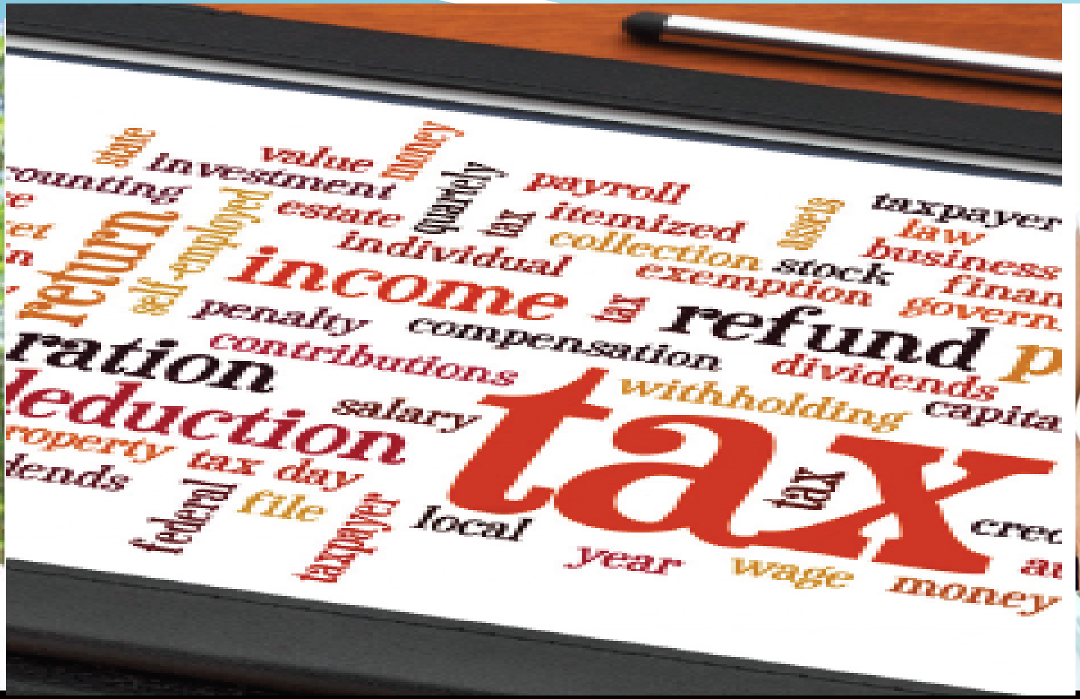

The Credit Manager and the “Tax Cuts and Jobs Act”

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Tax Cuts and Jobs Act (TCJA)

1) **Signed into Law by President Trump: December 22, 2017**

2) **Highlights:**

   a) <u>Federal Estate Tax Exemption</u> will double (and repeals the tax in 2025)

   b) <u>Standard Deduction</u> will nearly double

   c) <u>Personal Exemptions</u> will be eliminated (employees should complete new W-4 form)

   d) Top <u>Corporate Income Tax Rate</u> will fall from <u>35% to 21%</u> (and is permanent)

Tax Cuts and Jobs Act (TCJA)

Highlights (Continued)

e) <u>Business Owners</u> (S-corporations, LLCs, partnerships, sole proprietors) will be able to deduct the <u>first 20% of pass-through income tax-free</u> (up to $157,500 for single filer, $315,000 for married filing jointly). For income in excess of these amounts, the deduction would begin to be phased out.

<u>Note</u>:
A "capital element" is included in the formula for determining eligibility beyond the thresholds, which may provide a large tax break for some, including <u>wealthy owners of commercial property</u>. Income above the pass-through caps can be eligible for the 20% deduction based on the following formula: 50% of employee wages paid or <u>25% of wages plus 2.5% of the value of qualified property</u>, at purchase, whichever is greater.

This may <u>benefit commercial property businesses that have few workers but a lot of valuable property</u>. However, a handful of very large pass-throughs, including law firms, hedge funds, and multi-billion dollar businesses would not be eligible for a pass-through deduction.

