THE TAX CUTS AND JOBS ACT GUIDE

Tax reform quick reference guide: An overview of changes to federal tax law

As you prepare for tax season, this supplemental guide can help you review key details and changes surrounding the Tax Cuts and Jobs Act (TCJA), which was signed into law at the end of 2017. See what made the final version and what you need to know.

Fast Facts: Individual Taxpayers

Under the new law:

- There are no personal or dependent exemptions
- Standard deductions are nearly doubled
- Lower rates and different income thresholds apply to individuals
- Three capital income thresholds are applied to maximum taxable income levels

Tax credits and deductions highlights for individuals

New deduction for individuals who have qualified business income
Effective January 1, 2018, through December 31, 2025, there's potentially a 20% deduction for individuals who have qualified business income from a partnership, S corporation, or sole proprietorship. This deduction also applies to REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income.

Child tax credit
The credit has increased to $2,000 per qualifying child; the threshold at which the credit begins to phase out is increased to $400,000 for married taxpayers filing a joint return and $200,000 for other taxpayers. The new rules include a $1,400 refundable child tax credit.

State and local taxes deduction
Individuals can deduct up to $10,000—or $5,000 for married taxpayers filing separately—in state and local income or property taxes.

Mortgage interest deduction
The ceiling of acquisition indebtedness has been reduced to $750,000, unless the indebtedness incurred before December 15, 2017, where the limitation is still $1 million. This reduced ceiling is in effect from January 1, 2018, to December 31, 2025.

Home equity interest deduction
The home equity loan interest deduction was repealed through December 31, 2025. Home equity interest that qualifies as acquisition debt (secured by the principal residence and incurred in acquiring, constructing, or substantially improving the home) and is less than the $750,000 limit noted previously would still be deductible.

Miscellaneous itemized deductions
The new law suspends all deductions that were subject to the 2% adjusted gross income (AGI) limitation (e.g., tax preparation fees, safe deposit box, etc.).

Pease limitations for high-income taxpayers who itemize their deductions
The phase-out also goes away through December 31, 2025.

Charitable contributions
Income-based percentage limit for charitable contributions of cash to public charities has increased to 60%.

Fast Facts: Estates and Trusts

Income tax brackets for estates and trusts

Rate	Estate and Trusts
10%	Up to $2,550
24%	$2,551–$9,150
35%	$9,151–$12,500
37%	Over $12,500

Long-term capital gains and qualified dividends rates

For 2018, the 15% tax rate applies to net capital gains for estates and trusts with taxable income over $2,600. The 20% tax rate applies to net capital gains when taxable income amounts exceed $12,700. For tax years 2019 through 2025, this amount will be adjusted for inflation.

Estate/gift exemptions

Estate and gift tax exemptions
For decedents who pass away in 2018, the basic exclusion amount for determining the unified credit against estate tax is $11,180,000. This exemption will be indexed for inflation and will revert to pre-TCJA levels for years starting January 1, 2026.

The annual **gift tax exclusion** for 2018 is $15,000.

Fast Facts: Business

Tax credits and deductions highlights for business

The new corporate tax rate is 21%.

Domestic production activity deduction
This is repealed for tax years beginning after December 31, 2017.

Entertainment and transportation expenses

The tax act modifies the provision to disallow any deduction for activities generally considered to be entertainment, leisure, amusement, or recreation; membership dues with respect to any club organized for business, pleasure, recreation or social purposes; and facilities used for the previous two items. ***Note****: Guidance is sought regarding a clearer definition of "entertainment" under the new law to the IRS.*

Deductibility of interest expense

The deduction for business interest is limited to the sum of the following: business interest income, 30% of the adjusted taxable income (as defined in the new law), and the floor plan financing interest. ***Note****: Certain caveats apply to this new rule and calculations can be tricky, especially regarding tiered structures.*

Bonus depreciation

Taxpayers can claim a 100% first-year deprecation deduction on qualified property. In 2023, there will be a phase out of 20% per year until 2027, when the first-year depreciation will be 0%. In addition, used property now is considered qualified property.

Sec. 179 expensing

The maximum Sec. 179 deduction has been increased to $1 million with the phase-out threshold for acquired property being $2.5 million. These amounts are indexed for inflation beginning after 2018. The provision also expands the definition of eligible Sec. 179 property.

Auto depreciation limits

The limitations on depreciation for listed property is changed to: $10,000 first year, $16,000 second year, $9,600 third year, and $5,760 for subsequent years.

Fast Facts: Tax Planning Tips

Consider the benefits of **bunching deductions**, especially charitable contributions, to see the potential benefit of maximizing deductions in certain years. Your clients may see the benefit of coordinating years of itemized deductions with years of standard deductions over a multi-year period.

- With changes to qualified education expenses that can be paid from a Sec. 529 plan, **revisit education planning** for dependents or grandchildren.
- **Consider a Roth IRA conversion** for potential tax savings. However, be careful about new re-characterization rules.
- It's vital that small business owners understand how their current business structure affects their taxes. Every client's situation is different. Therefore, it's advisable to **do an analysis for your business clients** to help them determine if a change in entity structure is appropriate.