Chapman and Cutler LLP

Chapman Client Alert

January 3, 2018 Current Issues Relevant to Our Clients

Highlights of New Tax Reform Legislation to Individual Taxpayers

On December 22, 2017, President Trump signed into law the most sweeping tax law changes in the last thirty years. Significant permanent changes were made to the corporate income tax. Most of the changes made to the estate and gift taxes and individual income taxes will expire in 2026 unless Congress decides later to make the changes permanent. Highlights of the new tax reform legislation as they impact individuals are summarized below.

Estate and Gift Tax

The federal estate, gift and generation-skipping taxes were not repealed; however, the exemptions have been doubled to $11,200,000 per transferor in 2018 or $22,400,000 for a married couple. This doubling of the exemptions will expire after 2025, when the estate, gift and generation-skipping tax exemptions will revert to the current $5,000,000 per person, as adjusted for inflation from 2011 until 2026. The step-up (or step-down) in tax cost basis to their date-of-death values will continue for assets received as a result of a decedent's death.

For clients whose assets still exceed the new higher estate tax exemption thresholds, the traditional tax planning options are not compromised under the new tax reform legislation.

For clients whose assets are below the new higher estate tax exemption thresholds, they may benefit from a simpler planning approach that focuses more on certain non-tax benefits. See our November 2017 Client Alert on Estate Planning Options for Married Couples.

Clients also should review their estate plans to confirm that the dispositive provisions in their documents still make sense in light of the higher exemption limits. For example, if a married client leaves a portion of their estate to descendants at the death of the first spouse to die in an amount that is tied to the current estate tax exemption that now has doubled, the client may wish to cut back the size of the gift to descendants at the first death in order to ensure that sufficient assets remain for the surviving spouse.

Changes to Income Tax for Individuals

The Act lowers the tax rates and increases the thresholds for when the tax rates change for 2018 through 2025.

Single

Taxable income is				
Over	**But not over**	**Pay**	**Plus % on excess**	**Of the amount over**
$0	$9,525	0%	10%	$0
$9,525	$38,700	$952.50	12%	$9,525
$38,700	$82,500	$4,453.50	22%	$38,700
$82,500	$157,500	$14,089.50	24%	$82,500
$157,500	$200,000	$32,089.50	32%	$157,500
$200,000	$500,000	$45,689.50	35%	$200,000
$500,000 and over		$150,689.50	37%	$500,000

Married Filing Jointly

Taxable income is				
Over	**But not over**	**Pay**	**Plus % on excess**	**Of the amount over**
$0	$19,050	0%	10%	$0
$19,050	$77,400	$1,905.00	12%	$19,050
$77,400	$165,000	$8,907.00	22%	$77,400
$165,000	$315,000	$28,179.00	24%	$165,000
$315,000	$400,000	$64,179.00	32%	$315,000
$400,000	$600,000	$91,379.00	35%	$400,000
$600,000 and over		$161,379.00	37%	$600,000

The standard deduction is increased to $12,000 for single taxpayers and $24,000 for married taxpayers filing jointly.

The personal exemptions are repealed.

The alternative minimum tax (AMT) remains in effect for individuals; however, the AMT exemption amount is increased to $70,300 for single taxpayers and $109,400 for married couples filing jointly. Given the higher AMT exemption and the elimination or reduction of many itemized deductions, it is anticipated that many taxpayers no longer will be subject to the AMT.

The "Pease limitation" that phased out up to 80% of the itemized deductions for certain high-income taxpayers is repealed.

The itemized deduction for state and local property, income and sales taxes is limited to $10,000. For those taxpayers who expect to itemize deductions in 2017 and prepaid their real estate taxes normally paid in 2018, the IRS has issued guidance stating that a taxpayer's ability to deduct the prepayment of real estate taxes in 2017 depends on whether the real estate taxes are assessed prior to 2018. State or local law determines whether and when a property tax is assessed.

The itemized deduction for mortgage interest paid is limited to interest paid on up to $750,000 of acquisition indebtedness for a newly acquired principal residence or second residence; however, existing mortgages are grandfathered up to the current $1 million limit. Interest paid on a home equity loan or line of credit (new or existing) no longer is deductible.

The limitation on the itemized deduction for cash contributions to public charities is increased from 50% of adjusted gross income (AGI) to 60% of AGI.

All miscellaneous itemized deductions that were subject to the 2% of AGI limitation ("2% floor") are no longer deductible. These fees include, among others, unreimbursed employee business expenses, tax preparation fees and investment fees.

Up to $10,000 per student per year may be distributed from a Section 529 college savings plan for tuition at a public, private or religious elementary or secondary school.

Individuals, trusts and estates are allowed to deduct 20% of "qualified business income" received from a "pass through" company, such as a S corporation, LLC, partnership or sole proprietorship. Only domestic business income qualifies for this deduction. Income from certain service industries or occupations like doctors, dentists, attorneys, accountants, consultants and financial services do not qualify as business income and thus cannot avail themselves of this deduction.

The following provisions of the tax code were not changed in the final tax legislation:

1. When disposing of a partial position in securities, taxpayers may still choose which lots to sell and will not be required to use first-in-first-out (FIFO).

2. The 3.8% tax on net investment income is retained.

3. The exclusion of gain on the sale of a personal residence remains at $250,000 for single taxpayers and $500,000 for married taxpayers filing jointly, regardless of income level, and the taxpayer must have occupied the home for 2 of the last 5 years.

4. Interest paid on student loan debt is still deductible.

For More Information

We encourage you to contact your Chapman and Cutler LLP Trusts and Estates attorney to review your current estate planning documents to determine if any changes are recommended in light of the tax reform legislation. If you would like further information concerning any other matters discussed in this article, please contact any of the following attorneys or the Chapman attorney with whom you regularly work:

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