

On December 22, 2017, President Trump signed the much-anticipated tax reform bill into law. As the nation's first major tax overhaul since 1986, this law will likely have a significant impact on individuals and corporations. ***Unless noted below, this legislation generally will not impact 2017 tax returns.***

INDIVIDUALS

Restructures the Ordinary Income Tax Brackets

Although the new law retains seven ordinary income tax brackets, the rates and income thresholds have been significantly altered. Beginning on January 1, 2018, these brackets will be structured as shown below. The income thresholds will be adjusted annually for inflation.

| SINGLE | | | MARRIED FILING JOINT & SURVIVING SPOUSES | | | ESTATES & TRUSTS | | |
|----------------|-----------|--------------|--|-----------|--------------|------------------|----------|--------------|
| Taxable Income | | Ordinary Tax | Taxable Income | | Ordinary Tax | Taxable Income | | Ordinary Tax |
| Minimum | Maximum | | Minimum | Maximum | | Minimum | Maximum | |
| – | \$9,525 | 10% | – | \$19,050 | 10% | – | \$2,550 | 10% |
| \$9,526 | \$38,700 | 12% | \$19,051 | \$77,400 | 12% | \$2,551 | \$9,150 | 24% |
| \$38,701 | \$82,500 | 22% | \$77,401 | \$165,000 | 22% | \$9,151 | \$12,500 | 35% |
| \$82,501 | \$157,500 | 24% | \$165,001 | \$315,000 | 24% | \$12,501 | – | 37% |
| \$157,501 | \$200,000 | 32% | \$315,001 | \$400,000 | 32% | | | |
| \$200,001 | \$500,000 | 35% | \$400,001 | \$600,000 | 35% | | | |
| \$500,001 | – | 37% | \$600,001 | – | 37% | | | |

Maintains Current System for Long-Term Capital Gains and Qualified Dividends

The long-term capital gains and qualified dividend thresholds will be based on the current system as adjusted for inflation. The 0% capital gains rate will apply up to \$77,200 for married taxpayers filing jointly, up to \$38,600 for single taxpayers, and up to \$2,600 for estates and trusts. The 15% capital gains rate will apply up to \$479,000 for married taxpayers filing jointly, up to \$425,800 for single taxpayers, and up to \$12,700 for estates and trusts. The 20% capital gains rate will apply to any long-term capital gains and qualified dividends that exceed the 15% thresholds noted above. The rules governing gains from depreciation recapture and collectibles will remain unchanged.

Nearly Doubles the Standard Deduction and Eliminates Personal Exemptions

Married taxpayers filing jointly will receive a \$24,000 standard deduction. Single taxpayers will receive a \$12,000 standard deduction. These amounts will be adjusted annually for inflation. The additional standard deductions for blind and elderly taxpayers will remain unchanged. Personal exemptions will be eliminated.

Restricts Itemized Deductions

Although taxpayers will still be allowed to itemize deductions, the new law will significantly limit the effectiveness of this strategy.

Caps the State and Local Tax Deduction

Married taxpayers filing jointly and single taxpayers may deduct up to \$10,000 in combined: 1) state and local property taxes and 2) either (i) state and local income taxes or (ii) state and local sales taxes.

Limits the Mortgage Interest Deduction and Suspends the Home Equity Interest Deduction

Married taxpayers filing jointly and single taxpayers may deduct interest paid on up to \$750,000 of mortgage indebtedness. This new limitation will only apply to mortgage indebtedness incurred after December 15, 2017. The rules for interest paid on mortgage indebtedness incurred prior to December 15, 2017, will remain unchanged. Taxpayers will no longer be allowed to deduct interest paid on home equity indebtedness (regardless of when the indebtedness was incurred).

Changes Certain Charitable Contribution Deduction Rules

Taxpayers will be able to deduct up to 60% of their Adjusted Gross Income ("AGI") for cash donations to public charities and certain other organizations after December 31, 2017. Taxpayers will no longer be allowed to deduct payments made to colleges and universities in exchange for athletic event seating rights. Contemporaneous written documentation by a charity is required for donations of \$250 or more made after December 31, 2016. All other existing charitable contribution rules will remain unchanged.

Temporarily Reduces the Medical Expense Deduction Threshold for Certain Taxpayers

In 2017 and 2018, taxpayers who have reached age 65 before the close of the taxable year may deduct unreimbursed medical expenses to the extent such expenses exceed 7.5% of the taxpayer's AGI. This 7.5% threshold will apply to married taxpayers if either spouse has reached age 65 before the close of the taxable year. On January 1, 2019, the AGI threshold will revert back to 10%.

Restricts Deductions for Casualty Losses to Those Attributable to Federally Declared Disasters

Only those personal casualty losses attributable to a federally declared disaster will be allowed as an itemized deduction. Such losses will still only be deductible: 1) if they are not compensated by insurance; 2) if they exceed \$100; and 3) to the extent they exceed 10% of the taxpayer's AGI.

Eliminates Miscellaneous Itemized Deductions

Taxpayers will no longer be able to utilize miscellaneous itemized deductions that exceed 2% of the taxpayer's AGI. Among the miscellaneous itemized deductions that will be eliminated are tax preparation expenses, unreimbursed employee business expenses, and investment advisory fees.

Repeals the Overall Limitation on Itemized Deductions

Currently, itemized deductions are phased out at certain income thresholds. This phaseout will be eliminated.

