James Zahansky, AWMA®
Principal/Managing Partner
& Chief Goal Strategist

Tax Cuts and Jobs Act of 2017: What Taxpayers Need to Know

On December 20, 2017, the U.S. House of Representatives and U.S. Senate passed the Tax Cuts and Jobs Act of 2017 TCJA). The legislation makes significant changes to the Internal Revenue Code (IRC), including individual, corporate, and gift and estate taxation.

As part of Weiss & Hale Financials' commitment to help you Plan Well and Invest Well so you can Live Well, we have created the following piece highlighting important changes affecting you. We encourage you to review the information below and consider how it may affect your strategic financial plan.

The individual income tax change remains with seven tax brackets. Previous tax rates of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% will now become 10%, 12%, 22%, 24%, 32%, 35%, and 37% with varying changes of income thresholds. Most of the income that is within the 10% and 15% brackets are now taxed at 12% and income in the 25% and 28% brackets are now taxed at about 25%. In addition to these changes, the threshold for income earned at the 39.6% tax rate is raised.

In addition to these changes, many exemptions and deductions for individual income tax will be repealed or modified.

The personal exemption of $4,150 per taxpayer and dependent will be eliminated. The standard deduction for individuals will go from $6,500 for individuals and $13,000 for married couples to $12,000 for individual taxpayers and $24,000 for married couples who file jointly. This near doubling of the standard deduction will result in more taxpayers taking it instead of itemizing.

The legislation also places limits on several itemized deductions. State and local income tax and property tax as of 2017 were fully deductible, but as of 2018 will be limited to a maximum of $10,000. Mortgage Interest deduction debt limitation was lowered to $750,00 from $1 Million.

Another important change is to the deductible rates on medical expenses. In tax year 2017

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medical expenses are deductible to the extent they exceed 10% of adjusted gross income (AGI) and ratified to the extent of 7.5% in 2018.

Some other specific itemized deductions that will be modified are moving expenses which are no longer deductible unless you are military. Miscellaneous itemized deductions are no longer deductible and there is no longer a phase-out for itemizing deductions

Miscellaneous individual income tax changes
In addition to the major modifications discussed above, other changes such as family tax credits. The child tax credit will be doubled, from $1,000 to $2,000, and the refundable portion of that credit will be allowable up to $1,400. The act also will grant a new credit of $500 for other dependents. These will phase out at income limits of $200,000 (single) and $400,000 (married).

Effective January 1, 2018, the individual unified gift and estate tax exemption will be raised to $11.2 million (up from what was set to be $5.6 million), and, with portability remaining intact, $22.4 million for a married couple. The top rate will remain 40 percent. The new rates are set to expire—and return to 2017 levels—at the end of calendar year 2025.

Under 2017 law, gifts of cash to charity offer a taxpayer the ability to deduct the contribution, up to 50 percent of AGI. The TCJA will increase the limitation to 60 percent of the taxpayer's AGI.

The TCJA includes an expansion of 529 savings plans that will allow families to save for K–12 expenses, in addition to college expenses. 529 plans will also be able to use qualified distributions for elementary and secondary school expenses, up to $10,000 per year, per student. In addition, the definition of qualified education expenses will be further expanded to include homeschooling expenses.

The TCJA will eliminate the penalty imposed under the IRC for individuals who do not maintain individual health care coverage.

The individual AMT exemption amount will increase to $70,300 for individual filers and $109,400 for joint filers. The phase-out for the AMT exemption will increase to $500,000 for individuals and $1 million for married couples. With enactment of the new act, fewer Americans will be subject to the AMT.

The TCJA will eliminate the ability for a taxpayer to unwind a Roth conversion and "recharacterize" back to a traditional IRA. This will begin for conversions occurring after January 1, 2018. Be sure to speak with your financial advisor before considering any new recharacterizations, as there is current debate as to whether Roth conversions that

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occurred in 2017 may still be characterized in 2018.

Under law in effect for the 2017 tax year, all pass-through business income is taxed at the individual taxpayer's marginal rate, as is most ordinary income. Under the TCJA, qualified pass-through business income will be addressed in a new IRC Section 199A.

Under 199A, deduction of 20 percent of the non-wage allocation of qualified business income from the trade or business. Also, deduction limited to 50 percent of W-2 wage income The limitation was set in an effort to prevent abuse in classifying wage income as business income in order to receive a lower rate for income that should be taxed at ordinary income rates. For individuals who earned more than $157,000 and married coupled whose income exceeds $315,000. These changes sunset at the end of year 2025 as written in TCJA

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697 Pomfret Street, Pomfret Center, CT 06259 | TEL 860.928.2341 TOLL FREE 866.928.2341 FAX 860.928.5271
www.weissandhale.com

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