



Tax Cuts & Jobs Act



Colorado West Estate Planning Council

Affiliated with **National Association of Estate Planners & Councils**



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Individuals

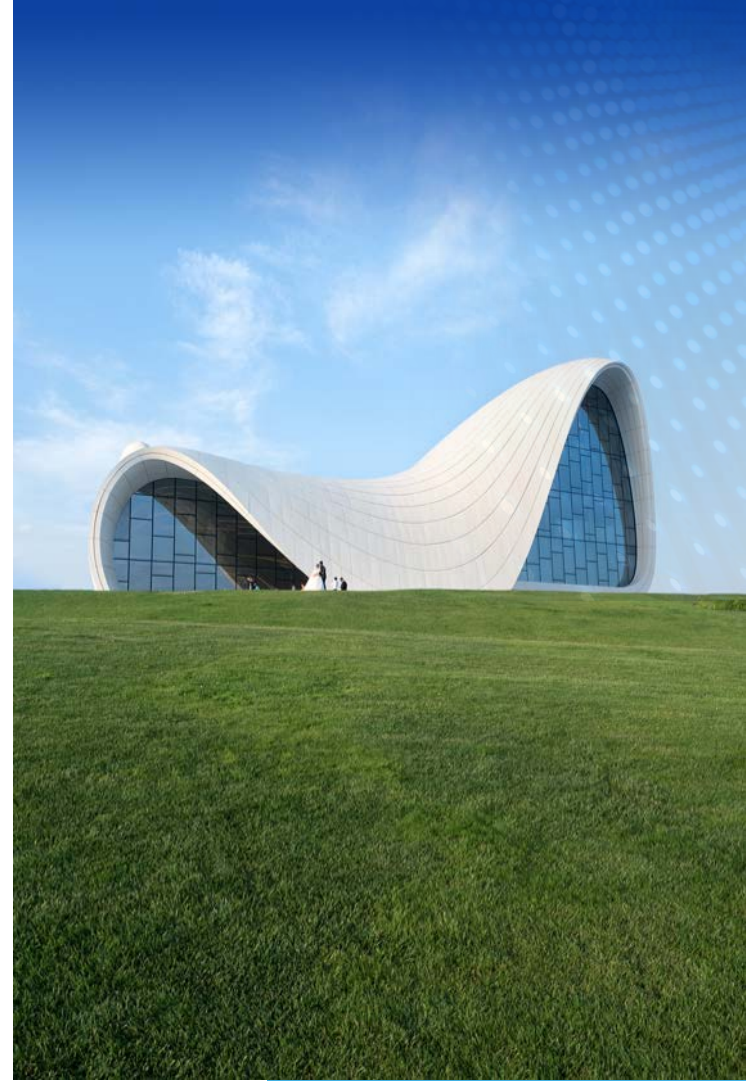
Many Changes

- Generally effective after 12/31/17
- Most changes are temporary
 - Sunset after 2025
- Guidance is needed
- Future legislation?
- State conformity to changes?



The Basics

- Still seven tax brackets
 - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- No more dependent exemption
- Higher child tax credit (\$2,000)
 - New \$500 non-child dependent credit
- Increase in standard deduction
- Individual AMT not repealed
 - *But* exemption amounts have increased
- Dividend and Capital Gains Rate Unchanged



Itemized Deductions Changes

- Repeal of the overall limitation on itemized deductions
- Medical deduction threshold is 7.5% for 2017 & 2018
 - Reverts to 10% starting in 2019
- Mortgage interest limited to \$750k of debt
 - Debt prior to 12/15/17 is grandfathered
- Home equity interest no longer deductible
- State and local tax deduction is limited to \$10k (\$5k if MFS)
- Misc. deductions subject to 2% threshold no longer deductible



State and local tax issues

- Total deduction limit of \$10k (\$5k if MFS)
 - Combination of income/sales and state/local property taxes
- Exceptions
 - Tax imposed at entity level
 - Property taxes for residential rental property/business property
- Prepayment of 2018 state income/real estate taxes in 2017



Affordable Care Act Impact

- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- **HOWEVER**, still in effect for 2017 and 2018
- 2017 penalty:
 - Higher of 2.5% of yearly household income, **or**
 - \$695 per person (\$347.50 per child under 18)



Other Individual Changes to Note

- Casualty losses: only from federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Kiddie tax now at trusts/estate tax rates
- Education tax benefits (529 plans)
- AGI limitation increased to 60% for cash contributions (from 50%)



