

The TAX CUTS AND JOBS ACT of 2017 – It's Impact on You and Your Family

The Tax Cuts and Jobs Act (“TCJA”) that was enacted on December 22, 2017, was the most comprehensive tax legislation since passage of the Tax Reform Act of 1986. This Act’s provisions generally apply through the 2025 tax year. In 2026, the pre-TCJA tax law will come back into application unless otherwise changed by Congress and the President between now and then.

The following is a summary of provisions that relate to individuals. A separate summary is available on our website for businesses. In both cases, the reader should educate themselves and meet or contact their tax advisor to gain a more comprehensive understanding as to how these provisions affect them individually

INDIVIDUALS

Tax rates – The existing seven tax rates of current law remain. However, the tax rates from 15% to 39.6% were 2% to 4% with the new top rate at 37%, down from 39.6%.

Personal and dependent exemptions – Eliminated for 2018 through 2025.

Standard deduction – Increased as follows: Married filing jointly, from \$12,700 to \$24,000; married filing separate, from \$6,350 to \$12,000; single from \$6,350 to \$12,000; and head of household from \$9,350 to \$18,000. For taxpayers age 65 and older, there continues to be an additional \$1,300 per spouse (and \$1,600 if unmarried). This change is likely to reduce the number of itemizers (those who have reported their deductions on Schedule A) from approximately 30% of the individual filing population to 10 to 15%.

Alternative Minimum Tax – has been retained for individuals. Initial exemption amounts have been increased and the phase-out of the exemptions has been dramatically increased to the point that many people who have suffered with AMT in the past will not be paying this additional tax.

Tax Credits for individuals –The **child tax credit** has been increased from \$1,000 to \$2,000. Up to \$1,400 is refundable for lower income taxpayers. The phase out thresholds have been dramatically increased to \$400,000 of taxable income for married joint filers and \$200,000 for all other filers. Once over the \$440,000 and \$240,000 thresholds the credit is not available. The credit is available for all children who are 16 or younger on the last day of the calendar year. A new “**family tax credit**” of \$500 has been enacted for qualifying dependents other than qualifying children that otherwise qualify for the child tax credit.

Kiddie tax – is significantly changed to the detriment of kids who earn income or are the beneficiaries of trusts, Uniform Gifts to Minors Act accounts or have their own investment accounts.

Capital gains exclusion on sale of principal residence – current rules have been retained.

Capital gain tax rates – have not been changed; remain at 0%, 15% and 20%.

Section 1031 exchanges – significantly changed. Will be limited to certain real property beginning in 2018.

Itemized Deductions

Medical expenses – The 7.5% floor only applies to 2017 and 2018 and then reverts to 10% in 2019. Only those medical expenses that are over the rate, which is multiplied by the taxpayer's adjusted gross income, are deductible.

State income tax (or sales tax in lieu of income tax) and real estate property tax – The TCJA establishes a maximum of \$10,000 that could be deducted in any one year from any combination of such taxes. This is one of the most controversial provisions of the Act. It is particularly adverse in high tax states such as California, New York and others for high income individuals.

Mortgage interest – deduction on debt of up to \$1,000,000 acquired before December 15, 2017 has been largely retained for homeowners on their personal residence (and on their second home)

Mortgage interest on newly acquired residential property – acquired on or after **December 15, 2017**, is limited to the interest on the first \$750,000 for personal residences.

Interest on the first \$100,000 of home equity lines of credit – has been retained but can only be treated as a mortgage interest deduction for capital improvements to the individual's principal residence. This eliminates the deduction that had been claimed by many for auto purchases, vacations, college funding, etc.

Investment interest expense – is retained.

Miscellaneous deductions – were eliminated effective January 1, 2018. Through 2017 the amounts over 2% of one's AGI were deductible if reported on Schedule A. These deductions include investment management fees, union dues, uniforms, unreimbursed employee business expenses, estate planning, safe deposit box fees, tax preparation fees, etc.

Personal and casualty losses – Only losses incurred in presidentially declared disaster areas will be deductible. All other losses will no longer be deductible.

Charitable contribution – limitation was increased from 50% of one's adjusted gross income to 60% of AGI for contributions to public charities.

Phase-out of itemized deductions – which reduced itemized deductions once the threshold of \$313,800 if married in AGI was exceeded, has been repealed. (Do an Internet search for the "Pease Amendment" to learn all about it.)

Adjustments to Gross Income

Adjustments to gross income appear on the bottom half of page 1 of your Form 1040 for 2017 and years prior. These are specially carved out reductions to one's gross income that is reported on the top half of page 1 of the Form 1040. The total of these "adjustments" (i.e., reductions) brings us to the term adjusted gross income (AGI) on Line 37 (the last line on page 1) of the Form 1040.

