BAIRD
Private Wealth Management

After Tax Reform: Comparing the Old & New Law

The tax reform process dominated the news cycle at the end of 2017, and now we finally have a clear picture of what will be changing.

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The last two months of 2017 included a frenzy of proposals and counter-proposals the led to one of the largest changes to our tax code in decades. While many reform ideas were debated during that time, not all of them ultimately survived the legislative process. On the other hand, some of those that did make it into the final bill ended looking much different than originally expected. And to further complicate things, many of the new laws will expire in future, while others were made permanent.

Below is a final summary of how tax laws will be changing, and the time frame during which these changes will apply.

INDIVIDUAL TAX RATES, BRACKETS AND CREDITS

Description	Old Law	New Law	Effective Beginning	Effective Through
Ordinary income tax brackets	• 7 different brackets – 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The top tax rate applies to taxable income over $470,700 ($418,400 for singles).	• Reconfigure current 7 brackets to new income levels and new rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%. The top tax rate would apply to income over $600,000 ($500,000 for singles), with most income levels below that having a reduced marginal tax rate.	2018	2025
Capital gain tax brackets	• 3 different brackets that are tied to the ordinary brackets. A 0% rate applies to those in the 15% bracket or lower, a 20% rate to those in the 39.6% bracket, and a 15% rate for those in the middle.	• The 0%, 15% and 20% rates stay the same, but are tied to specific dollar amounts roughly equivalent to 2017 levels rather than adjusting to the new tax brackets.	2018	2025
Child credit	• $1,000 credit per child under age 17 • Phaseout begins for couples with AGI over $110,000 ($75,000 for singles).	• Credit increased to $2,000 per child under age 17. • Adds a new $500 credit for any dependent not eligible for the $2,000 credit. • Phaseout begins for couples with AGI over $400,000 (singles over $200,000)	2018	2025

Description	Old Law	New Law	Effective Beginning	Effective Through
Kiddie Tax	• First $1,050 of a child's unearned income is exempt from tax. • Next $1,050 is taxed at the child's tax rate. • Unearned income over $2,100 is taxed as if it belonged to the parent. • Applies to children under age 18, or under age 24 if a full-time student. • The child's earned income is taxed using the tax rates and brackets for a single person.	• Unearned income over $2,100 is taxed using the income tax rates and brackets that apply to trusts and estates. • No change to the exemption or age thresholds	2018	2025
Alternative Minimum Tax exemption	• No scheduled changes to overall structure of AMT. • The AMT exemption is $78,750 for couples and $50,600 for singles. • These would be phased out beginning at AMTI of $150,000 (couples) and $112,500 (singles).	• The AMT exemption for couples would increase to $109,400 and $70,300 for singles. • These would be phased out beginning at AMTI of $208,400 (couples) and $156,300 (singles).	2018	2025

INDIVIDUAL DEDUCTIONS AND EXEMPTIONS

Description	Old Law	New Law	Effective Beginning	Effective Through
Personal exemption deductions	• A $4,050 personal exemption deduction is allowed for each taxpayer, spouse and any dependents. • The deduction is phased out for couples with AGI over $313,800 ($261,500 for singles). •	• Personal exemption deductions are repealed.	2018	2025
Standard deduction	• Married couples may claim a standard deduction of $13,000 ($6,500 for singles). • An additional deduction of $1,250 may be claimed for each spouse age 65 or older or if they are blind ($1,550 for singles).	• The standard deduction for married couples increases to $24,000 ($12,000 for singles). • The additional deductions for those age 65 or older or blind does not change.	2018	2025
Phaseout of itemized deductions (Pease limitation)	• Married couples with AGI over $313,800 (singles over $261,500) are subject to a phaseout of itemized deductions. • The amount of deductions lost equals 3% of AGI over the threshold.	• The phaseout of itemized deductions is repealed.	2018	2025
State income, sales and property taxes	• Fully deductible.	• Total deduction capped at $10,000.	2018	2025