Estate and Gift Taxes Changes

- 2018 estate & gift tax exemption: \$11.2 million
- 2018 gift tax annual exclusion: \$15,000
- Estate planning is **more than minimizing estate taxes**
 - Updating documents
 - Repurposing insurance
 - Privacy
 - Asset protection



Estate and Gift Tax

- Prior Law:
 - Unified credit basic exclusion amount of \$5 million, adjusted for inflation (\$5.49 million in 2017)
 - Annual gift exclusion of \$10,000, adjusted for inflation (\$14,000 in 2017)
 - For taxable estates, the rate is 40%
 - Unused exemption transferred from deceased spouse to survivor



Estate and Gift Tax continued

- New Law:
 - For 2018 through 2025, the unified credit basic exclusion amount is \$10 million, adjusted for inflation (\$11.18 million in 2018)
 - Annual gift exclusion maintained at \$10,000, adjusted for inflation (\$15,000 in 2018)
 - Maintains 40%
 - Maintains portability



Generation-Skipping Transfer Tax

- Prior Law:
 - GST exemption of \$5 million, adjusted for inflation (\$5.49 million in 2017)
 - For taxable estates, the rate is 40%
- New Law:
 - For 2018 through 2025, the GST exemption amount is \$10 million, adjusted for inflation (\$11.18 million in 2018)
 - Maintains 40% rate



Do we still need to plan?

- Short Answer: Of Course!
- Proper estate planning can (and should) try to minimize income tax
 - Basis planning is often very important
- Clients plan for reasons other than tax planning, most of those reasons have not changed
 - Provide for family
 - Leave a legacy
 - Minimize disputes



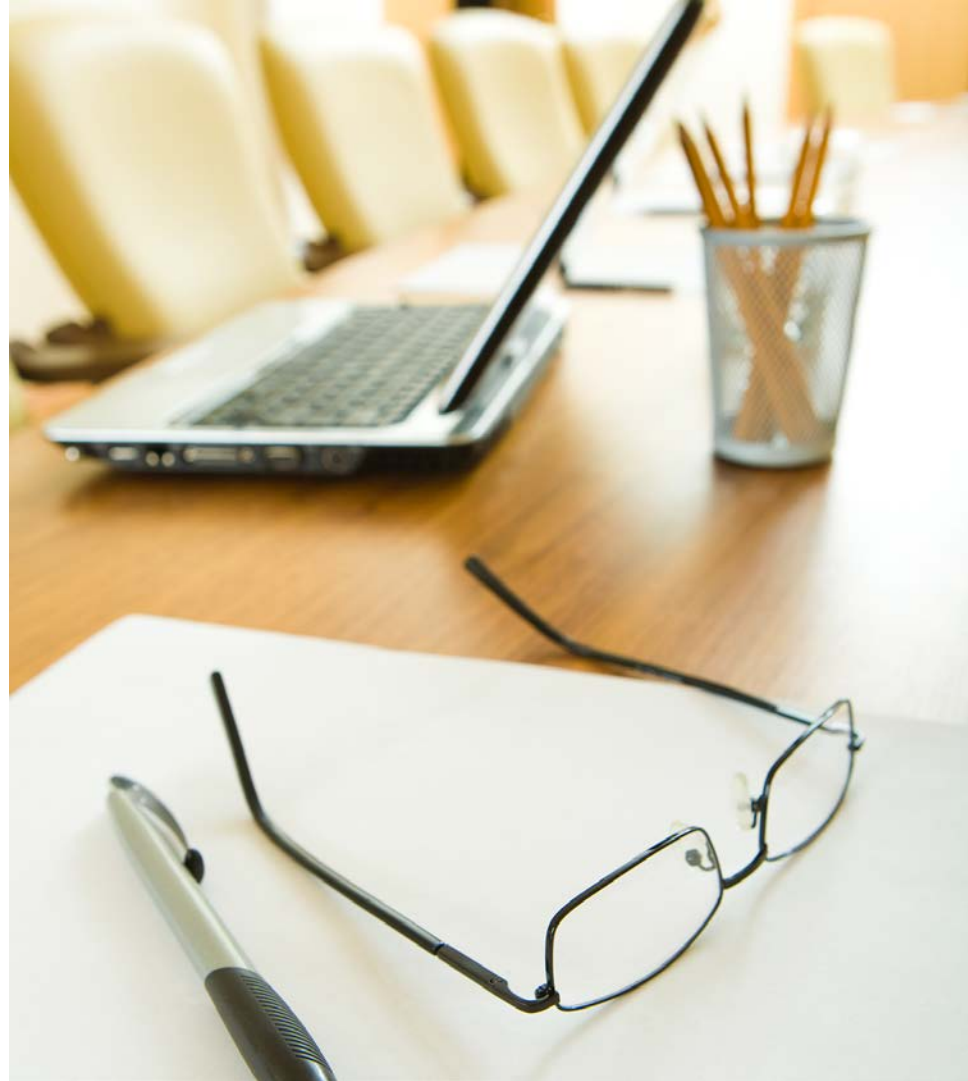


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Business Provisions

Many Changes

- Guidance is needed
- Generally effective after 12/31/17
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Overview of Business Changes