Tax Cuts and Jobs Act (TCJA)

Highlights (Continued)

f) **On January 1, 2019, the <u>individual health insurance mandate</u> is scheduled to be repealed (no taxpayer will face a penalty for not having health coverage)**

g) **Taxpayers who <u>divorce</u> in 2019 and succeeding years will not be able to deduct alimony payments (and the recipient will not need to claim payments as income) (similar to child support)**

h) **The <u>Personal Income Tax Rates</u> remain at seven (7) but top rate decreases from <u>39.6% to 37%</u>**

i) **<u>Personal Income Tax Rates</u> are temporary, ending in 2026**

j) **Doubles per-<u>child tax credit</u> to $2,000 for families making up to $400,000 per year**

Tax Cuts and Jobs Act (TCJA)

Highlights (Continued)

k) Businesses that bought new capital equipment after September 27, 2017 will be permitted to fully and immediately expense those purchases for the 2017 tax year

l) The tax deductibility for interest on Home Equity Loans/ Lines is repealed (unless the loan proceeds are used to make "substantial" improvements to the property)

m) Home mortgage interest deduction was modified to reduce the limit on acquisition indebtedness to $750,000 (from $1,000,000) on all homes (including "second" homes)

n) Home sellers who turn a profit keep their tax break from capital gains-$250,000 for single filers and $500,000 for married filing jointly

o) State and local taxes (including property taxes) deduction will be limited to $10,000

2017 Tax Rates

2017 Taxable Income Brackets and Rates				
Rate	Year	Single Filers	Married Joint Filers	Head of Household Filers
10%	2017	$0 to $9,325	$0 to $18,650	$0 to $13,350
15%	2017	$9,326 to $37,950	$18,651 to $75,900	$13,351 to $50,800
25%	2017	$37,951 to $91,900	$75,901 to $153,100	$50,801 to $131,200
28%	2017	$91,901 to $191,650	$153,101 to $233,350	$131,201 to $212,500
33%	2017	$191,651 to $416,700	$233,351 to $416,700	$212,501 to $416,700
35%	2017	$416,701 to $418,400	$416,701 to $470,700	$416,701 to $444,500
39.6%	2017	$418,401+	$470,701+	$444,501+

2018 Tax Rates

2018 Taxable Income Brackets and Rates				
Rate	Year	Single Filers	Married Joint Filers	Head of Household Filers
10%	2018	\$0 to \$9,525	\$0 to \$19,050	\$0 to \$13,600
12%	2018	\$9,526 to \$38,700	\$19,051 to \$77,400	\$13,601 to \$51,800
22%	2018	\$38,701 to \$82,500	\$77,401 to \$165,000	\$51,801 to \$82,500
24%	2018	\$82,501 to \$157,500	\$165,001 to \$315,000	\$82,501 to \$157,500
32%	2018	\$157,501 to \$200,000	\$315,001 to \$400,000	\$157,501 to \$200,000
35%	2018	\$200,001 to \$500,000	\$400,001 to \$600,000	\$200,001 to \$500,000
37%	2018	\$500,001+	\$600,001+	\$500,001+

Capital Gains : 2018

Under the Tax Cuts and Jobs Act, the three capital gains income thresholds don't match up perfectly with the tax brackets. Instead, they are applied to maximum taxable income levels, as follows:

Long-Term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household
0%	Up to $38,600 (2017: Up to $37,951)	Up to $77,200 (2017: Up to $75,901)	Up to $51,700 (2017: Up to $50,801)
15%	$38,600-$425,800 (2017: $37,952-$418,401)	$77,200-$479,000 (2017: $75,902-$470,701)	$51,700-$452,400 (2017: $50,802-$444,501)
20%	Over $425,800 (2017: Over $418,401)	Over $479,000 (2017: Over $470,701)	Over $452,400 (2017: Over $444,501)

Changes in Personal Amounts

Item	2016	2017	2018
Standard Deduction			
Married Filing Jointly	12,600	12,700	24,000
Single (and married filing separately)	6,300	6,350	12,000
Head of Household	9,300	9,350	18,000
Personal Exemption (Subject to Phase out limits)	4,050	4,050	-0-
Social Security Wage Base	118,500	127,200	128,400
Employee Portion of Social Security	6.20%	6.20%	6.20%
Medicare Wage Base at 1.45%	No Limit	No Limit	No Limit

