

Abbott, Stringham & Lynch Tax Group



For Better or Worse? Individual, Estate, and Trust Taxes Under the New Tax Reform Act

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Upcoming Webinars

All at 12:00-1:00 PST



Thursday, February 1, 2018 –
US Tax Reform: The Big Shake-up in International
Tax Law

Tuesday, February 6, 2018 –
Tax Reform and the Impact on Real Estate

Wednesday, February 7, 2018 –
Tax Reform for Pass-Through Entities

Key Topics

- 2018 Tax Rates
- Standard Deductions
- Itemized Deductions
- New Deduction for Pass-Through Income
- Alternative Minimum Tax
- Miscellaneous Tax Provisions
- Tax Credits, Including California College Access Tax Credit
- California Conformity
- Estates and Trusts

New Tax Rates

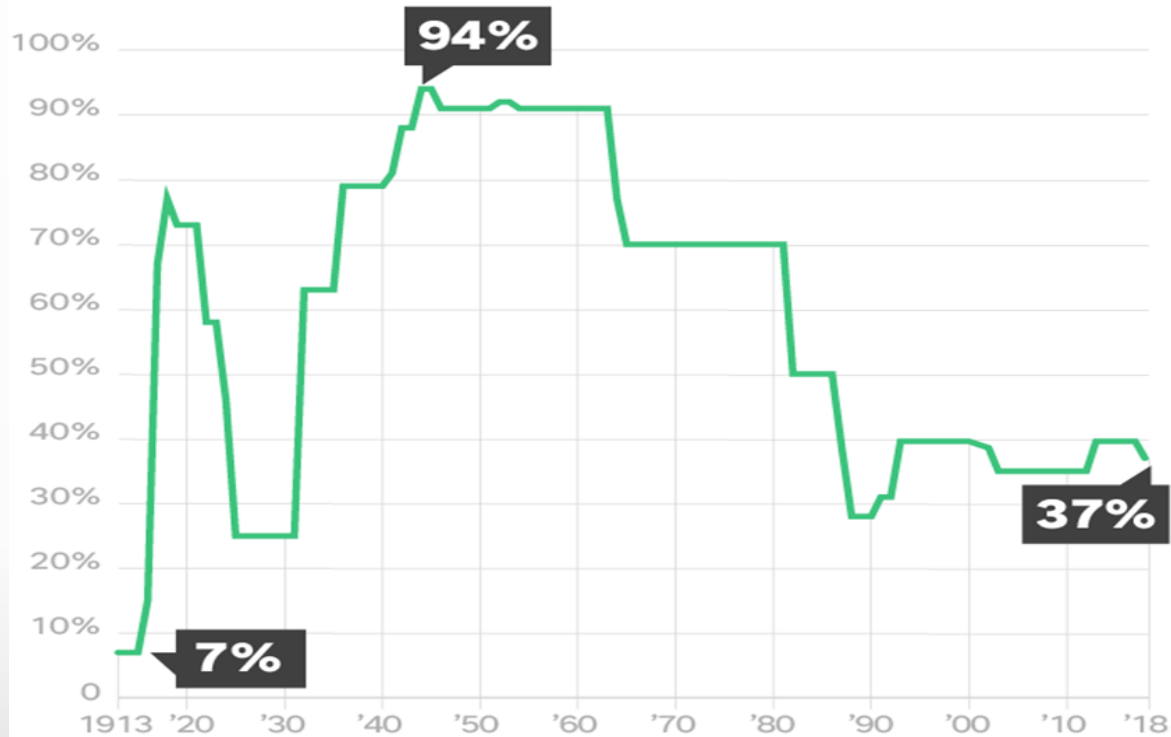
- 2018 Tax Rate



Tax Rates	Single Filer Tax Brackets	Married Filing Jointly Tax Brackets	Married Filing Separately Tax Brackets	Head of Household Tax Brackets
10%	\$0-\$9,525	\$0-\$19,050	\$0-\$9,525	\$0-\$13,600
12%	\$9,525-\$38,700	\$19,050-\$77,400	\$9,525-\$38,700	\$13,600-\$51,800
22%	\$37,650-\$82,500	\$77,400-\$165,000	\$38,700-\$82,500	\$51,800-\$82,500
24%	\$82,500-\$157,500	\$165,000-\$315,000	\$82,500-\$157,500	\$82,500-\$157,500
32%	\$157,500-\$200,000	\$315,000-\$400,000	\$157,500-\$200,000	\$157,500-\$200,000
35%	\$200,000-\$500,000	\$400,000-\$600,000	\$200,000-\$300,000	\$200,000-\$500,000
37%	\$500,000+	\$600,000+	\$300,000+	\$500,000+