- Corporate rate reduction to flat 21%
- Repeal of corporate AMT
- Special rules for pass-throughs (Sec. 199A) - A new 20% deduction for pass-through income
- Loss limitation for other than C corps (Sec. 461)
- Repeal of Sec.199 Domestic Production Deduction (DPD)
- Increased ability to expense assets
 - Increases to Sec.179 (\$1 million and threshold \$2.5 million)
- Expanded accounting method exceptions for small businesses
- Changes to various fringe benefits including treatment of meals and entertainment paid by employer
- Limit on use of and carryback of NOL
- Limitation on interest expense deduction for non-small businesses (over \$25 million receipts); limited exceptions
- Corporate shift from worldwide to territorial system – many complicated changes to international tax law

Corporate Rate Changes

- Flat rate of 21%
- Effective for years beginning after 12/31/17
- Personal service corporations (PSCs) taxed at same rate (no more flat 35%)
- Corporate AMT has been repealed
- Personal Holding Company rules still exist



Depreciation

- Additional first year or “bonus depreciation”- 100% for property acquired after 9/27/17
- Phase down schedule for years after 2022
- Bonus depreciation -Now allowed for new and used property
- Qualified improvement property no longer qualifies for bonus
- Increases to Sec. 179 (\$1M and threshold \$2.5M)
- Expansion for certain real property (roofs, HVAC)
- Allows residential rental property
- Limits are indexed for inflation

20% Qualified Business Income Deduction

- Deduction is 20% of qualified business income (QBI)
- Qualified business income definitions
 - Does not include investment income
 - Does not include reasonable compensation paid from S corporation or guaranteed payments to owner/partner
 - **IF Taxable income > than \$157,500 (\$315,000 MFJ)**
 - Deduction limited based on W2 wages paid & capital
 - Also, IF a specified service trade/business
 - THEN deduction phased out at \$315,000; completely disallowed when taxable income greater than \$415,000



Changes to Fringe Benefits/Entertainment Expense

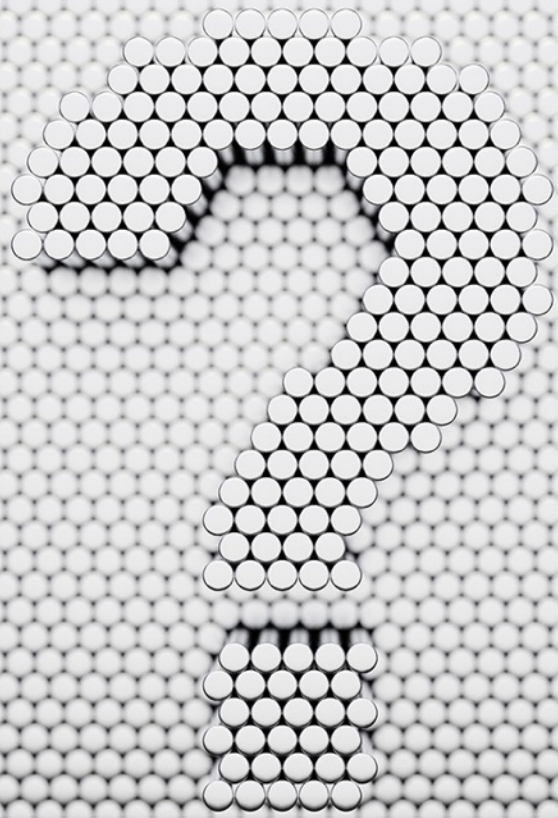
- Repeal of business entertainment expenses
- Guidance needed from IRS on how business meals impacted by this change
- Repeal of deduction for qualified transportation fringe benefits
- Repeal of exclusion for employee reimbursed moving expenses
- Other changes to employee fringe benefits



Planning for 2018 and Forward

- Guidance needed on 20% Qualified Business Deduction
 - Definitions: qualified business income; qualified trade/business; small business
- Effect of corporate rate reduction to 21% on choice of entity







Thank You!



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