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Impact on Individual Taxpayers from the Tax Cuts and Jobs Act

December 22, 2017 was a historic day with President Trump signing into law the most expansive tax code changes since the **Tax Reform Act of 1986**. The cumulative impact of the new law through 2025 is estimated to decrease federal revenue by $1.47 Trillion ($5.5T in tax cuts, $4.0T in tax increases) with 339,000 additional full-time equivalent jobs created. While nearly all Americans who take the standard deduction should see their actual tax paid go down, many middle to upper income bracket taxpayers may actually see an effective tax rate increase or non-effect due to the limitation or outright repeal of many deductions. Thus, the ultimate measure of the effectiveness of this legislation will be its impact on the strength of the American economy in terms of GDP acceleration and jobs growth.

Estate planning sees the most dramatic change with the doubling of the gift and estate exclusion amount to $11.2 million per person in 2018. To put this in perspective, prior to the Bush tax cuts (**EGTRRA of 2001**) over 52,000 decedents annually paid some estate tax. Fast-forward less than two decades and only 1,800 filers are projected to have a federal estate tax liability in 2018 – just 3.5% of the previously exposed families. Also, the annual gift "de minimis" exclusion has finally inched up to $15,000 per spouse, per child due to inflation.

It is important to note that most provisions included in the new law are **effective 1/1/2018** and **sunset after Dec. 31, 2025**. Although, it is possible (if not probable) that a future session of Congress will draft new legislation prior to that date. Even though the Bush tax cuts were left intact, that should not be assumed this time around with the Republicans tenuous control of both the Senate and House of Representatives with a number of spots open in the midterm elections of 2018.

The hotly debated cost basis rules on capital transactions were left unchanged after a proposed FIFO basis adjustment was dropped in the reconciliation process – a win for taxpayers. There are dramatic changes to the former "kiddie tax" rules applying to dependent children up to age 19 (or 23 if full-time student). By now applying kids' income to the also updated estate and trust marginal brackets going forward, this should benefit most parents with children who have considerable passive income through family trusts or custodial accounts. Under previous law, over $2,100 in passive income was taxed at the parent's top rate. Under the new law, the first $9,150 of child's unearned income would be taxed at a maximum rate of 25%, which would present a discount for most clients.

One final word of caution: If you rushed to prepay 2018 property taxes without checking with your county collector's office, you may find that your check could be returned or the prepayment still may not result in **tax deductibility on your 2017 tax return** (if assessment period was never officially opened by the county). This is a delicate matter to discuss with your county assessor's office and CPA prior to filing your 2017 income tax return.

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Regarding the investment impact of this long awaited legislation, many sectors should benefit due to the C-corporation reduction in tax rates from 35% to 21% and the elimination of *corporate* AMT. But it is hard to predict how much of the tax relief expectation was already priced into the recent stock market ascent. Further, some industries may be hampered by the dramatic changes on the corporate tax front related to interest expense and depreciation deductions. We will currently focus on the known impacts of the new law pertaining to individual tax filers -- Form 1040. There will be future releases on the law pertaining to small business owners and pass-through entities.

It is interesting to note how nearly every benefit of the new tax law came with a related potential drawback. Thus, we will present a table of each significant change resulting from the new law. For full details of brackets by filing status and for enhanced commentary, see the attached 3 page overview.

POSITIVE	NEGATIVE
1. Reduced marginal rate of ~3% at each bracket	Single filer "penalty" from 200 – 425K income
2. Larger standard deductions (nearly double)	Personal exemptions repealed
3. PEASE limits repealed on Sch. A deductions	Misc. deductions gone; all taxes capped at 10K
4. Healthcare mandate of coverage dropped in 2019	3.8% ACA passive income/gain surtax remains
5. Higher AMT threshold and phase-outs	NOL carry backs gone; C/F limited to 80% income
6. Mortgage interest deduction grandfathered	Reduced to 750K new loans; HELOC not deductible
7. 529 Plan funds 10K can be tapped before college	Should still defer to late years to maximize tax-free
8. REIT dividends eligible for 20% QBI deduction	REITs price sensitive to interest rate/inflation surge
9. Like kind exchanges (Sec. 1035) still allowed	No longer applies to personal property, artwork
10. Life insurance sale/surrender Rev. Rul. 2009-13	Reduces taxes due but may not be optimal choice

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