CHILTON TRUST

# Tax Bulletin: Tax Cuts and Jobs Act

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Dear Clients and Friends of the Firm:

As communicated in our last Tax Bulletin, the House and Senate recently passed and released proposals for tax reform titled the 'Tax Cuts and Jobs Act.' On December 20, 2017, the House of Representatives and Senate officially passed a unified version of this bill, written by a conference committee of the two legislative bodies. The bill was then signed into law by President Trump on the morning of December 22, fulfilling his promise of enacting tax reform prior to the Christmas holiday. In light of the new tax law, which makes significant changes to current tax policy, Chilton Trust wanted to highlight some key provisions of the new legislation that may impact your taxes. As always, we strongly recommend that you consult with your tax advisor in order to assess how the new legislation may affect your personal or entity tax situation.

Highlights of the Tax Cuts and Jobs Act include: *(This is not an all-inclusive list)*

## Individuals & Families

- Maintains seven tax rates, but lowers them in most brackets while broadening the range of taxable income within each of them.

| Tax Rate | Single | Joint |
|---|---|---|
| 10% | 0-$9,525 | 0-$19,050 |
| 12% | $9,525-$38,700 | $19,050-$77,400 |
| 22% | $38,700-$82,500 | $77,400-$165,000 |
| 24% | $82,500-$157,500 | $165,000-$315,000 |
| 32% | $157,500-$200,000 | $315,000-$400,000 |
| 35% | $200,000-$500,000 | $400,000-$600,000 |
| 37% | > $500,000 | > $600,000 |

- For individuals, the new tax law expires on December 31, 2025, absent any new legislation, and the current law applicable for 2017 becomes effective again beginning on January 1, 2026.
    - **CTC Observation**: This new structure lowers the top overall tax rate to 37%, down from 2017's top tax rate of 39.6%, while also changing the income brackets significantly from pre-reform law.
- Increases the standard deduction to $24,000 for joint taxpayers and $12,000 for single filers, but suspends all deductions for personal exemptions through 2025.
    - **CTC Observation**: For 2017, the standard deduction is $12,700 for joint filers and $6,350 for single filers, but includes personal exemptions of $4,050 per taxpayer or dependent.
- Suspends the overall limitation on itemized deductions through 2025.
    - **CTC Observation:** In 2017, upper-income taxpayers will continue to have their itemized deductions limited by 3% of the amount by which their adjusted gross income (AGI) exceeds a certain threshold.
- Increases the income-based percentage limitation on charitable contributions of cash by an individual

taxpayer to public charities from 50% to 60% for contributions made starting in 2018.

- Preserves the mortgage interest deduction, but effective January 1, 2018, repeals the deduction for interest on home equity loans regardless of when the loan was incurred. In addition, the law lowers the interest deduction limitation to $750,000 for mortgages incurred after December 15, 2017.
  - **CTC Observation**: This is a change from 2017, where the mortgage interest deduction limitation is $1,000,000 and home equity loans have a deduction limitation of $100,000.
- Limits the state and local tax itemized deduction to a combined $10,000 of either property or income taxes beginning in tax year 2018.
  - **CTC Observation**: For 2017, this deduction is unlimited for a final year. Therefore, we recommend consulting with your tax advisor to see whether accelerating tax payments into 2017 is allowable and would also provide you with a tax benefit.
- Maintains the medical expense deduction, lowering the deduction floor to 7.5% of AGI, but repeals all miscellaneous deductions.
  - **CTC Observation**: The law extends the lower 7.5% AGI floor for the medical expense deduction to 2017 as well. However, the 7.5% AGI floor increases to 10% after December 31, 2018.
- Maintains the alternative minimum tax (AMT), while increasing the AMT exemption to $109,400 for joint taxpayers and $70,300 for single taxpayers until 2026. Also, the law increases the phase-out of exemption amounts to $1.0 million for joint filers and $500K for single filers. The exemption amounts and applicable phase-outs are adjusted for inflation.
- Maintains the estate, gift, and generation skipping transfer taxes, but increases the exemptions to $10 million per decedent/donor, indexed for inflation.
  - **CTC Observation**: In 2017, the exemption will remain at $5.49 million per decedent/donor. In 2018, the exemption increases to $11.2 million per decedent/donor.
- Repeals the individual mandate of the Affordable Care Act, which requires all American taxpayers to have health insurance or pay a penalty, beginning for months following December 31, 2018.
- Eliminates the current deduction for alimony payments made by taxpayers, and repeals the requirement to include alimony payments received into income by payees for divorces decreed or separation agreements entered into after 2018.