History of Top Tax Rates

Top federal income tax rate for individuals



SOURCE IRS, Tax Foundation
Frank Pompa/USA TODAY

Capital Gains Rates



Individual Long-Term Capital Gains Rates (IRC §1(h))		
Rate	Tax bracket (for 2017)	Income level breakpoint (for 2018)
0%	10% and 15%	Single: \$38,600 MFS: \$38,600 MFJ: \$77,200 HOH: \$51,700
15%	25%-35%	Single: \$425,800 MFS: \$239,500 MFJ: \$479,000 HOH: \$452,400
20%	39.6%	No breakpoint

Adjusted Gross Income

employment benefits		20a
21	social security benefits	
21	Other income. List type and amount	
22	Combine the amounts in the far right column for lines 7 thro	
23	Educator expenses	
24	Certain business expenses of reservists, performing artists, fee-basis government officials. Attach Form 2106 or 2106-E	
25	Health savings account deduction. Attach Form 8880	
26	Moving expenses. Attach Form 3903	
27	Deductible part of self-employment tax. Attach Schedule	
28	Self-employed SEP, SIMPLE, and qualified plans	
29	Self-employed health insurance deduction	
30	Penalty on early withdrawal of savings	
31a	Alimony paid	b Recipient's SSN
32	IRA deduction	
33	Student loan interest deduction	
	and fees. Attach Form 8917	

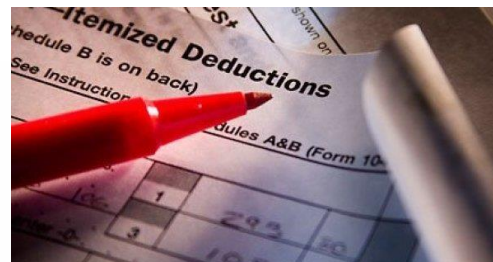
- Alimony
 - Not deductible by payer spouse nor included in recipient spouse's gross income for divorce or separation instrument executed after December 31, 2018.
 - TIP: Divorce decrees in place before December 31, 2018, but modified after that date, will be subject to the rules under the New Tax Reform but only if modification expressly provides that the New Tax Reform applies.
- Moving expenses – deduction has been eliminated
 - TIP: Unless taxpayer is a member of the U.S. Armed Forces
- New compensation deferral election for certain stock attributable to options exercised or RSUs settled after December 31, 2017.
- Net Operating Loss – no carrybacks, only carryforwards, now limited to 80% of taxable income in the year of deduction.
 - TIP: Losses can be carried forward indefinitely

Standard Deduction and Exemption Amounts

<u>Filing Status:</u>	<u>2018 Deduction Amount:</u>
Single	\$12,000
Married Filing Separately	\$12,000
Married Filing Jointly	\$24,000
Head of Household	\$18,000
Personal Exemption	\$0

<u>Filing Status:</u>	<u>2017 Deduction Amount:</u>
Single	\$6,350
Married Filing Separately	\$6,350
Married Filing Jointly	\$12,700
Head of Household	\$9,350
Personal Exemption	\$4,050

Itemized Deductions



- Repealed the overall limitation on itemized deductions, i.e. deduction phase-out has been eliminated
- Medical expenses – AGI floor threshold decreased to 7.5% from 10% for 2017 and 2018 only.
 - TIP: If you itemize deductions, try to pay medical expenses before the end of 2018 for a larger deduction
- State and local taxes, including income and real property taxes – limited to a combined deduction of \$10,000. State and local taxes, other than income taxes, paid in carrying on a trade or business remain fully deductible.
- Mortgage interest on principal residence and second home– limited to interest on loan of \$750,000 of acquisition loans for purchases after December 15, 2017.
 - TIP: The new limitation does not apply to refinancing of grandfathered debt

Itemized Deductions (continued)

- Mortgage interest on home equity loans – deduction eliminated after 2017 for both new and pre-existing credit lines.
 - TIP: Interest paid on funds used for business purposes remains deductible.
- Charitable contributions – increased deduction of up to 60% of adjusted gross income.
- Miscellaneous itemized deductions subject to 2% of AGI limitation – deduction fully eliminated. This includes unreimbursed employee business expenses, tax preparation fees and investment advisor fees.

New Deduction for Pass-Through Income

- Owners of pass-through businesses (sole proprietors, partnerships, S corporations, and real estate investors) will get a deduction equal to 20% of income from qualified business activities.
 - TIP: Schedule E rental property income qualifies, no LLC needed!
- Shelters taxable income that is taxed at ordinary income rates (e.g. excluding long-term capital gains)
- May be eligible for the full deduction if you are -
 - A single taxpayer with taxable income of \$157,500 or less
 - Married filing jointly with taxable income of \$315,000 or less
 - TIP: Check out the ASL Webinar to be presented on Wednesday, February 7th, 2018 at 12:00 p.m. titled “Tax Reform for Pass-through Entities” for more details on this deduction.

