750,000 ($375,000 for Married Filing Separately - MFS) on up to two homes. For loans incurred before December 15, 2017, a taxpayer may treat up to $1,000,000 ($500,000 for MFS) of debt as acquisition debt.
Line 17	A taxpayer may claim a personal casualty loss only if such loss was attributable to a disaster declared by the President under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act.
Line 19	There is no overall limitation on the dollar amount of itemized deductions that may be claimed.