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KLF NEWSLETTER

TAX CUTS AND JOBS ACT (PL 115-97,12/22/2017, "TCJA")

EFFECTIVE JANUARY 1ST, 2018 AND EXPIRING DECEMBER 31, 2025

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INDIVIDUAL INCOME TAXES

1. Above the Adjusted Gross Income ("AGI") Line Deductions:

A. Alimony TCJA Repealed the alimony payment deduction. Bad news for the payer, but good news for the recipient, i.e. Alimony is no longer taxable.

B. Moving Expenses TCJA repealed the job related moving expenses, except for the military.

2. Below the AGI Line Deductions:

2018 DEDUCTIONS

- COUPLES: $24,000
- SINGLES: $12,000
- HOUSEHOLD HEADS: $18,000

A. Standard Deductions Under TCJA, standard deductions have nearly doubled for taxpayers.

B. Personal Exemption TCJA eliminated the personal exemption for individuals and their spouse and dependants.

C. Itemized Deductions

1. Medical Expenses- TCJA reduced the age threshold for deducting 2017 and 2018 medical expenses from 10% to 7.5%.

2. State and Local Taxes- TCJA still allows deductions for residential property taxes and state and local income sales and use taxes. However, the aggregate deduction for these taxes are capped at $10,000.

3. Interest Deduction- IRC 163(h)(3) allows taxpayers to deduct interest on mortgage debt that is "acquisition debt." Acquisition debt means debt that is secured by the taxpayer's principal home and /or a second home, and incurred in acquiring, constructing, or substantially improving the home. TCJA reduced the aggregate amount of new acquisitive debt on a primary and second residence from $1,000,000 to $750,000. This new limit applies to mortgage debt incurred after December 14, 2017. TCJA repealed the interest deduction for existing and new home equity debts. In IR 2018-32, IRS states that despite the newly-enacted restrictions on home mortgages under the TCJA, taxpayers may still deduct interest on a home equity line of credit (HELOC), or second mortgage, regardless of how the loan is labeled. If the debt is used to buy, build or substantially improve the taxpayer's home that secures the loan.

4. Charitable Deductions- TCJA increased the AGI limitation on cash donations from 50% to 60%. Note: Gifts to colleges in exchange for preferred seats at sporting events are targeted.

TAX BRACKETS

The law keeps seven tax brackets, but with different rates and break points. For example, not only is the top individual rate lowered from 39.6 % to 37%, but start at a higher income level.

MARRIEDS: If Taxable Income Is	The Tax Is
Not more than $19,050	10% of taxable income
Over $19,050 but not more than $77,400	$1,905.00 + 12% of excess over $19,050
Over $77,400 but not more than $165,000	$8,907.00 + 22% of excess over $77,400
Over $165,000 but not more than $315,000	$28,179.00+24% of excess over $315,000
Over $315,000 but not more than $400,000	$64,179.00+32% of excess over $315,000
Over $400,000but not more than $600,000	$91,379.00 + 35% of excess over $400,000
Over $600,000	$161,379.00 + 37% of excess over $600,000

SINGLES: If Taxable Income Is	The Tax Is
Not more than $9,525	10% of taxable income
Over $9,525 but not more than $38,700	$952.50+12% of excess over $9,525
Over $38,700 but not more than $82,500	$4,453.50+22% of excess over $38,700
Over $82,500 but not more than $157,500	$14,089.50+24% of excess over $82,500
Over $157,500 but not more than $500,000	$32,089.50 + 32% of excess over $157,500
Over $200,000 but not more than $500,000	$45,689.50+35% of excess over $200,000
Over $500,000	$150,689.50+37% of excess over $500,000

HOUSEHOLD HEADS: If Taxable Income Is	The Tax Is
Not more than $13,600	$10% of taxable income
Over $13,600 but not more than $51,800	$1,360+12% of excess over $13,600
Over $51,800 but not more than $82,500	$5,944.00+22% of excess over $51,800
Over $82,500 but not more than $157,500	$12,698.00+245% of excess over $82,500
Over $157,500 but not more than $200,000	$30,698.00+32% of excess over $157,500

5. Casualty Losses-TCJA repealed the deduction for personal casualty losses, except for casualty and theft losses, except for casualty losses incurred in presidentially declared disaster areas.

6. Miscellaneous Deductions- TCJA repealed the miscellaneous deductions, for employee business expenses, e.g. travel, education, meals, brokerage fees, tax preparation fees, and union dues. This means employees will now have to be reimbursed from their employer. Otherwise, they will pay tax on their employee expenses.

7. Gambling Losses- The deduction for gambling losses to the extent of gambling winnings survives.

8. Phaseout- TCJA eliminated the income phaseout of itemized deductions. Good news for high-income taxpayers.

3. Credits:

A. Child Tax Credit TCJA increased the child tax credit from $1,000 to $2,000 with up to $1,000 of the credit refundable to lower-income taxpayers. The income phaseouts were increased to $400.00 for marrieds and

$200.00 for all other taxpayers. Note: Social Security numbers are needed for each child.

B. Dependent, Non Qualifying Child TCJA created a new $500.00 credit for each dependent who is not a qualifying child, e.g. elderly parent or adult disabled child. The credit is non-refundable and is subject to the same income phaseout as the child tax credit.

4. Roth IRA: TCJA prohibits IRA owners who convert their traditional IRAs to Roth IRAs from later undoing the conversion and recovering the income tax paid on the switch.

