

## Summary: Tax Cuts and Jobs Act of 2017

### Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act legislation has been passed by Congress and signed by the President. The Act makes extensive changes that affect both individuals and businesses. Some key provisions of the Act are discussed below. Most provisions are effective for 2018 and revert to the pre-existing laws after 2025 while the corporate tax rate provision is made permanent. Comparisons below are for 2018.

### Individual income tax rates

There are seven regular income tax brackets in 2017 - 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%.

For the years 2018 – 2025 there will be seven tax brackets - 10%, 12%, 22%, 24%, 32%, 35%, and 37%. It's important to note that these tax brackets will revert back to the 2017 tax brackets after the year 2025.

Additionally, these tax brackets do not include the additional 0.9% payroll tax levied by the Affordable Care Act on individuals with incomes exceeding \$200,000 (or married couples exceeding \$250,000).

Income Bracket Thresholds

Tax Rate	Single	Married Filing Jointly/ Surviving Spouse	Married Filing Separately	Head of Household	Trust/Estate
10%	\$0	\$0	\$0	\$0	\$0
12%	\$9,525	\$19,050	\$9,525	\$13,600	N/A
22%	\$38,700	\$77,400	\$38,700	\$51,800	N/A
24%	\$82,500	\$165,000	\$82,500	\$82,500	\$2,550
32%	\$157,500	\$315,000	\$157,500	\$157,500	N/A
35%	\$200,000	\$400,000	\$200,000	\$200,000	\$9,150
37%	\$500,000	\$600,000	\$300,000	\$500,000	\$12,500

### Standard deduction, itemized deductions, and personal exemptions

Pre-existing law: In general, personal (and dependency) exemptions were available for you, your spouse, and your dependents. Personal exemptions were phased out for those with higher adjusted gross incomes.

You could generally choose to take the standard deduction or to itemize deductions. Additional standard deduction amounts were available if you were blind or age 65 or older.

Itemized deductions included deductions for: medical expenses, state and local taxes, home mortgage interest, investment interest, charitable gifts, casualty and theft losses, job expenses, and other miscellaneous deductions. There was an overall limitation on itemized deductions based on the amount of your adjusted gross income.

New law: The standard deduction is significantly increased, and the additional standard deduction amounts for those over age 65 or blind are still available. The personal and dependency exemptions are no longer available.

Many itemized deductions are eliminated or restricted. The overall limitation on itemized deductions based on the amount of your adjusted gross income is eliminated.

- The deduction of medical and dental expenses for individuals under age 65 is reduced to 7.5% of AGI from 10% in 2017 and 2018.
- The deduction for state and local taxes is limited to \$10,000. An individual cannot prepay 2018 income taxes in 2017 in order to avoid the dollar limitation in 2018.
- The deduction for mortgage interest is still available, but the benefit is reduced for some individuals, and interest on home equity loans is no longer deductible.
- The charitable deduction is still available.
- The deduction for personal casualty losses is eliminated unless the loss is incurred in a federally declared disaster.

These provisions sunset and revert to pre-existing law after 2025.

## Standard deduction, itemized deductions, and personal exemptions

Personal and Dependency Exemptions (you, your spouse, and dependents)		
Exemption	Pre-existing law	New law
	\$4,150	No personal exemption
Standard Deduction		
Standard Deduction	Pre-existing law	New law
Married filing jointly	\$13,000	\$24,000
Head of household	\$9,550	\$18,000
Single/married filing separately	\$6,500	\$12,000
Additional aged/blind		
Single/head of household	\$1,600	\$1,600
All other filing statuses	\$1,300	\$1,300
Itemized Deductions		
	Pre-existing law	New law
Medical expenses	Yes, if expenses exceed 10% of AGI floor for individuals under 65	Yes, reduced to 7.5% of AGI for all individuals in the years 2017 and 2018
State and local taxes	Yes, income (or sales) tax, real property tax, personal property tax	Yes, limited to \$10,000 (\$5,000 for married filing separately)
Home mortgage interest	Yes, limited to \$1,000,000 (\$100,000 for home equity loan), one-half those amounts for married filing separately	Yes, limited to \$750,000 (\$375,000 for married filing separately), no home equity loan; the \$1,000,000/\$500,000 limit still applies to debt incurred before December 16, 2017
Charitable gifts	Yes	Yes, 50% AGI limit raised to 60% for cash gifts
Casualty and theft losses	Yes	Federally declared disasters only
Job expenses and certain miscellaneous deductions	Yes	No

## Child tax credit

Pre-existing law. The maximum child tax credit was \$1,000. The child tax credit was phased out if modified adjusted gross income exceeded certain amounts. If the credit exceeded the tax liability, the child tax credit was refundable up to 15% of the amount of earned income in excess of \$3,000 (the earned income threshold).

