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Dec. 22, 2017

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President Donald Trump signed the 2018 tax reform law into effect on Friday morning at the White House. While the bill was still in the House, President Donald Trump said he wanted to enact the new tax reform law before Christmas. Then, after the law passed both the House and Senate, there was discussion about holding off the signing until the first week in January. The President said he decided to stick by his Christmas pledge.

This sweeping overhaul of the tax code – the largest in more than three decades — is the signature legislation of the first year of his administration.

Generally, the provisions in the TCJA take effect on January 1, 2018. Most of the provisions affecting individuals are temporary and “sunset” after 2025, while the majority of business provisions are permanent. Following is a rundown on some of

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37%. In addition, a chain CPI index will be used for future indexing, thereby reducing the size of annual adjustments.

Standard deductions: The standard deduction is effectively doubled to $12,000 for single filers and $24,000 for joint filers, while the additional standard deductions for the elderly and blind are retained.

Personal exemptions: Personal exemptions, including exemptions available for qualified for dependent children and relatives, are repealed. Accordingly, the personal exemption phase out (PEP) rule also goes away.

Alternative minimum tax: The alternative minimum tax (AMT) system is retained, but exemption amounts, as well as the thresholds for phasing out exemptions, are significantly increased. In addition, these figures will be indexed for inflation in future years.

Child tax credit: The child tax credit (CTC) is doubled from $1,000 per qualified child to $2,000, subject to a phase-out for high-income taxpayers. Under a late amendment, $1,400 of this credit is refundable. In addition, the new law creates a $500 nonrefundable credit for non-child dependents.

State and local taxes: In a controversial provision, the TCJA limits the deduction for state and local income taxes (SALT) to $10,000 annually for any combination of state and local property taxes or (2) state and local income taxes or sales taxes.

Mortgage interest: Although deductions for prior debt is grandfathered, the new law limits the mortgage interest deduction to interest paid on the first $750,000 of acquisition debt, down from $1 million. It also eliminates deductions for interest paid on home equity debt.

Medical expenses: While other itemized deductions are eliminated or scaled back,

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home schooling expenses, for up to $10,000 per year.

Roth IRAs: The rule permitting taxpayers to recharacterize a Roth IRA back into a traditional IRA after a conversion is repealed.

Health insurance: The new law repeals the health insurance mandate for individuals established by the ACA. This change doesn't take effect until 2019.

Estate tax: The federal estate tax exemption is doubled, resulting in an inflation-indexed exemption of $11.2 million in 2018.

Business Tax Provisions

Unlike the individual tax provisions in the new law, the key provisions relating to businesses are generally permanent. Following is a brief rundown.

Corporate tax rates: The corporate tax rate structure, which features a top rsate of 35%, is replaced with a flat 21% rate.

Pass-through entities: Under the new law, pass-through entities — such as partnerships, S corporations, limited liability companies (LLCs) and sole proprietors — can claim a 20% deduction on earnings, subject to special rules restrictions. The deduction is not available to higher-income personal service providers.

Section 179 deduction: The new law doubles the maximum Section 179 "expensing" allowance from $500,000 to $1 million. It also increases the phaseout threshold for Section 179 deductions from $2 million to $2.5 million.

Bonus depreciation: Similarly, the new law doubles the first-year "bonus depreciation deduction" from 50% to 100%, but phases it out after five years. The deduction generally won't be available after 2026.

Luxury car rules: The new law raises the caps on depreciation deductions allowed

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Entertainment deductions: The deduction for business-related entertainment is repealed. Businesses can still generally deduct 50% of the cost of qualified meals.

Interest deductions: Deductions for business interest expenses are capped at 30% of AGI, subject to certain special rules. However, a small business with average gross receipts of $15 million or less for the past three years is exempt.

Foreign taxes: A one-time repatriation tax of 15.5% for liquid assets and 8.0 percent for illiquid assets is imposed on earnings from overseas. Furthermore, a complex new system for international taxation is being implemented.

Of course, this brief article only covers the highlights of the new law. Numerous other provisions are repealed or modified. We will provide more details throughout the coming year.

Reminder: This is just the tip of the iceberg. The new tax reform law includes numerous other changes that will affect individuals and businesses. More details are coming in future issues of this publication.

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