Alternative Minimum Tax



- AMT has **NOT** been repealed for individual taxpayers
- Increase in AMT exemption amounts, e.g. to \$109,400 for married taxpayers from \$84,500 in 2017
- Phase-out threshold for exemption increased, e.g. to \$1 million for married taxpayers from \$160,900 in 2017
- Impact of the new AMT changes will depend on taxpayers' specific situation.

Other Provisions



- Roth conversions – Repealed the unwinding of the conversion of a traditional IRA to a Roth IRA (i.e. no more do-overs for Roth IRA conversions)
 - IRC Section 529 plans – Up to \$10,000 a year can be used to pay tuition for K-12 education, including private elementary and high schools
 - Meals and entertainment business expenses – No deduction allowed for entertainment expenses, e.g. golf outings, fishing trips, tickets to professional sporting events, theater tickets, etc.
 - 50% limitation on meals is still allowed, and expanded to limit most meals provided to employees to a 50% deduction.
- TIP: Employee meal deductions will be completely disallowed beginning in 2026.

Other Provisions (continued)

- IRC Section 1031 exchange – gain can only be deferred for real property exchanges.
- Health insurance coverage under Affordable Care Act – individual penalty for not having health insurance repealed after 2018.
- Kiddie tax rules – no longer affected by tax situation of parents. Unearned income will be subject to same tax rates as they apply to trusts and estates. Earned income will be subject to same rates as an unmarried individual.

Provisions That Did Not Change



- Capital gain exclusion on sale of principal residence under Section 121 – did not change. Gain will be excluded from taxable income as long as taxpayer owns and lives in the residence for 2 out of the previous 5 years.
- Educator expenses – unchanged at \$250 above-the-line deduction
- Student loan interest – deduction for student loan interest of up to \$2,500 per year has been retained

Tax Credits



- Child Tax Credit - \$2,000 per qualifying child. Up to \$1,400 will be refundable per child.
- Phase-out income levels increased
- Family Tax Credit – Additional non-refundable credit of \$500 for qualifying dependents who are not qualifying children

2018 Child and Other Dependent Credit		
Credit	Amount per qualifying child/dependent	Phaseout range
Child Tax Credit	\$2,000	MFJ: \$400,000-\$440,000 Others: \$200,000-\$240,000
Dependent credit	\$500	MFJ: \$400,000-\$410,000 Others: \$200,000-\$210,000
Note: There is no personal exemption deduction or credit for the taxpayer and spouse		

California College Access Tax Credit

- Amounts contributed generate a 50% credit on the California return plus a 100% charitable contribution deduction on the federal tax return
- Even taxpayers who do not itemize can use the credit on their California return.
- For taxpayers with high taxable income, the tax benefit can be close to 90% of the contribution amount.
- Credit may be used to reduce regular California tax below tentative minimum tax, the AMT, and any unused portion may be carried over for 6 years.
- Not a new credit, but can still be claimed on tax returns for tax years 2018 to 2022.
 - TIP: See link below for information on the credit, FAQs, and how to apply:
<http://www.treasurer.ca.gov/cefa/catc/index.asp>

California Conformity to Federal Tax Reform



- California conforms to the federal law as it read on January 1, 2015.
- California does not conform to the tax reform changes made to:
 - Federal itemized deductions
 - Standard deductions
 - Section 1031 exchanges
 - NOLs
 - Entertainment expenses
 - Alimony
 - Section 529 plans
 - And other provisions as addressed in other webinars
- TIP: Nonconformity will create significant Schedule CA adjustments from federal taxable income to state taxable income, and possibly the need for a new state tax form to report state itemized deductions.

Estates and Trusts



- 2018 federal estate and gift tax unified credit exclusion amount is \$11.2 million per taxpayer.
- Increased exemption is effective for decedents dying and gifts made after 2017 and before 2026.
- 2018 annual gift exclusion amount is \$15,000.
- Impact of new tax law on trusts:
 - Miscellaneous itemized deductions
 - Pass-through income deduction
- TIP: The higher gift tax exclusion presents a window of opportunity to reduce a potentially taxable estate through gifting before the exemption reverts back to a \$5M - \$6M range in 2026

Trust and Estate Income Tax Rates

Trust and Estate Tax Rates			
Tax Cuts and Jobs Act		Previous law	
Rate	Taxable income	Rate	Taxable income
10%	\$0-\$2,550	15%	\$0-\$2,600
24%	\$2,551-\$9,150	25%	\$2,601-\$6,100
		28%	\$6,101-\$9,300
35%	\$9,151-\$12,500	33%	\$9,301-\$12,700
37%	\$12,501 and over	39.6%	\$12,701 and over

- **TIP:** Consider distributing taxable income to beneficiaries who are in lower tax brackets

For Better or Worse? Individual Taxes Under the New Tax Reform Act

- Questions?