New law. The maximum child tax credit is increased to \$2,000. A nonrefundable credit of \$500 is available for qualifying dependents other than qualifying children. The maximum refundable amount of the credit is \$1,400, indexed for inflation. The amount at which the credit begins to phase out is increased, and the earned income threshold is lowered to \$2,500. The changes to the credit sunset and revert to pre-existing law after 2025.

		Child Tax Credit	
		Pre-existing law	New law
Maximum credit	\$1,000		\$2,000
Non-child dependents	N/A		\$500
Maximum refundable	\$1,000		\$1,400 indexed
Refundable earned income threshold	\$3,000		\$2,500
<b>Credit phase out threshold</b>			
Single/head of household	\$75,000		\$200,000
Married filing jointly	\$110,000		\$400,000
Married filing separately	\$55,000		\$200,000

## Alternative minimum tax (AMT)

Under the Act, the alternative minimum tax exemptions and exemption phase out thresholds are increased. The AMT changes sunset and revert to pre-existing law after 2025.

		Alternative Minimum Tax (AMT)	
		Pre-existing law	New law
Maximum AMT exemption amount		\$86,200 (MFJ), \$55,400 (Single/HOH), \$43,100 (MFS)	\$109,400 (MFJ), \$70,300 (Single/HOH), \$54,700 (MFS)
Exemption phase out threshold		\$164,100 (MFJ), \$123,100 (Single/HOH), \$82,050 (MFS)	\$1,000,000 (MFJ), \$500,000 (Single, HOH, MFS)
26% rate applies to AMT income (AMTI) at or below this amount (28% rate applies to AMTI above this amount)		\$191,500 (MFJ, Single, HOH), \$95,750 (MFS)	\$191,500 (MFJ, Single, HOH), \$95,750 (MFS)

## Kiddie tax

Instead of taxing most unearned income of children at their parents' tax rates (as under pre-existing law), the Act taxes children's unearned income using the trust and estate income tax brackets. This provision sunsets and reverts to pre-existing law after 2025.

## Corporate tax rates

Under the Act, corporate income is taxed at a 21% rate. The corporate alternative minimum tax is repealed.

## **Special provisions for business income of individuals**

Under the Act, an individual taxpayer can deduct 20% of domestic qualified business income (excludes compensation) from a partnership, S corporation, or sole proprietorship. The benefit of the deduction is phased out for specified service businesses with taxable income exceeding \$157,500 (\$315,000 for married filing jointly). The deduction is limited to the greater of (1) 50% of the W-2 wages of the taxpayer, or (2) the sum of (a) 25% of the W-2 wages of the taxpayer, plus (b) 2.5% of the unadjusted basis immediately after acquisition of all qualified property (certain depreciable property). This limit does not apply if taxable income does not exceed \$157,500 (\$315,000 for married filing jointly), and the limit is phased in for taxable income above those thresholds. This provision sunsets and reverts to pre-existing law after 2025.

## **Retirement plans**

Under the Act, the contribution limits for employer sponsored retirement plans increases to \$18,500 from \$18,000. However, the Act repeals the special rule permitting a recharacterization to unwind a Roth conversion.

## **Estate, gift, and generation-skipping transfer tax**

The Act doubles the gift and estate tax basic exclusion amount and the generation-skipping transfer tax exemption to about \$11,200,000 in 2018. This provision sunsets and reverts to pre-existing law after 2025.

## **Health insurance individual mandate**

The Act eliminates the requirement that individuals must be covered by a health care plan that provides at least minimum essential coverage or pay a penalty tax (the individual shared responsibility payment) for failure to maintain the coverage. The provision is effective for months beginning after December 31, 2018.

*\*Please note, final clarity is still being analyzed.*

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