ACUMEN WEALTH ADVISORS®

Highlights of the 2018 Tax Code Changes

Report current as of January 19, 2018

- **New individual tax rates:** The new law sets seven individual brackets at 10%, 12%, 22%, 24%, 32%, 35% and 37%. The new 37% top rate applies to taxable income in excess of $500,000 for single filers and $600,000 for joint filers.
- **No changes to capital gains and dividends:** Capital gains and qualified dividends will continue to be taxed at the current 0%, 15% and 20% rates, depending on income. Wealthier filers will continue to pay an additional 3.8% tax on investment income, known as the Net Investment Income Tax.
- **Increased standard deduction:** The standard deduction will nearly double, to $12,000 for single filers and $24,000 for joint filers.
- **Increased child tax credit:** The per-child tax credit will double from $1,000 to $2,000.
- **Increased exemption for Alternative Minimum Tax (AMT):** The AMT will be retained for individuals, but the exemption and phase-out amounts have sharply increased.
- **Mortgage interest deduction:** Individuals will be allowed to deduct interest paid on new mortgages (issued after Jan.1, 2018) of up to $750,000. That's down from the previous cap of $1 million. The deduction will also apply to second homes, but not for home equity lines of credit.
- **State and local tax deduction:** Taxpayers will be allowed to deduct up to $10,000 in a combination of property tax and income tax (or sales tax).
- **Estate tax exemption doubled:** Estates of up to $11 million (or $22 million for couples) will be exempt from taxation.
- **Numerous other deductions and tax credits repealed:** The law repeals deductions for investment expenses (such as advisor fees, but not investment interest expenses), safe deposit fees, tax preparation, moving expenses and alimony payments, among others.
- **Expiration of most individual tax provisions:** Virtually all of the provisions that apply to individuals are set to expire at the end of 2025. A future Congress would have to vote to extend them, otherwise they would revert to 2017 levels.
- **Repeal of the individual mandate:** Starting in 2019, the law repeals the requirement set by the Affordable Care Act that individuals purchase health insurance or pay a penalty.
- **Preserves deduction for medical expenses:** Medical expenses above 7.5% of adjusted gross income will be deductible in 2017 and 2018. Beginning in 2019, the threshold will rise to 10%.
- **Reduction in the corporate tax rate:** Corporations will be taxed at 21% beginning in 2018, down from today's top corporate rate of 35%.
- **Reduction in taxes for "pass-through" businesses:** Most so-called "pass-through" businesses, such as S corporations, limited liability corporations, partnerships and sole proprietorships, including those owned by trusts, will be allowed to deduct 20% of their income. There are special rules for certain types of services businesses. This provision is extremely complicated. Advisors may want to consult a tax specialist for details.
- **Repeal of IRA "recharacterizations":** The law repeals the ability of taxpayers to recharacterize, or undo, a Roth conversion, effective for conversions made after December 31, 2017. In January, the IRS issued guidance to clarify that conversions made in 2017 could be recharacterized by October 15, 2018.

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Other issues of particular interest to investors:

- **No changes to cost-basis rules:** The Senate version of the legislation would have required investors to use the "first in, first out" (FIFO) method when calculating their cost-basis for stock sales. That provision was dropped from the final agreement. Investors will continue to have the ability to choose which lots of stock they are selling.
- **Expansion of 529 college savings accounts:** Up to $10,000 per year of money in a 529 college savings plan can be used to pay for K-12 school tuition.
- **No major changes to retirement savings accounts:** Contribution limits to IRAs, Roth IRAs, 401(k)s and other retirement plans were not changed.
- **Gift tax exclusion increases:** While this was not part of the new tax law, the IRS previously announced that the gift tax exclusion amount would increase from $14,000 to $15,000 for 2018.