Tax Cuts and Jobs Act of 2017

How will this affect our clients in 2018 and beyond?
Introduction

• The Act was signed December 22, 2017 by President Trump

• Represents the most comprehensive tax reform since 1986
  - 1986 – Reagan’s massive & comprehensive federal tax overhaul
  - 2001 – Bush passed major tax cut (but not overhaul of the code)

• Following changes are effective Jan 1, 2018 (not retroactive)
<table>
<thead>
<tr>
<th>Rate</th>
<th>Individuals</th>
<th>Married Filing Jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>Up to $9,525</td>
<td>Up to $19,050</td>
</tr>
<tr>
<td>12%</td>
<td>$9,526 to $38,700</td>
<td>$19,051 to $77,400</td>
</tr>
<tr>
<td>22%</td>
<td>38,701 to $82,500</td>
<td>$77,401 to $165,000</td>
</tr>
<tr>
<td>24%</td>
<td>$82,501 to $157,500</td>
<td>$165,001 to $315,000</td>
</tr>
<tr>
<td>32%</td>
<td>$157,501 to $200,000</td>
<td>$315,001 to $400,000</td>
</tr>
<tr>
<td>35%</td>
<td>$200,001 to $500,000</td>
<td>$400,001 to $600,000</td>
</tr>
<tr>
<td>37%</td>
<td>over $500,000</td>
<td>over $600,000</td>
</tr>
</tbody>
</table>
## Long-Term Capital Gains & Qualified Dividends Rate
### Individuals Married Filing Jointly

<table>
<thead>
<tr>
<th>Long-Term Capital Gains &amp; Qualified Dividends Rate</th>
<th>Individuals</th>
<th>Married Filing Jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>Up to $38,600</td>
<td>Up to $77,200</td>
</tr>
<tr>
<td>15%</td>
<td>$38,600-$425,800</td>
<td>$77,200-$479,000</td>
</tr>
<tr>
<td>20%</td>
<td>Over $425,800</td>
<td>Over $479,000</td>
</tr>
</tbody>
</table>
Capital Gains (continued)

• Net investment income tax of 3.8% still applies
  o AGI > $250K (MFJ), or $200K (Single)

• Short term capital gains are still taxed as ordinary income
Deductions

• Combined property & state income tax deduction limited to 10K

• Medical expense deduction for 2017 & 2018 (AGI floor still applies)
  - 7.5% of AGI for 2017 & 2018
  - 10% of AGI for 2019 and beyond

• All miscellaneous itemized deductions are repealed
  • Includes tax prep fees and investment advisory fees

• Gambling losses are allowed (up to gambling income)
Deductions (continued)

- Mortgage debt limit of $750K to deduct mortgage interest
  - For new mortgages taken out after 12.15.17
  - Pre-existing mortgages are grandfathered at $1M limit

- HELOC interest will no longer be deductible after 2017
  - HELOC used for improvements OK
  - HELOC funds used for ANY other purpose are non-deductible
    - College
    - Credit Cards
    - Student Loans
Standard Deduction vs. Itemized Deduction

- Standard deduction doubles from prior year
  - 24K MFJ
  - 12K Single
- However, exemptions are eliminated
- Standard deduction or Itemized Deduction?
  - The greater of the two will be the deductible amount on tax return
- Most affected will be for families with 2+ children (but Child Tax Credit may alleviate some of this)
Children

• Child Tax Credit increased to $2K/per child
  o Refundable portion $1,400/per child
  o New $500 credit for college-aged children, or dependent parents
  o AGI begins to phaseout at $400K MFJ ($200K single)
    ▪ Complete phase out when AGI reaches $440K MFJ (240K single)
    ▪ Applicable to both credits

• Kiddie taxes on unearned income will use trust tax rates, not parent’s rates (unearned income threshold is relatively unchanged at $2,100)
  o Highest tax bracket kicks in at $12,500 taxable income
  o Caution to clients that have UTMA or UGMA accounts
Other changes

• AMT remains for individuals (repealed for corporations only)
  o Exemption increased substantially
  o Thresholds have changed to hopefully catch less people

• Estate & gift tax exemption increases to $11.2 million (individual) and $22.4 million (MFJ)

• Annual gift tax exclusion is $15K for 2018

• Recharacterizations of Roth conversions repealed
  o Ok to correct excess contributions
Other changes (continued)

• Withholding tables have been updated for 2018 changes

• CAUTION: don’t assume these tables will estimate tax liability correctly, especially if:
  o Two spouses working
  o More than 2 kids
  o Unrelated tax event (large capital gains, sold real estate, business income, etc)
Businesses

• Changes are extremely complex
• Corporate tax rate – flat 21%
• Passthrough deduction of 20% (complex calculation)
  - Schedule C
  - LLC (not electing to be taxed as C corp)
  - Partnership
  - S corporation
  - Rental activity
• Accelerated expensing for business assets
CA Conformity

• CA must approve via legislative action to conform to new Federal tax changes

• As of now, CA does not conform to any of the aforementioned tax reform changes

• As always, CA does not have a 0% cap gain rate
  o Cap gains will be taxed at ordinary CA tax rates

• Electric vehicles (can depend on year, make and model)
  o CA offers a rebate, soon to be out of money though
  o Federal tax credit of up to $7,500 still applies
How can RFA help in 2018 and beyond?

- Charitable contribution planning – i.e. use of donor advised funds every other year to maximize tax benefit

- Roth conversions – standard deduction just doubled, and tax rates are lower. Is this a good year for conversion?

- Are muni bonds still appropriate?

- College planning – UTMA vs. 529 plans

- Portfolio management – asset allocation, efficient placement of assets to maximize tax efficiency and provide cash flow for retirement