What The New Tax Reform Means For You

Brought to you by Andrew Seaborg in conjunction with Lincoln Financial Advisors

On December 20, 2017, Congress passed the biggest tax reform law in 30 years — one that will make fundamental changes in the way you, your family, and your business calculate your federal income tax bill and the amount of federal tax you will pay. Here are the biggest changes that will affect individuals and businesses.

Lower tax rates coming

There will be seven individual income tax brackets under tax reform. The top individual income tax rate for ordinary income will be 37%.

Tax rates for married individuals filing joint returns and surviving spouses

IF TAXABLE INCOME IS	THE TAX IS
Not over $19,050	10% of taxable income
Over $19,050 but not over $77,400	$1,905, plus 12% of the excess over $19,050
Over $77,400 but not over $165,000	$8,907, plus 22% of the excess over $77,400
Over $165,000 but not over $315,000	$28,179, plus 24% of the excess over $165,000
Over $315,000 but not over $400,000	$64,179, plus 32% of the excess over $315,000
Over $400,000 but not over $600,000	$91,379, plus 35% of the excess over $400,000
Over $600,000	$161,379, plus 37% of the excess over $600,000

Disappearing or reduced deductions, larger standard deduction

Beginning next year, the Tax Cuts and Jobs Act suspends or reduces many popular tax deductions in exchange for a larger standard deduction:

- **Itemized deductions**. Up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the total of (1) state and local property taxes; and (2) state and local income taxes.

- **Alimony payments**. Beginning in 2019, alimony payments aren’t deductible by the payor or includible in the income of the payee.

- **Charitable contributions**. Itemized deductions won’t be cut, however charitable contributions after 2017 may not yield a tax benefit for many because they won’t be able to itemize deductions.

- **Medical expenses**. Temporarily boosted for 2017 and 2018 as expenses can be claimed as itemized deductions to the extent they exceed a floor equal to 7.5% of your adjusted gross income (AGI).

- **Principal residence mortgage interest**. Deduction will be limited to interest on $750,000 of indebtedness for loans after 2017.

- **Estate, gift, and generation-skipping transfer tax exemptions**. Doubled to $10 million (and are expected to be $11.2 million for 2018 with inflation indexing). Thus, for a married couple the combined exemptions would be $22.4 million in 2018.

Some items not changing for individuals

There are several things that will not be changing under the new tax reform:

- The preferential top rate (i.e., 20%) on capital gains and qualified dividends
- Annual exclusion gifts ($15,000 for 2018)
- The 3.8% net investment income tax is not changing, thus, net investment income (e.g., interest, dividends, capital gains, annuity income, rents, etc.) will be taxable to the extent it exceeds the applicable thresholds (e.g., single taxpayers: $200,000, married filing jointly: $250,000).
- A taxpayer's ability to sell specific lots of securities; the original tax reform bills in the House and Senate would have forced first-in, first-out (FIFO) treatment for the sale of securities (e.g., stocks).
- Stretch-out distributions for beneficiaries of IRAs and other qualified plans
- Rules for excluding gain on the sale of a principal residence

Lower tax rates coming for businesses

- The Tax Cuts and Jobs Act will reduce tax rates for C corporations, effective for the 2018 tax year. Additionally, other businesses, including those operated as pass-throughs (such as partnerships, S corporations, and limited liability companies taxed as partnerships or S corporations) may see their tax bills cut.
- The graduated C corporation tax rates ranging from 15% to 35% will be reduced to a flat 21% rate.
- The corporate alternative minimum tax (AMT) is fully repealed beginning in 2018.
- A new like-kind exchange rule limits exchanges to real estate not held primarily for sale.
- The IRC section 179 deduction will double to $1 million, subject to phase-out.
- Doubling of bonus depreciation to 100% and expansion to include used property. The effective date is for assets acquired and placed in service after September 27, 2017, and before January 1, 2023.
- Pass-through entities (e.g., partnerships, S corporations, and sole proprietorships) will be entitled to a 20% qualified business income deduction. The provision is applicable for business owners with income under $157,500 ($315,000 for married filing jointly). In addition, the benefit is subject to phase-out.

With such sweeping tax reform, taxpayers should think carefully about the best way to fully understand and prepare for what is to come. A financial advisor can help educate your choices and help you plan accordingly in the best interests of your family, business and future.

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CRN-1990255-011018

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