## Business

- Lowers the corporate tax rate from 35% to a flat 21% for tax years beginning after December 31, 2017. This new tax rate was made permanent. Additionally, the corporate alternative minimum tax was repealed and there is no longer a special tax rate for personal service corporations.
- Creates a deduction equal to the lesser of domestic qualified business income or an amount equal to 20% of the excess of the taxpayer's taxable income over net capital gain from a partnership, S-Corporation, or sole proprietorship. The deduction would not apply to specified service businesses, except when taxpayers have a taxable income of $315,000 or less if filing jointly, or $157,500 or less for single filers. Additionally, qualified business income does not include any income that is treated as reasonable

compensation for services rendered. This tax deduction will sunset beginning on January 1, 2026.

  - **CTC Observation**: For 2017, taxpayers with pass-through income will have this income taxed at their individual tax rate for a final year.

- Creates a three-year holding period requirement for qualification as long-term capital gains with respect to certain partnership interests received in connection with the performance of investment services. Any gains held for less than three years would be taxed as short-term capital gains at ordinary rates.
- Increases bonus depreciation to 100% for five years on qualified property placed in service after September 27, 2017 through December 31, 2022. For qualified property placed in service after 2022, the bonus depreciation percentage decreases in 20% increments per year, so that by January 1, 2028 the bonus depreciation percentage will be 0%, absent any new tax legislation. Qualified property that is eligible for bonus depreciation is generally tangible personal property with a recovery period of 20 years or less.
- Removes the carryback period for most net operating losses, imposes an 80% of taxable income limitation on the amount of an NOL carryforward that can be deducted currently, and provides for an indefinite carryforward period.
- Repeals the deduction for income attributable to domestic production activities for all taxpayers for tax years beginning after December 31, 2017.

The Chilton Trust tax group will monitor the legislative process for technical corrections to the law, as well as the issuance of tax regulations from the Treasury Department that could affect your tax condition. While the new law presents taxpayers with new complexities in tax planning than in prior years, Chilton Trust will continue to dissect the law to find opportunities for tax relief for our clients. In addition, as many of the individual tax provisions are set to expire on January 1, 2026, we will continue to observe the Congressional committees in the event that proposals to extend these reforms are introduced in the future. As always, please contact us with any questions or concerns as it relates to your individual or entity tax situation.

# Chilton Trust Company

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**Paul F. Napoleon, CPA, CFP®, CTFA is a Senior Vice President & Head of Tax Services.** Paul Napoleon, CPA, CFP®, is an accomplished tax professional with over twenty-five years of tax and accounting experience, serving as a trusted tax advisor to high net worth individual clients. He specializes in designing strategies to preserve and enhance his clients' wealth and helps them build value and manage risk. He provides income, trust, and gift tax consulting and compliance services, which include equity based compensation, investment, charitable giving, and retirement planning strategies to wealthy families. Prior to joining Chilton Trust, Mr. Napoleon spent twelve years at PricewaterhouseCoopers LLP in its Personal Financial Services practice. As a tax director at PwC, Mr. Napoleon has worked extensively with high net worth individuals, family groups, closely held businesses, and corporate executives. He has significant individual, trust, and gift tax compliance and tax planning experience. Mr. Napoleon is a Certified Financial Planner, Certified Trust and Financial Advisor, and a member of the American Institute of Certified Public Accountants and the New York State Society of CPAs. He has been a speaker on individual tax matters and has authored several articles on individual tax issues for PricewaterhouseCoopers' events and newsletters.

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* Fiduciary services may only be offered through the Palm Beach office.