Trust Connection

A Monthly Report on Trust News and Information

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Strategic Financial Group is an integrated and comprehensive wealth management firm dedicated to helping a select group of families, businesses, individuals and institutions acheive their wealth management goals since 1996.

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Is It TRU? Tax Reform Update

Assuming a final version of the new tax law gets passed in its current form (as of this writing December 17, 2017) and is to the president's desk by December 25, 2017, the U.S. will have a new tax law for the new year.

What affect this will have on each person depends on many factors, but let's review some key parts of the law as a starting point. The Tax Cuts and Jobs Act features the largest single reduction in the corporate tax rate in U.S. history, from 35 percent down to 21 percent, a benefit President Donald Trump wanted in order to spur companies to stay and create jobs in the United States. The bill also lowers taxes for most tax-paying Americans.

Individual Income Tax:

- The top tax rate falls to 37 percent while the income dollars that start the top tax bracket rise slightly.
- Capital gains tax is essentially the same except for the bracket adjustments.
- Charitable deductions remain mostly the same, with an upward adjustment for charitable cash gifts to a new limit of 60 percent of Adjusted Gross Income (AGI).
- In high-tax states (think California, Connecticut, New Jersey, New York, etc.) there is a new $10,000 cap on the Federal deduction one can take for local, state, and property taxes.
- The standard deduction doubles and the personal exemption goes away, effectively combining the two and increasing the resulting sum.
- The number of Americans who don't pay income tax is also projected to increase from about 44 percent to 47.5 percent. The other 52.5 percent pay 100 percent of the income tax bill. Cynics say it is a tax break for the rich, but to be fair, it is hard to cut income tax for people who don't pay income tax.
- Even families who don't pay tax get a break if they qualify for Child Tax Credit, which increases from $1,000 to $2,000. Even if a family does not owe income tax, that credit would be paid out to them up to approximately $1,400.
- The Individual Mandate has been eliminated. The Individual Mandate is the federal provision that everyone must buy health insurance, which is part of how the Affordable Care Act (a.k.a. Obamacare) paid for itself and was deemed a tax by the Supreme Court.
- The Alternative Minimum Tax (AMT) remains, but fewer people will pay it. The threshold is increased substantially to $500,000 per individual or $1,000,000 per married couple from the $120,700 and $160,900, respectively, that it was in 2017.
- Mortgage interest can still be deducted, but at a lower threshold through 2025. Existing mortgages are grandfathered, but new initial purchase mortgage interest will be deductible to a limit of a $750,000 mortgage, and the interest deductibility of a home equity line is eliminated.
- Itemized deductions of more than two percent of AGI are eliminated (things like the home office deduction and investment and tax preparation expenses), and the medical expense of more than 10 percent of AGI is reduced to over 7.5 percent of AGI.
- Retirement plan contribution limits remain unchanged, other than the continued indexing.

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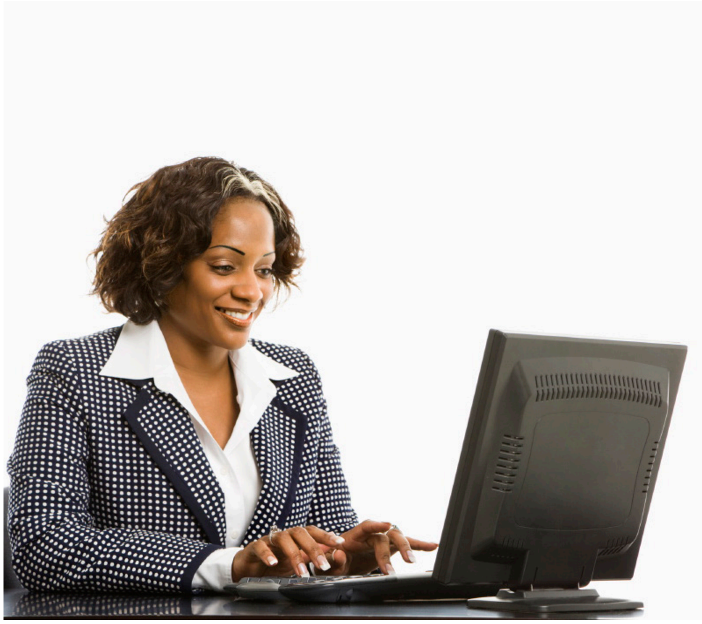

- The income tax cuts are temporary for individuals, as they sunset after eight years – in 2026.

Estate & Gift Tax:

- The gift and estate exemptions doubled for 2018, allowing each person to pass $11,200,000 tax free, which means $22,400,000 per couple with proper planning. These amounts continue to be indexed, and portability remains in place.
- The estate tax does not get repealed in this bill as it did in the House version, but substantially fewer people will pay the tax (and it was about a thousand people per year at the prior number).
- Generation skipping is not addressed, yet the generation-skipping tax exemption is equal to the basic exclusion amount, which is $11,200,000 for 2018.

Businesses:

- The top corporate tax rate drops to 21 percent.
- Income from “pass-through” businesses like Sole Proprietorships, Partnerships, Limited Liability Companies, and S-Corporations will get to deduct 20 percent of their income tax free, although for some service businesses like investment firms, doctors, and lawyers that deduction only applies up to about $315,000 for a married couple.
- The corporate alternative minimum tax (AMT) is eliminated. CEOs claimed the AMT ignored many of their deductions for investments in plants, equipment, and research: some of the very things the tax bill is trying to incent.

Some of the controversial items left out in earlier versions ended up untouched, including the deduction for student loan interest, the deduction for substantial medical expenses, graduate student tuition waivers, and teacher out-of-pocket expenses.

Things are changing, and in some cases substantially. Income taxes should be a lower burden for most, and estate tax is applicable only to a few. Business owners will almost all have smaller tax bills. The greatest differentials will occur based on taxpayers’ states of residence and their various deductions. Modeling one’s individual and company income tax situation will be crucial to understand the individualized impact and strategies.