Changes in the Transportation Amounts

Item	2016	2017	2018
Business Mileage, Per Mile (reimburse an employee for business use of a personal vehicle)	54.0 Cents	53.5 Cents	54.5 Cents
Charitable Mileage, Per Mile	14 Cents	14 Cents	14 Cents
Medical and Moving, Per Mile	19 Cents	17 Cents	18 Cents *

* Medical only, except Moving is still allowed for Active Duty Military.

Net Investment Income

The <u>3.8% tax on net investment income </u>(capital gains, interest and dividend income from investment assets, rental and royalty income) can apply if your modified adjusted gross income exceeds $200,000 ($250,000 if married filing jointly) is <u>unchanged</u>.

PEASE LIMITATION REPEALED

- Beyond changes to just the tax brackets themselves, Section 11046 of TCJA **repeals IRC Section 68, commonly known as the Pease limitation** (named for the U.S. Congressman who originated the rule). **The Pease limitation phased out 3% of a taxpayer's itemized deductions once income crossed a certain threshold** (in 2017, those with more than $261,500 of AGI as individuals, or $313,800 as married couples).

- Notably, while the Pease limitation was literally a phase out of itemized deductions, because the magnitude of the phase out was based on an individual's *income* (not their deductions, as it was based on the amount of *income* over the threshold), **the Pease limitation was effectively a 1% to 1.2% surtax for upper income individuals**. **Accordingly, the removal of the Pease limitation effectively provides a further reduction in marginal tax rates for upper-income individuals**.

- As with the individual tax brackets, the repeal of the Pease limitation sunsets after 2025 (i.e. the Pease limitation is scheduled to return in 2026).

Alternative Minimum Tax (AMT)

Previous law: For the 2017 tax year, the AMT exemption amount for single filers is $54,300 and begins to phase out at $120,700, and for joint filers, it is $84,500 and begins to phase out at $160,900, according to the IRS.

New law: The AMT exemption amounts will increase to $70,300 for single filers and $109,400 for joint filers and will phase out for those taxpayers at $500,000 and $1 million, respectively, according to the nonpartisan Tax Policy Center's analysis of the bill. These changes will end after 2025.

Net Operating Losses

The TCJA limits deductions for net operating losses ("NOLs") to 80% of "taxable income" for any taxable year (90% in connection with NOLs related to "excess business losses"). NOLs will no longer expire after 20 years but will be carried forward indefinitely to future tax years. However, the current two-year carryback of NOLs will no longer be available to most taxpayers.

Note: "Excess business losses" are defined as losses attributable to the taxpayer's trades or businesses in excess of $500,000 for married individuals filing jointly or $250,000 for other individuals.

The effect of the TCJA is to limit a taxpayer's ability to use losses from a non-passive business activity to offset other sources of income. This will directly affect any real estate professional who used more than $500,000/$250,000 of real estate losses to offset unrelated income.

Section 179 Expense

As of December 31, 2015, Sec. 179 became permanent and increased the expensing limit to $500,000 with $2 million in property purchases including phase out threshold and an expanded definition of Sec. 179 property to include qualified real property.

With the TCJA, Sec. 179 was increased to $1,000,000 expensing limit and $2.5 million phase out threshold.

	2015	2016	2017	2018
Expensing Limit	500,000	500,000	510,000	1,000,000
Total Property Purchased	2,000,000	2,010,000	2,030,000	2,500,000

Bonus Depreciation Deduction

Traditionally, a depreciation deduction equal to 50% of the adjusted basis of qualifying property in the first year it is placed in service (also known as bonus depreciation) was allowed.

The TCJA extends and modifies the additional first-year (bonus) depreciation which had been scheduled to end in 2019, through 2016 (through 2017 for longer production period property and certain aircraft). **Under the new law, the 50% additional depreciation allowance is increased to 100% for property place in service after September 27, 2017, and before January 1, 2023** (January 1, 2024, for longer production period property and certain aircraft), as well as for specified plants planted or grafted after September 27, 2017, and before January 1, 2023.

