DVI
DAVID VAUGHAN INVESTMENTS

Highlights of the New Tax Reform Law

The new tax reform law, commonly called the "Tax Cuts and Jobs Act" (TCJA), is the biggest federal tax law overhaul in 31 years. Below are highlights of some of the most significant changes affecting individual and business taxpayers. Except where noted, these changes are effective for tax years beginning *after* December 31, 2017.

Individual Income Tax Rates

Current Law

	Taxable Income	
Tax Rate	*Joint Return*	*Individual*
10%	not > $ 18,650	not > $9,325
15%	> $ 18,650	> $ 9,325
25%	> $ 75,900	> $ 37,950
28%	> $ 153,100	> $ 91,900
33%	> $ 233,350	> $ 191,650
35%	> $ 416,700	> $ 416,700
39.6%	> $ 470,700	> $ 418,400

Standard Deduction

Married Filing Jointly	$	12,700
Head of Household	$	9,350
Single	$	6,350

2018

	Taxable Income	
Tax Rate	*Joint Return*	*Individual*
10%	not > $ 19,050	not > $9,525
12%	> $ 19,050	> $ 9,525
22%	> $ 77,400	> $ 38,700
24%	> $ 165,000	> $ 82,500
32%	> $ 315,000	> $ 157,500
35%	> $ 400,000	> $ 200,000
37.0%	> $ 600,000	> $ 500,000

Standard Deduction

Married Filing Jointly	$	24,000
Head of Household	$	18,000
Single	$	12,000

LT Capital Gain & Qualified Dividend Income

Current Law

	Taxable Income	
Tax Rate	*Joint Return*	*Individual*
10%	not > $ 75,900	not > $ 37,950
15%	> $ 75,900	> $ 37,950
20%	> $ 470,700	> $ 418,400

2018

	Taxable Income	
Tax Rate	*Joint Return*	*Individual*
10%	not > $ 77,200	not > $ 38,600
15%	not > $ 479,000	not > $ 425,800
20%	> $ 479,000	> $ 425,800

Net Investment Income tax for taxpayers with a modified adjusted gross income over $250,000 for married couples and 200,000 for individuals is maintained under the new legislation.

Estates and Trusts

Current Law

Tax Rate	Taxable Income
15%	not > $ 2,550
25%	> $ 2,550
28%	> $ 6,000
33%	> $ 9,150
39.6%	> $ 12,500

2018

Tax Rate	Taxable Income
10%	not > $ 2,550
24%	> $ 2,550
35%	> $ 9,150
37%	> $ 12,500

Individuals
Valid through 2025

- Elimination of personal and dependent exemptions
- Doubling of the child tax credit to $2,000 and other modifications intended to help more taxpayers benefit from the credit as well as an increase in the phase out amount over $200,000 or $400,000 (MFJ)
- New $10,000 limit on the deduction for state and local taxes (on a combined basis for property and income taxes; $5,000 for separate filers)
- Reduction of the mortgage debt limit for the home mortgage interest deduction to $750,000 ($375,000 for separate filers), with certain exceptions
- Elimination of the deduction for interest on home equity debt
- Elimination of miscellaneous itemized deductions subject to the 2% floor (such as certain investment expenses, professional fees and unreimbursed employee business expenses)
- Elimination of the AGI-based reduction of certain itemized deductions
- AMT exemption increase, to $109,400 for joint filers, $70,300 for singles and heads of households, and $54,700 for separate filers as well as the phase out of the AMT exemption increases to $500,000 and $1,000,000 (MFJ)
- Doubling of the gift and estate tax exemptions, to $10 million (expected to be $11.2 million for 2018 with inflation indexing) and retains the stepped-up basis in estate property
- Elimination of the personal casualty and theft loss deduction (with an exception for federally declared disasters)
- Elimination of the moving expense deduction (with an exception for members of the military in certain circumstances)

Individuals

- Expansion of tax-free Section 529 plan distributions to include those used to pay qualifying elementary and secondary school expenses, up to $10,000 per student per tax year
- The act increases permanently the limit on deductions by individuals for certain charitable contributions of cash from 50 percent to 60 percent of adjusted gross income.
- Elimination of an investor's ability to re-characterize a conversion to a Roth individual retirement account (IRA) after the 2017 tax year
- Individuals may no longer claim a charitable deduction for contributions to colleges or universities in exchange for the right to purchase tickets or seats at athletic events
- Elimination of the individual mandate under the Affordable Care Act requiring taxpayers not covered by a qualifying health plan to pay a penalty — effective for months beginning after December 31, 2018
- Alimony is no longer deductible to payor and not taxable to the recipient for decrees executed or modified after 2018
- Reduction of the adjusted gross income (AGI) threshold for the medical expense deduction to 7.5% for regular and AMT purposes — for 2017 and 2018
- Kiddie tax now subject to tax trust rates on child's unearned income above $2,100 (2017)

Businesses
Valid through 2025

- New 20% qualified business income deduction for owners of flow-through entities (such as partnerships, limited liability companies and S corporations) and sole proprietorships
- The qualified business income deduction does not apply to "specified service" businesses – which includes health, law, accounting, actuarial sciences, performing arts, consulting, athletics, financial services, or any other trade or business where the principal asset of the business is the reputation or skill of 1 or more of its employees.

Businesses

- Replacement of graduated corporate tax rates ranging from 15% to 35% with a flat corporate rate of 21%
- Repeal of the 20% corporate AMT
- Doubling of bonus depreciation to 100% and expansion of qualified assets to include used assets — effective for assets acquired and placed in service after September 27, 2017, and before January 1, 2023

- Doubling of the Section 179 expensing limit to $1 million and an increase of the expensing phase out threshold to $2.5 million
- The reduction of the dividends received deduction (DRD) to 50-percent and 65-percent for those corporations currently receiving 70-percent and 80-percent DRDs currently
- Other enhancements to depreciation-related deductions
- New disallowance of deductions for net interest expense in excess of 30% of the business's adjusted taxable income (exceptions apply)
- New limits on net operating loss (NOL) deductions generated in taxable years beginning in 2018 to 80% of taxable income and prohibits carrybacks of such NOLs
- Elimination of the Section 199 deduction, also commonly referred to as the domestic production activities deduction or manufacturers' deduction — effective for tax years beginning after December 31, 2017, for noncorporate taxpayers and for tax years beginning after December 31, 2018, for C corporation taxpayers
- New rule limiting like-kind exchanges to real property that is not held primarily for sale
- New tax credit for employer-paid family and medical leave — through 2019
- New limitations on excessive employee compensation
- New limitations on deductions for employee fringe benefits, such as entertainment and, in certain circumstances, meals and transportation
- Deferred compensation plans will trigger taxation as soon as there is "no substantial risk of forfeiture" (i.e. when it becomes vested, regardless of when it is paid). In addition will extend to a wider range of stock options and stock appreciation rights under new "Qualified Equity Grant" rules.

More to consider

This is just a brief overview of some of the most significant TCJA provisions. There are additional rules and limits that apply, and the law includes many additional provisions. The information contained herein does not constitute tax advice, please contact your tax advisor to learn more about how these and other tax law changes will affect you in 2018 and beyond.

Sources: McGuireWoods, Vanguard, CliftonLarsonAllen LLP, PwC, Kirkland & Ellis LLP