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Offutt Barton Schlitt LLC
CERTIFIED PUBLIC ACCOUNTANTS
A History of Professional Commitment

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Tax Cuts and Jobs Act of 2017 – Individual Taxpayers

Professional services include:

- Tax Compliance
- Audit & Assurance
- Litigation Support
- Estate & Gift
- Succession Planning
- Valuation
- IRS Representation
- Family Foundations
- Bookkeeping & Accounting

Our mission is to provide our clients with exceptional services by taking initiative to be proactive advisors. We pride ourselves in developing tailored strategies to meet the specific needs of our clients.

We have a diverse commercial and individual accounting, auditing, tax and business consulting practice.

Our partners and staff are available to meet the needs of our clients and offer to meet with owners and management periodically throughout the year to discuss plans and to consult on a broad range of financial and business topics.

The Tax Cuts and Jobs Act of 2017 (Act) is the most comprehensive update of the U.S. Tax Code in over 30 years. The Act covers both businesses and individuals and most provisions went into effect beginning January 1, 2018. The primary impacts to businesses were summarized in a separate article; this article is focused on some of the significant changes pertaining to individual taxpayers. We encourage you to contact us with questions or concerns before year-end to enable optimum tax planning under the new tax law.

Major items under the Act which affect Income:

Lower Individual Tax Rates

The Act lowers tax rates for almost every tax bracket. The new tax rates effective for tax years 2018-2025 are 10%, 12%, 22%, 24%, 32%, 35%, and 37% as compared with the 2017 tax rates of 10%, 15%, 25%, 28%, 33%, 35% and 39.6%.

Capital Gains and Qualified Dividends Provisions Retained

The Act retains the prior rates before 2018 of 0%, 15%, and 20% for net long-term capital gains and qualified dividends.

Kiddie Tax Modified

While an in-depth analysis of this provision is beyond the scope of this article, for years beginning after 2017, the tax on certain children with unearned income (kiddie tax) is taxed at the rates applicable to trusts and estates. This new rate structure for unearned income should result in a lower kiddie tax than existed in 2017 and prior years and will simplify reporting.

Major items under the Act which affect Deductions and the Alternative Minimum Tax (AMT):

Standard Deduction Increased

For 2018 and beyond, the standard deduction is increased to $24,000 for married individuals filing a joint return, $18,000 for head-of household filers, and $12,000 for all other taxpayers. These amounts will be adjusted for inflation after 2018. There are no changes for additional deductions for the elderly and blind.

Personal Exemptions Suspended

For 2018 and beyond, the deduction for personal exemptions is suspended.

Alimony Deduction

For any divorce or separation agreement executed AFTER December 31, 2018 (or executed before December 31, 2018 but modified later), alimony and separate maintenance payments are typically nondeductible by the payor and are not included in income by the payee.

Medical Expense Deduction

Under the Act, the threshold for medical expenses remains at 7.5% of adjusted gross income (AGI). The reduction went into effect in 2017 and is to remain under the Act at 7.5% until January 1, 2019.

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State and Local Tax (SALT) Deduction
The Act basically places a limit on deducting state and local income tax, sales tax and property taxes as an itemized deduction at $10,000 for single individuals and married individuals filing jointly ($5,000 if filing separately). Note also that foreign property taxes can no longer be deducted.

Individual Charitable Contribution Deduction Increased
The Act increases the charitable cash contribution amount that individuals can give as a percentage of their AGI from 50% to 60%. As under prior law, charitable contributions exceeding the limitation amount can be carried forward up to five years.

Mortgage Interest Deduction Limited
For years beginning in 2018 through December 31, 2025, the deduction for home mortgage interest is limited to $750,000 of acquisition indebtedness ($375,000 for married taxpayers filing separately). After December 31, 2025, the pre-2018 limitations of $1 million/$500,000 (for married taxpayers filing separately) are scheduled to be restored. Note also that limitation does NOT apply to acquisition indebtedness acquired before 2018. Moreover, if a refinance occurs on a qualified residence mortgage incurred before December 15, 2017, the pre-2018 limitations discussed above apply.

Finally, there is no longer any deduction for mortgage interest on home equity indebtedness.

Miscellaneous Itemized Deductions Suspended
For 2018 through December 31, 2025, miscellaneous itemized deductions subject to the 2% of AGI floor, which basically encompasses investment management fees, employee business expenses, legal and accounting fees, safe deposit box rental, etc., are nondeductible.

Repeal of the Affordable Care Act (ACA) Individual Mandate
The Act permanently repeals the Mandate AFTER December 31, 2018. Accordingly, after this effective date, the individual is no longer required to obtain minimum health insurance coverage.

Individual Alternative Minimum Tax (AMT) Retained with Higher Exemption Amount
The exemption for AMT increases from $84,500 to $109,400 for joint taxpayers. For individuals, the exemption increases from $54,300 to $70,300. The exemption begins phasing out at $1 million, up from $160,000 (as adjusted for inflation) for joint returns and surviving spouses. For individuals, the exemption begins phasing out at $500,000, up from ($120,700 as adjusted for inflation). The AMT is a highly complex tax, not only with respect to the exemption amounts stated above, but also because it is computed differently in arriving at AMT income as opposed to regular taxable income. For these reasons, AMT should be analyzed on a case by case basis.

Estate and Gift Tax Retained, With Increased Exemption Amount
For estates of individuals who pass away or for individuals who make gifts after December 31, 2017 and before January 1, 2026, the Act doubles the base estate and gift tax exemption from $5 million to $10 million. The exemption is indexed for inflation occurring after 2011 and is $11.2 million for 2018

Summary:
The overall objectives of the Tax Cut and Jobs Act of 2017 are to reduce individual and corporate taxes through reduced tax rates and to streamline tax preparation through increased standard deductions and limitations on itemized deductions as highlighted above.

We look forward to addressing any questions or concerns that you may have so that we can best quantify how this Act affects you based on your 2018 projection of income and deductions.

This tax law update information is being sent to you to encourage you to utilize all the opportunities the tax law provides to minimize your 2018 taxes as well as offer suggestions for longer range planning. If you are interested in a tax planning appointment, call our office to discuss these matters further.

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