Ends Deduction for Alimony Payments

Taxpayers who are obligated to pay alimony to an ex-spouse through a divorce or separation instrument executed after December 31, 2018, will no longer be able to deduct those payments from their AGI. Likewise, alimony payments received by a taxpayer will no longer be treated as taxable income. This rule will also apply to alimony payments arising from a divorce or separation instrument executed on or before December 31, 2018, and modified after that date if the modification expressly provides that this new law applies to the modification.

Enhances the Child Tax Credit

The child tax credit will be increased to \$2,000 for each qualifying child under age 17. The amount of this credit is not indexed for inflation. Up to \$1,400 of each credit will be refundable. This \$1,400 limit will be adjusted annually for inflation. Taxpayers will also receive a \$500 nonrefundable credit for each dependent who is not a qualifying child. AGI phaseouts for these credits will begin at \$400,000 for married taxpayers filing jointly and \$200,000 for all other taxpayers. These phaseout thresholds will not be indexed for inflation.

Extends Use of 529 Plans to Primary and Secondary Education

Taxpayers will now be able to make tax-free distributions from 529 Plans for elementary and secondary school expenses. Such distributions may not exceed \$10,000 per student annually.

Reduces Impact of Individual Alternative Minimum Tax (AMT)

The AMT exemption amount will increase to \$109,400 for married taxpayers filing jointly and \$70,300 for single taxpayers. The exemption phaseout thresholds will increase to \$1,000,000 for married taxpayers filing jointly and \$500,000 for single taxpayers. These exemption amounts and phaseout thresholds will be indexed annually for inflation.

Simplifies the “Kiddie Tax”

Unearned income of a dependent child will be taxed according to the ordinary and capital gains rates applicable to estates and trusts. Earned income of a dependent child will continue to be taxed according to the tax brackets applicable to a single taxpayer.

Doubles the Estate, Gift, and Generation-Skipping Transfer Tax Exemptions

The individual unified estate and gift tax exemption and the generation-skipping transfer tax exemption will double to \$11,200,000 per individual. This figure will continue to be indexed annually for inflation.

Creates New Deduction for Pass-Through Income

Married taxpayers filing jointly with taxable income below \$315,000 and individuals with taxable income below \$157,000 will be allowed to deduct 20% of qualified business income generated by a pass-through entity (including those businesses organized as sole proprietorships, partnerships, limited liability companies, and S corporations). Taxpayers eligible for this deduction may use it in addition to the standard deduction. Investment income from a pass-through entity, “reasonable compensation” to an S corporation owner-employee, and guaranteed payments for services rendered in a partnership or LLC will not be eligible for the qualified business income deduction.

Restricts Deduction for Pass-Through Income Generated by Specified Service Businesses

Taxpayers with pass-through income generated by specified service businesses will be completely phased out of this deduction over the first \$50,000 of taxable income (\$100,000 for married taxpayers filing jointly) exceeding the thresholds noted above. Specified service businesses include health, law, accounting, actuarial sciences, performing arts, consulting, athletics, and financial services.

Restricts Deduction for Pass-Through Income Generated by All Other Businesses

Taxpayers with pass-through income generated by all other businesses who have taxable income exceeding the thresholds noted above will have their deduction limited to the lesser of: 1) 20% of business income or 2) the greater of (i) 50% of total W-2 wages paid to employees or (ii) 25% of W-2 wages paid to employees plus 2.5% of the unadjusted basis of depreciable property.

Repeals the Affordable Care Act Mandate

The individual Affordable Care Act mandate will be repealed as of January 1, 2019. Other Affordable Care Act tax hikes, including the 3.8% net investment income tax and 0.9% Medicare surtax, will remain unchanged.

Eliminates Ability to Recharacterize Roth Conversions

Previously, taxpayers who elected to convert a traditional IRA to a Roth IRA had the option to recharacterize the account as a traditional IRA prior to their tax return being filed. This will no longer be allowed after December 31, 2017.

CORPORATIONS

Reduces the Corporate Tax Rate and Repeals Corporate AMT

All corporate taxable income will be taxed at 21%. The corporate alternative minimum tax will be repealed.

Increases Capital Investment Expensing

Corporations will be allowed to immediately and fully expense the cost of new investments in most depreciable assets placed in service after September 27, 2017, and before January 1, 2023. This January 1, 2023 deadline will be extended to January 1, 2024, for property with a longer production period and certain aircraft.

Shifts to a Territorial Tax Structure

Currently, profits of all U.S.-based corporations are subject to taxation in the United States. Moving forward, most foreign profits will be exempt from taxation in the United States.

Introduces One-Time Repatriation Tax

Corporations that have deferred taxes on U.S. business assets held overseas can repatriate those assets after paying a one-time mandatory tax of 8% for illiquid assets and 15.5% for cash and cash equivalents.

Aims to Prevent Companies from Shifting Profits to Lower-Tax Jurisdictions

The new law will impose a minimum tax on payments between U.S. corporations and foreign affiliates. It will also limit a corporation's ability to shift corporate income through transfers of intangible property, including patents.

Limits Net Interest Deduction

The net interest deduction available to businesses will be limited to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA) from January 1, 2018, until December 31, 2021, and 30% of earnings before interest and taxes (EBIT) thereafter.

Restricts Deductions for Business Entertainment Expenses

Businesses will no longer be allowed to deduct expenses associated with: 1) entertainment, amusement, or recreation; 2) membership dues for a club organized for business, pleasure, recreation, or other social purposes; or 3) a facility used in connection with any of the above. Businesses will, however, be able to deduct 50% of food and beverage expenses associated with operating a trade or business (e.g., meals consumed by employees on work travel).