5. 529 College Plans: TCJA increased contribution in a 529 plan to $10,000 per student to pay tuition for elementary and secondary education. Contributions to a 529 plan are non deductible on taxpayer's federal tax return. Form 1040. However, on their Michigan Income Tax Return, taxpayers can deduct up to $5,000 per year by an individual and $10,000 per year by a married couple.

6. Inflation Indexing of Income Tax Brackets: Tax brackets, standard deduction and many other tax benefits will be adjusted annually using a chained consumer price index, resulting in lower inflation adjustments and thus smaller annual increases than with the current index. TCJA's long-term capital gains and qualified dividends tax rate, as with the former law, depends on taxpayers ordinary income tax bracket. TCJA's long-term capital gain rates are: **A**. 0% , will continue to apply for taxpayers with taxable income under $38,600 on single-filed returns and $77,200 on joint returns. **B**. 15% will apply for single filers with taxable incomes over $38,600 up to $425,800 and joint filers with taxable income over $77,200 but under $429,000. **C**. 20%, will start at $425,800 for singles and $479,000 for joint filers.

7. Surtax: The 3.8% surtax on net investment income remains the same for single people modified AGI over $200,000 and $250,000 for marrieds.

8. Alternative Minimum Tax: TCJA increased the minimum tax income exemptions to $70,300 for singles and household heads and $109,400 for joint return filers. Additionally, the exemption phaseout zones start at much higher income levels, with $500,000 for single people and heads of household and $1 million for couples.

9. Obamacare's Mandate and Penalty: The requirement that folks have health insurance, qualify for an exemption, or pay a fine is repealed for post-2018 years. Keep in mind the mandate continues to apply for 2018.

BUSINESS TAXES

TCJA made major changes to the taxation of business income:

1. CHC Corporations: Regular corporations ("C corporations") will pay tax at a flat 21% rate, down from the 35% top rate now. This lower rate begins in 2018 and is permanent. Unlike the individual AMT, TCJA eliminated the corporate AMT altogether.

2. Pass Through Entities: Pass through entities, E.G. Limited Liability Companies and CH S Corporations, Partnerships, and Sole Properties, will be entitled to a new 20% deduction on qualified business income. Note: REIT shareholders and partners in publicly traded partnerships also are entitled to the 20% deduction. The break phases out for high earners in professional service fields, such as law, consulting, accounting, health or financial services, with taxable incomes in excess of $315,000 for joint returns and $157,500 for all other taxpayers.

3. NOLS: TCJA caps the write off for business losses on Individual Returns. The amount of trade or business losses that exceed a $500,000 threshold for couples and $250,000 for other filers is nondeductible, but any excess can be carried forward. Note this limitation applies after application of the current passive-activity loss rules.

4. Business Debt Interest: TCJA replaces the net interest write-offs will be capped at 0% of adjusted taxable income, with disallowed interest carried forward. Firms with $25 million or less of gross receipts, real estate companies and certain regulated public utilities will be exempt.

5. Business Assets: TCJA provides for 100% bonus depreciation for many assets put into use during the year. The break applies to assets put in service after Sept. 27, 2017, and is temporary...generally lasting until 2022 and then phasing out 20% each year thereafter. A higher cap on expensing business assets. It doubles to $1 million.

6. Entertainment: Business entertainment and country club dues are no longer deductible.

7. Other Business Tax Benefits Eliminated or Reduced: TCJA Eliminated or reduced the following business tax benefits:

A. 9% domestic production deduction

B. Net operating losses can offset only 80% of taxable income, and NOL carrybacks are generally prohibited.

C. Tax-deferred like-kind exchanges are limited to real property not held primarily for sale.

D. Sexual harassment settlement payments aren't deductible if subject to a nondisclosure agreement.

E. Rehabilitation credit has been revised.

F. Employee write-offs for the cost of transportation-related fringe benefits such as parking, mass transit passes and even bicycle commuting is prohibited.

G. Employees can still use pretax money for parking at work and transit passes, but not biking.

H. Meals in on-premises dining facilities such as workplace cafeterias are subject to a 50% bite through 2025.

I. TCJA created a new Medical-Leave Credit for Employers that provide paid family or medical leave to workers, generally equal to 12.5 % of the amount of wages paid during the period of leave. However, this is a short-term credit, only applying to years 2018 and 2019.

Tax Exempt Organizations

Exempt organizations are also affected by TCJA changes. Private colleges with very large endowments would pay a 1.4% excise tax on net investment income. The tax applies to schools with at least 500 students and non-education-related assets valued at $500,000 or more per full-time student.

Trusts and Estates

1. Estate and Gift Tax Exemptions: TCJA increased the estate and gift and tax exemptions to about $11,000.00. The estate and gift tax rate remains at 40% and the step-up in rates for estate assets remains.

2. Annual Gift Tax Exclusion: The annual gift tax exclusion for 2018 is $15,000.00 per donee.

3. Kiddie Tax: TCJA significantly changed the kiddie tax rules. Now the unearned income of children will be taxed at the ordinary income and capital gains rates applicable to trusts and estates, and not at their parents' marginal tax rate, as before.

TRUST & ESTATE INCOME TAX BRACKET

IF INCOME OF AN ESATE OR TRUST IS:	THE INCOME TAX IS:
NOT OVER $2,550	10% OF TAXABLE INCOME
OVER $2,550 BUT LESS THAN $9,150	$255 PLUS 24% OF EXCESS OVER $2,550
OVER $9,150 BUT NOT MORE THAN $12,500	$1,829 PLUS 35% OF EXCESS OVER $9,150
OVER $12,500	$3,012 PLUS 37% OF EXCESS OVER