Description	Old Law	New Law	Effective Beginning	Effective Through
Medical expenses	• Deductible to the extent they exceed 10% of AGI.	• Deductible to the extent they exceed 7.5% of AGI	2017	2018
Mortgage interest	• Interest on debt up to $1 million used to acquire a residence can be deducted.	• The debt limit would fall to $750,000.	Loans acquired after December 15, 2017.	2025
Home equity loan interest	• Interest on up to $100,000 of home equity debt not used to acquire or improve a home can be deducted.	• Deduction for interest paid on home equity debt not used to acquire or improve home is no longer deductible.	2018	2025
Miscellaneous itemized deductions	• A variety of expenses are combined in this category, and are deductible only to the extent the total exceeds 2% of AGI. These include tax preparation fees, unreimbursed business expenses, investment fees, union dues, safety deposit box rental, etc.	• All miscellaneous deductions are repealed.	2018	2025
Casualty losses	• Losses due to theft, vandalism, weather, fire, accidents, etc. are deductible. Each loss has a $100 deductible, and the remaining total loss must exceed 10% of AGI.	• Only losses due to events covered under special disaster relief legislation are deductible. • Other limitations remain the same.	2018	2025
Charitable contributions	• Donations of cash to public charities can be deducted up to 50% of AGI. • Gifts to schools that include the opportunity to purchase athletic tickets are 80% deductible.	• The 50% threshold is increased to 60%. • Gifts that include the opportunity to purchase athletic tickets are no longer deductible	2018	2025
Moving expenses	• A deduction is allowed for job-related moving expenses when the new job is more than 50 miles further from the old home than the old job was.	• Moving expenses are only deductible by active-duty military members who are moving pursuant to a military order.	2018	2025
Gambling losses	• Gambling losses are only deductible to the extent of gambling winnings. Other expenses related to gambling can deducted regardless of gambling winnings.	• All gambling-related expenses, including losses, are only deductible to the extent of gambling winnings.	2018	2025
Alimony	• Alimony payments are deductible for the payor and are taxable to the recipient.	• Alimony payments are no longer deductible for the payor or taxable to the recipient.	Agreements entered into after 2018. Existing agreements modified after 2018 can opt into new treatment.	2025

TAXABILITY OF PASS-THROUGH BUSINESS INCOME

Description	Old Law	New Law	Effective Beginning	Effective Through
Tax treatment of pass-through business income	• Income from a pass-through business (partnership, S Corporation or sole proprietorship) is taxed at the same individual tax rates that apply to all other income earned by the owner.	• The first 20% of qualifying business income would be excluded from taxable income. • The exclusion for couples with total taxable income over $315,000 (singles over $157,500) may be limited as follows: o Service corporations are not eligible for the exclusion. o Other businesses may be capped based on the wages paid to employees and the assets held by the business. o These limitations are phased in until taxable income for couples hits $415,000 ($207,500 for singles) • The remaining 80% of income from the business would be taxed at the individual tax rates.	2018	2025
Qualifying business income – REITs	• The individual tax rates apply to all income from a REIT.	• REIT income, other than capital gains and qualified dividends, is eligible for the 20% exclusion. The income-based phaseouts do not apply.	2018	2025
Qualifying business income – publicly traded partnerships (PTPs)	• The individual tax rates apply to all income from a PTP.	• Income from a PTP, other than investment-type income, is eligible for the 20% exclusion. The income-based phaseouts do not apply.	2018	2025

OTHER BUSINESS TAX PROVISIONS

Description	Old Law	New Law	Effective Beginning	Effective Through
Tax rate on C Corporation income	• C Corporations are subject to a graduated tax system, but effectively pay a 35% tax rate.	• The tax rate on all C Corporations would be lowered to 21%.	2018	Permanent
Corporate Alternative Minimum Tax	• C Corporations are subject a corporate Alternative Minimum Tax.	• The corporate AMT is repealed.	2018	Permanent
Accelerated depreciation deductions	• Businesses can immediately deduct 50% of the cost of qualified property, with that amount decreasing to 40% in 2018, 30% in 2019 and then to 0% in 2020. • The balance of the cost is depreciated over the useful life of the asset.	• Businesses can deduct 100% of the cost of qualified property. • The 100% is then reduced to 80% for 2023, 60% for 2024, 40% for 2025 and 20% for 2026. • For assets acquired in 2027 and beyond, the cost is depreciated over the useful life of the asset.	Property placed in service after September 27, 2017	Gradually reduced until reaching 0% in 2027