Moving expenses – largely eliminated except for persons in the military.

Alimony – that is currently subject to a separation agreement that was entered into prior to the effective date is generally grandfathered. Starting in 2019, alimony is not an adjustment to gross income by the payer and is not taxable income to the payee (alimony recipient). This has the effect of potentially increasing the payer’s taxable income.

Estate and Gift Taxes – The exemption from estate and gift tax has been increased from \$5,000,000 (plus COLA adjustments) to \$10,000,000 per individual. Cost of living adjustments (COLA) will continue to be applied annually. In 2018, the actual, multi-year COLA adjusted individual exemption amount is \$11,180,000.

Miscellaneous

Individual healthcare mandate – The individual shared responsibility payment that arises when an individual or family fails to acquire health insurance under the Affordable Care Act (ACA) has been reduced to zero (\$0) with respect to health coverage for months beginning after December 31, 2018.

Use of section 529 Plans for K-12 – The Conference bill amends section 529 to allow such plans to distribute not more than \$10,000 in expenses for tuition incurred during the tax year that is charged for enrollment in or attendance at a public, private or religious elementary or secondary school (grades kindergarten to twelfth grade) of any designated beneficiary.

Net operating losses for individuals – For taxable years beginning in 2018, an individual’s “excess business losses” will no longer be able to be carried back to earlier years. Such losses can only be carried forward into a subsequent taxable year. Furthermore, the losses will be allowed for a taxable year only up to the lesser of the carryover amount or 80 percent of taxable income determined without the regard to the deduction for NOLs.

Recharacterization of Roth contributions – Be aware that when an individual transfers assets from their traditional IRA to a Roth IRA that they no longer have the opportunity to transfer back to the traditional IRA the transferred assets after the year of transfer has closed. Thus, if you have transferred assets from your IRA to your Roth IRA and you decide you don’t want to be taxed on that transfer on your 2017 return, you must transfer them back to the IRA by December 29, 2017. Due to the late passage and signing of the Final Bill, this action has had a very narrow correction period.

Annual cost of living adjustments (COLAs) – Beginning in 2018 indexing for inflation on tax brackets, thresholds, etc., will be subject to the Consumer Price Index for All Urban Consumers (“C-CPI-U”), also known as the chained consumer price index. Through 2017 the COLAs used a different COLA formula. The net effect is that inflation increases under C-CPI-U will be lower than it has been under the prior methodology in prior years.

California Conformity and Non-conformity

California does not automatically piggy back on federal tax legislation. Rather, it passes legislation from time to time that identifies federal tax acts or provisions that it will adopt as its own while at the same time normally identifying provisions to which it will not conform.

At present California tax law conforms to federal tax law as of January 1, 2015. Because there have been few announced conformity changes since then one should assume that the federal tax rules that differed from California in 2017 and which will differ from California in 2018 due to the passage of the TCJA will continue to be reported on the California return. For individuals this will result in a wholesale change to the California adjustments schedule at Schedule CA, which now morphed into three pages for 2018 from one and one half pages in 2017.

Due to this non-conformity, **California taxpayers will continue to be able to fully itemize and deduct** their real estate taxes, DMV license fees, mortgage interest deduction (up to the \$1.1 million of acquisition indebtedness limitation), miscellaneous itemized deductions that are subject to the 2% threshold, casualty losses that are not subject to a federal declared disaster, etc.

Possible Solutions to the New Standard Deduction and SALT Limitation

- Bunch your deductions
 - Be sure to review your 2017 itemized deductions and take into account the TCJA effect on the same or different amounts for 2018
 - Consider whether making three real estate tax payments in one year and one payment in the next would be to your tax advantage
 - Consider increasing your mortgage payments in years in which your mortgage interest plus the SALT cap plus your charitable contributions may get you over the new standard deduction that applies to you.
 - Double up (or more) your charitable contributions in alternate years.
- Donate highly appreciated publicly traded securities to qualifying public charities
 - This is at 30% of adjusted gross income.
- If over 70 ½ and the owner of a traditional, rollover or inherited IRA, consider directing the IRA custodian to make a “qualified charitable distribution” (“QCD”) to a qualifying charity.
- Consider whether establishing a charitable remainder trust or charitable lead trust would help you from a current deduction standpoint as well as a supplemental retirement income strategy.
- Identify the possible sources of your qualified business income deduction before the year end.

CAUTION: This summary is brief. It is not intended to cover all provisions of this tax act.

If you have any questions or need any assistance, please feel free to contact us.

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