MANSKE WEALTH MANAGEMENT

Tax Cuts and Jobs Act - Individuals

The Tax Cuts and Jobs Act, a $1.5 trillion tax cut package, was signed into law on December 22, 2017. Some of the major changes included in the legislation that affect individuals are summarized below; unless otherwise noted, the provisions are effective for tax years 2018 through 2025.

Individual Income Tax Rates

- The legislation replaces most of the seven current marginal income tax brackets (10%, 15%, 25%, 28%, 33%, 35%, and 39.6%) with corresponding lower rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The legislation also establishes new marginal income tax brackets for estates and trusts and replaces existing "kiddie tax" provisions (under which a child's unearned income is taxed at his or her parents' tax rate) by effectively taxing a child's unearned income using the estate and trust rates.

Standard deduction and personal exemptions

- The legislation roughly doubles existing standard deduction amounts but repeals the deduction for personal exemptions. Additional standard deduction amounts allowed for the elderly and the blind are not affected by the legislation and will remain available for those who qualify. Higher standard deduction amounts will generally mean that fewer taxpayers will itemize deductions going forward.

Itemized deductions

- The overall limit on itemized deductions that applied to higher-income taxpayers is repealed, and the following changes are made to individual deductions:
    - State and local taxes - Individuals are only able to claim an itemized deduction of up to $10,000 ($5,000 if married filing a separate return) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income).
    - Home mortgage interest deduction — Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married individuals filing separately) of qualifying mortgage debt. For mortgage debt incurred prior to December 16, 2017, the prior $1 million limit will continue to apply. No deduction is allowed for interest on home equity indebtedness.
    - Medical expenses - The adjusted gross income (AGI) threshold for deducting unreimbursed medical expenses is retroactively reduced from 10% to 7.5% for tax years 2017 and 2018, after which it returns to 10%. The 7.5% AGI threshold applies for purposes of calculating the alternative minimum tax (AMT) for the two years as well.
    - Charitable contributions - The top adjusted gross income (AGI) limitation percentage that applies to deducting certain cash gifts is increased from 50% to 60%.
    - Casualty and theft losses - The deduction for personal casualty and theft losses is eliminated, except for casualty losses suffered in a federal disaster area.

Child tax credit

- The child tax credit is doubled from $1,000 to $2,000 for each qualifying child under the age of 17. The maximum amount of the credit that may be refunded is $1,400 per qualifying child, and the earned income threshold for refundability falls from $3,000 to $2,500.

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Tax Cuts and Jobs Act - Business

The Tax Cuts and Jobs Act, a $1.5 trillion tax cut package, was signed into law on December 22, 2017. The centerpiece of the legislation is a permanent reduction of the corporate income tax rate. The corporate rate change and some of the other major provisions that affect businesses and business income are summarized below. Provisions take effect in tax year 2018 unless otherwise stated.

Corporate Tax Rates

- Instead of the previous graduated corporate tax structure with four rate brackets (15%, 25%, 34%, and 35%), the new legislation establishes a single flat corporate rate of 21%.
- The Act reduces the dividends-received deduction from 70% to 50%. If the corporation owns 20% or more of the company paying the dividend, the percentage is now 65%, down from 80%.
- The Act permanently repeals the corporate alternative minimum tax (AMT).

Pass-Through Business Income Deduction

- For tax years 2018 through 2025, a new deduction is available equal to 20% of qualified business income from partnerships, S corporations, and sole proprietorships.
- The deduction is generally limited to the greater of 50% of the W-2 wages reported by the business, or 25% of the W-2 wages plus 2.5% of the value of qualifying depreciable property held and used by the business to produce income.
- The deduction is not allowed for certain businesses that involve the performance of services in fields including health, law, accounting, actuarial science, performing arts, consulting, athletics, and financial services.
- For those with taxable incomes not exceeding $157,500 ($315,000 if married filing jointly), the full deduction amount can be claimed. Those with taxable incomes between $157,500 and $207,500 (between $315,000 and $415,000 if married filing jointly) may be able to claim a partial deduction.

Internal Revenue Code (IRC) Section 179 expensing

- The maximum amount that can be expensed in 2018 increased from $520,000 to $1,000,000, and the threshold at which the maximum deduction begins to phase out increased from $2,070,000 to $2,500,000. Both the $1,000,000 and $2,500,000 amounts will be increased to reflect inflation in years after 2018. The new law also expands the range of property eligible for expensing.

Foreign income

- Qualifying dividends from foreign subsidiaries are effectively exempted from U.S. tax. This is accomplished by allowing domestic C corporations that own 10% or more of a foreign corporation to claim a 100% deduction for dividends received from that foreign corporation, to the extent the dividends are considered to represent foreign earnings.
- Corporations must pay U.S. tax on prior-year foreign earnings that have accumulated outside the United States in foreign subsidiaries, through a one-time "deemed repatriation" of the accumulated foreign earnings.

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