Tax Cuts and Jobs Act (TCJA)

Presented by:

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Tax Resolution & Accounting

Outline

- Repeal of personal exemptions
- Increase of standard deduction
- Repeal of pease limitations
- Limitation of state and local taxes and modifications to mortgage interest write-off
- New education benefits under 529 plans
- Increased child tax credit
- Reduced tax brackets

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Meet Gideon

- Files his tax return as single
- Has 4 children in public school
- Rents an apartment – has no mortgage
- Works as a cement layer
- Earns $35,000 per year
- Made charitable contributions of $3,500
- Lives in Livonia, Michigan

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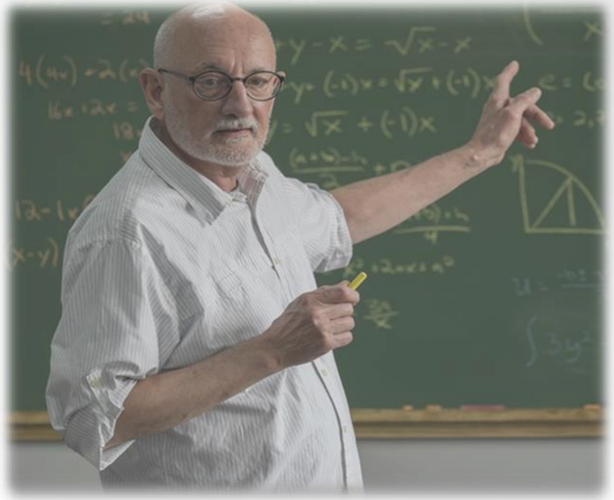
Meet Cassius

- Files his tax return as head of household
- Has 4 children in public school
- Rents a house – has no mortgage
- Works as a teacher
- Earns $50,000 per year
- Made charitable contributions of $5,000
- Lives in Lexington, Kentucky



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Meet Reggie & Rachel

- File their tax return as married filing jointly
- Have 4 children in public school
- Have a $250,000 mortgage with a 4.75% interest rate
- Reggie is a network systems manager, earns $60K/yr
- Rachel is a budget analyst, earns $50K/yr
- Made charitable contributions of $11,000
- They live in Oklahoma City, Oklahoma

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Meet Shelby

- Files his tax return as single
- Has 4 children in private school
- Has a $800,000 mortgage with a 4.75% mortgage interest rate
- Is a luxury home realtor
- Earns $385,000 per year
- Made charitable contributions of $38,500
- Lives in Pembroke Pines, Florida

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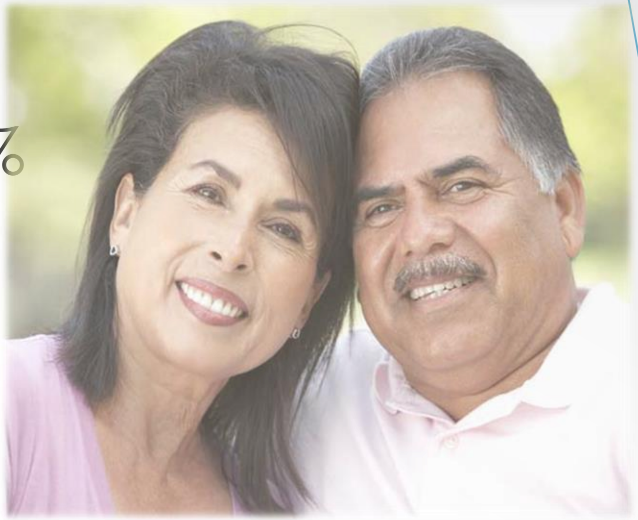
Meet John and Sheeba

- Files their tax return married filing jointly
- Have 4 children in private school
- Have a $2.2 million mortgage with a 4.75% interest rate
- John is an investment banker, earns $1.2M/yr
- Sheeba is an anesthesiologist, earns $300K/yr
- Made charitable contributions of $150,000
- They live in Venice, California



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Repeal of Personal Exemptions

- Taxpayers will no longer be able to claim themselves or their dependents on their tax returns to claim a portion of their income as being exempt from tax.
- In 2017 the personal exemption is $4,050 per qualified dependent.
- The **personal exemptions** begin to **phase out** when AGI exceeds $309,900 for 2017 joint tax returns and $258,250 for 2017 single tax returns. Each tax **exemption** is reduced by 2% for each $2,500 by which a taxpayer's AGI exceeds the threshold amount until the benefit of all **personal exemptions** is eliminated.

