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Estate Planning Alert

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What You Should Know About the Final Version Of the Tax Cuts and Jobs Act of 2017

In this week before the holidays, lawmakers are poised to deliver significant changes to the tax code. Most of these changes will be effective from 2018 through 2025 and will then expire. Here is a brief list of some of those changes; however, it should be noted that until this latest version of the bill is voted upon and passed, it is subject to change.

Individuals

1. Income tax rates will range from 10% for those individual filers earning up to $9,525 to 37% for those individuals earning more than $500,000. Since the top bracket is falling from 39.6% to 37%, if you are able to do so, it may be advantageous to defer a portion of your income to 2018.
2. All state, local and property tax deductions will be capped at $10,000. You may wish to prepay these taxes by 12/31/17 in order to be able to deduct the full amount on your 2017 tax return. This would include any unpaid 2017 estimated Illinois income taxes and 2017 real property taxes otherwise payable in 2018. Prepayment will not benefit those filers in the Alternative Minimum Tax (AMT).
3. Deductible mortgage interest will be limited to $750,000 of new home acquisition debt instead of the $1,000,000 of indebtedness allowed now. No deductions will be allowed for interest on home equity indebtedness.
4. The AMT will stay in place for individuals; however, the exemption amounts will increase from $86,200 to $109,400 for married filing jointly filers and the phase-out threshold increases to $1 million.
5. The standard deduction amounts will increase to $12,000 for an individual and $24,000 for a married couple filing jointly. If these higher standard deduction amounts exceed the amount of your normal itemized deductions, you may wish to make your charitable contributions by the end of 2017 so that you have the benefit of a corresponding tax deduction (subject to phase out of itemized deductions).
6. There will be no more phase out of itemized deductions.
7. Personal exemptions will be eliminated.
8. A new 20% deduction is created for taxpayers receiving income from pass-through entities. However this deduction will begin to phase out for married filing jointly filers with income in excess of $315,000 whose pass-through income is derived from certain services businesses (including, but not limited to, health and law).
9. Except for those in the military, moving expenses will not be deductible.
10. The floor to determine if medical expenses are deductible or not will be changed to 7.5% of adjusted gross income for all ages (not just those born before 1/2/1952) for 2017 and 2018 only. In 2019, the threshold will revert back to 10% of adjusted gross income.

Corporations

1. The tax rate of 35% will decrease to 21%, which will be a permanent cut.
2. AMT will be eliminated for corporations.
3. Employers will lose the ability to deduct from income the cost of providing up to $255 per month per employee for parking and transit expenses.
4. Companies will be able to expense immediately the cost of new machinery and equipment. This benefit will phase out after five years.
5. The use of net operating loss carrybacks will be eliminated and carryforwards will be limited to 80% of taxable income.

Estate Tax

Stays in place; however, the lifetime gift, estate and generation-skipping transfer tax exemption is increased in 2018 from $5.6 million to $11.2 million per person until 2026.

If you have any questions about this Alert, please contact the author listed below or the Aronberg Goldgehn attorney with whom you normally consult:

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