M c C L A I N
L O V E J O Y

Thank you for downloading our guide. We hope you will find this information useful as you think about your tax situation in 2018 and beyond. This guide is meant to be a brief overview. It's important to visit with your CPA or financial planner so you can understand how the new law impacts you.

The new and updated sections of the tax code are as follows:

1. **New lower tax brackets**.

| Tax Rate | Single Filers | Joint Filers |
|---|---|---|
| **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 and up | $600,000 and up |

**Takeaway**: Paycheck withholdings will eventually adjust, so you'll see a little more take-home pay each month. With the switch to Chained-CPI, expect the annual tax bracket adjustments to be smaller.

**Planning Tip:** January is a great time to boost your retirement savings. Even a 1% increase in annual savings really helps toward retirement goals.

2. **Standard deduction increased**. Rising to $24,000 for married filers and $12,000 for singles.

   **Takeaway:** Mortgage interest (with caveats), charitable contributions, and SALT (state and local taxes) deductions remain, **but** you still have to itemize to capture any benefit. SALT deductions are limited to $10,000.

   **Planning Tip:** Multi-year tax planning is a must, especially if your itemized deductions are near the standard deduction amount.

3. **Personal exemption ends, but child-tax credit increases**. The bill ends the personal exemption of $4,050 for you, your spouse, and your dependents; however, it doubles the child-tax credit to $2,000 per dependent child under the age of 17.

   **Takeaway:** The child-tax credit doesn't phase out for joint filers until you reach $400,000 (up from $110,000 in 2017), and $200,000 for all other filers (up from $75,000).

   **Planning Tip:** Don't have a kid just for the tax credit! But seriously, considering the new standard deduction and tax credit, it may make sense to switch your retirement savings to a Roth IRA and/or Roth 401(k).

4. **Changes to estate planning.** The estate and gift-tax exemption rise to $5.6 million per individual. A married couple can now transfer $11.2 million free of federal estate and gift taxes. The annual exclusion amount – the amount you can give to an individual each year – jumps to $15,000 in 2018.

   **Takeaway:** The vast majority of estates will avoid estate and gift taxes.

   **Planning Tip:** Saving on gift and estate taxes is a beneficial byproduct of crafting an estate plan, but it's not the main motivator for most people. Providing for a spouse or child, supporting charitable causes, and imparting a legacy are generally far more important. And so, while you may no longer need to worry about estate and gift taxes, you still need to worry about an estate plan.

5. **Roth recharacterizations.** IRA conversions no longer have a reset button.

   **Takeaway**: Previously, IRA conversions could be recharacterized (undone) and then redone sometime later.

   **Planning Tip:** Recharacterizations are tied to tax year, so conversions done in 2017 can still be undone up until October 2018.

6. **Mortgage interest.** Only acquisition debt is deductible now, and only on the first $750,000 of mortgage debt. Existing loans are still subject to the $1,000,000 cap.

   **Takeaway:** For new loans, total acquisition debt cannot exceed $750,000. This includes both your first and second homes. A home equity loan/line is still deductible, ***if*** used for acquisition. If you are buying, building, or substantially improving, you've got acquisition debt. Subject to the limits outlined above, you should still be able to deduct this interest.

**Planning Tip:** Cash-out refinances, home equity loans, and HELOCs used to buy cars, boats, to pay for college or to refinance debt are no longer deductible.

7. **Miscellaneous Provisions:**

**Education savings**. The agreement expands 529 plans to include tax-free distributions of up to $10,000 per year, per student, to pay for K-12 expenses.

**AMT remains.** Exemption amounts increased to $109,400 for married couples and $70,300 for individual.

**Moving expenses.** Only Military members can claim this deduction going forward.

**ACA penalty.** The requirement to purchase health insurance, known as the individual mandate, is repealed beginning in 2019.

**Pease Amendment repealed.** Itemized deductions phaseouts for high income taxpayers are gone!

8. **What didn't change:**

**Capital gains taxation.** Still zero percent up to $38,600 single/$77,200 joint. The 3.8% Medicare surtax remains on the net investment income of taxpayers, with a modified adjusted gross income over $250,000 for married couples or $200,000 for individuals.

**Tax lot selling.** For appreciated securities, you can still sell specific tax lots.

**Retirement contributions.** You can still make pre-tax contributions to IRAs and 401ks. No changes here.

**What about business?**

We'll talk more about the business changes in a separate article, but briefly:

1. Corporate income tax rates were reduced significantly.
2. Pass-through entities now have a qualified business income deduction.

If there is one item that we're certain applies to everyone, it's the need for competent multi-year tax planning. Investment management, retirement planning and tax planning form the core services we provide to our clients. Please reach out if we can be of assistance. eric@mcclainlovejoy.com