The 100% allowance is phased down by 20 percent per calendar year for property placed in service, and specified plants planted or grafted, in taxable years beginning after 2022 (and after longer production period property and certain aircraft).

The provision applies to purchases of used as well as new items.

Mortgage Insurance Premiums

Mortgage Insurance Tax Deduction Act of 2017

This bill amends the Internal Revenue Code to make permanent the tax deduction for mortgage insurance premiums.

Forgiveness of Debt

Homeowner's in recent years, who had mortgage debt forgiven by a lender have been exempted from paying tax on the forgiven debt. This provision was passed to stabilize the housing market (from the impact of the "Great Recession" and was extended through to 2015 and 2016. There is legislation in process to make this permanent.

Retirement Planning: 2018

- **Contribution limits for 401(k)s: $18,500 (plus $6,000 Catch-up)**

- **Contribution limits for IRA $5,500 (plus $1,000 Catch-up)**

- **401(k) money can be rolled over into a Simple IRA plan. This should make pension planning simpler.**

Health Savings Accounts (HSAs)

Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans			
	2017	2018	Change
HSA contribution limit(employer + employee)	Self-only: $3,400 Family: $6,750	Self-only: $3,450 Family: $6,900	Self-only: +$50 Family: +$150
HSA catch-up contributions (age 55 or older)*	$1,000	$1,000	No change**
HDHP minimum deductibles	Self-only: $1,300 Family: $2,600	Self-only: $1,350 Family: $2,700	Self-only: +$50 Family: +$100
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Self-only: $6,550 Family: $13,100	Self-only: $6,650 Family: $13,300	Self-only: +$100 Family: +$200

* Catch-up contributions can be made during the year by HSA-eligible participants who will turn 55 by year-end.
** Unlike other limits, the HSA catch-up contribution amount is not indexed; any increase would require statutory change.

Contributions for a given year may be made until the individual's federal tax return due date for that year, without extensions, in which case the HSA administrator must indicate that post-year end contributions are attributed to the prior calendar year.

Changes in Estate & Gift Tax

Item	2016	2017	2018
Annual Gift Exclusion (Amount you can give each person)	14,000	14,000	15,000
Federal Estate Tax Exemption (Indexed for Inflation)	$5.45 Million (per person)	$5.49 Million (per person)	$11.20 Million (per person)
Maximum Estate Tax Rate	40%	40%	40%

Charitable Giving

- **A central pillar of the massive tax law <u>doubles the standard deduction used by two-thirds of Americans, to $12,000 for individuals and $24,000 for married couples</u>. That means many taxpayers who now itemize deductions will find it's no longer beneficial for them do so. They'll find that the deductions they normally take, including for charitable giving, don't add up to as much as the new standard amount.**

- **The result: <u>some estimates project that as few as 10 percent of taxpayers will continue to itemize deductions on their returns, down from the current one-third</u>.**

- **By contrast, the wealthiest Americans likely will continue to receive the tax benefit of using itemized deductions, including for charitable giving.**

Higher Education Incentives

Most education benefits remain the same, others modified

Taxpayers can continue to claim the **American Opportunity Credit**, a credit of up to $2,500 per year for the first four years of college education, and the **lifetime learning credit**, a credit of up to $2,000 per year for qualifying education expenses.

Taxpayers can continue to use savings bonds for education, educational assistance programs provided by employers, 529 plans and Coverdell education savings plans to save for college. Some scholarships and tuition waivers can continue to be treated as tax-free if certain conditions are met.

529 plans can now be used for K-12 expenses. Plans can distribute up to $10,000 each year for tuition incurred for enrollment or attendance at a public, private, or religious elementary or secondary school. The $10,000 limit for elementary and secondary school is applied on a per-student limit.

Taxpayers whose student loans are cancelled because death or total and permanent disability may be eligible to treat the cancellation of debt as tax-free.