



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Numerous other deductions and tax credits repealed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.



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.

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Acumen Wealth Advisors

250 Forest Avenue
Chattanooga, TN 37405
423.825.4796



Acumen Wealth Advisors



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