Description	Old Law	New Law	Effective Beginning	Effective Through
Section 179 deduction	• Businesses can immediately deduct up to $500,000 for purchasing qualified property. • This amount is phased out for those that purchase more than $2 million of such property in one year.	• The expense amount is increased to $1 million, and the phaseout applies when purchases exceed $2.5 million. • Both amounts are indexed for inflation.	2018	Permanent
Like-kind exchanges	• Real estate and other assets can be exchanged for "like kind" assets with any gain being deferred until the new asset is sold.	• These exchanges are limited to real property only (including rental property), and are not allowed for vehicles, equipment, etc.	2018	Permanent
Interest expense	• Businesses can generally deduct any interest paid, although a number of specific limitations exist.	• The interest deduction for all businesses, regardless of form, would be limited to 30% of earnings (defined as EBIT). • This limitation is determined at the entity level, rather than the owner level for pass-throughs • Excess interest could carryforward indefinitely • Businesses with less than $25 million of average revenue over the prior 3 years would be exempt from this change.	2018	Permanent
Net operating losses (NOLs)	• Businesses with net operating losses can carryback those losses for 2 years and forward 20 years to offset income in those years.	• NOLs arising after 2017 could generally no longer be carried back, but could be carried forward indefinitely. • NOLs could only be used to offset up to 80% of a business's income in any year.	2018	Permanent
Family Medical Leave credit	• Not part of current law.	• Employers could claim a credit for 12.5% of any wages paid to an employee on leave that exceeds 50% of the employee's normal wage. • The credit increases gradually to 25% as FML wages increase to 100% of normal wages.	2018	2019
Deduction for employer-paid fringe benefits	• Employers are able to deduct 50% of the cost of entertainment or recreation activities or facilities, club dues, etc. if directly related to the business. • Employers can deduct the full cost of transportation fringe benefits provided to employees.	• Repeal the deduction for the cost of entertainment or recreation activities, club membership dues or the cost of providing a facility for any of those activities. • Repeal the deduction for transportation or other primarily personal benefits provided to employees.	2018	Permanent

EDUCATION PROVISIONS

Description	Old Law	New Law	Effective Beginning	Effective Through
529 accounts	• 529 accounts allow for tax-deferred growth and tax-free withdrawals if used to fund certain college expenses.	• 529 accounts are expanded to allow for up to $10,000 per year to be used for K-12 expenses.	2018	Permanent
Student loan forgiveness	• The discharge of student loan is generally taxable, unless the student works for a certain period of time in certain professions.	• Student loans that are forgiven due to the death or disability of the student are no longer considered taxable income.	2018	2025

ESTATE AND GIFT TAX

Description	Old Law	New Law	Effective Beginning	Effective Through
Estate tax exemption	• A decedent can pass up to $5.49 million to someone other than a spouse or charity without owing any estate tax. This amount would increase to $5.6 million in 2018. A tax of 40% is assessed on transfers over that amount. • Any unused exemptions can be transferred to a surviving spouse under the portability provision.	• The 2018 exemption is doubled to $11.2 million. • Portability rules remain unchanged, meaning families can transfer $22.4 million at death with no estate tax.	2018	2025

EMPLOYER RETIREMENT PLANS AND IRAS

Description	Old Law	New Law	Effective Beginning	Effective Through
Roth recharacterizations	• Roth conversions can also be recharacterized back to a Traditional IRA, effectively undoing the conversion. • IRA owners have until October 15 of the year after the year of conversion to recharacterize.	• Roth conversions can no longer be recharacterized. • Conversions done in 2017 can still be recharacterized through October 15, 2018.	Conversions done in 2018	Permanent
Plan loan payback requirements	• If an employer-sponsored retirement plan with an outstanding loan balance is rolled to an IRA, the loan must be repaid within 60 days of the rollover or be considered a taxable distribution.	• The loan repayment period would be extended to the due of the tax return for the year in which the rollover occurred.	2018	Permanent

OTHER TOPICS

Description	Old Law	New Law	Effective Beginning	Effective Through
Penalty for not purchasing health insurance	• Individuals who do not maintain “minimum essential health insurance coverage” are subject to a tax. This is referred to as the “individual mandate”.	• The amount of tax assessed would be reduced to $0, effectively repealing the mandate.	2019	Permanent
Taxability of employer-paid fringe benefits	• Employers are able to provide various fringe benefits to employees tax-free.	• The following fringe benefits would be taxable to employees: o Moving expense reimbursements o Bicycle commuting reimbursements	2018	2025
Excise tax on college endowment income	• Income earned by colleges and university endowments is exempt from income tax.	• Private colleges and universities with more than 500 students and large endowments would be subject to a 1.4% excise tax on their investment income.	2018	Permanent
ABLE accounts	• ABLE accounts are a tax-favored savings plan for disabled individuals. Contributions are capped at $14,000 for 2017.	• 529 account balances could also be rolled to ABLE accounts, subject to some limitations. • ABLE beneficiaries could contribute their own funds to the account after the $14,000 limit has been reached via gifts from others. Subject to some limitations.	2018	2025