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Repeal of Personal Exemptions: How this affects Gideon

- Gideon has 4 children, Thus, he would have had 5 exemptions.
- Each exemption reduces his taxable income by $4,050: 5x $4,050 = $20,250.
- Gideon earns $35,000 per year - $20,250 = $14,750 of taxable income.
- With personal exemptions eliminated, he can no longer reduce his taxable income by $20,250 in this way.
- EFFECT to Gideon: Loss

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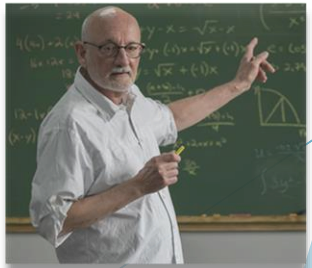
Repeal of Personal Exemptions: How this affects Cassius

- Cassius has 4 children, Thus, he would have had 5 exemptions.
- Each exemption reduces his taxable income by $4,050: 5x $4,050 = $20,250.
- Cassius earns $50,000 per year - $20,250 = $29,750 of taxable income.
- With personal exemptions eliminated, he can no longer reduce his taxable income by $20,250 in this way.
- EFFECT to Cassius: loss



Repeal of Personal Exemptions: How this affects Reggie & Rachel

- Reggie & Rachel have 4 children, Thus, they would have had 6 exemptions.
- Each exemption reduces their taxable income by $4,050: 6x $4,050 = $24,300.
- They earn 110,000 per year - $24,300 = $85,700 of taxable income.
- With personal exemptions eliminated, they can no longer reduce their taxable income by $24,300 in this way.
- EFFECT to Reggie & Rachel: Loss

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Repeal of Personal Exemptions: How this affects Shelby

- Shelby has 4 children.
- However, because he earns $385,000 per year, he was considered a high income earner in 2017 and subject to the personal exemption phaseout, which meant he could not claim any personal exemptions.
- EFFECT to Shelby: None

Repeal of Personal Exemptions: How this affects John & Sheeba

- John & Sheeba have 4 children.
- However, because they earn $1.5 million together per year, they are considered high income earners and in 2017 they were subject to the personal exemption phaseout, which meant they could not claim any personal exemptions.
- EFFECT: None

Increase of Standard Deduction

- The **standard deduction** is a dollar amount that reduces the amount of income on which you are taxed and varies according to your filing status. You CANNOT take the **standard deduction** if you itemize **deductions**.
- The standard deduction for single filers increases from $6,350 to $12,000
- The standard deduction for married filing joint filers increases from $12,700 to $24,000
- The standard deduction for head of household increases from $9,350 to $18,000

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Increase of Standard Deduction: How this affects Gideon

- Gideon files his tax returns single.
- His only itemized deductions are his charitable contributions of $3,500 and his Michigan state income tax of $1,487.50 = $4,987.50 itemized deductions.
- Thus, he should take the standard deduction of $12,000 instead.
- Earns $35,000 per year - $12,000 = $23,000 of taxable income
- The standard deduction in 2018 reduces Gideon's taxable income by more than the standard deduction in 2017.
- EFFECT to Gideon: Gain

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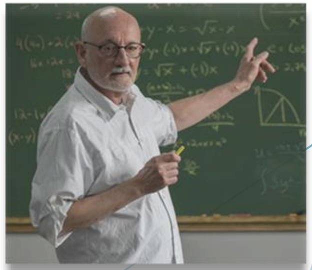
Increase of Standard Deduction: How this affects Cassius

- Cassius files his tax returns as head of household
- His only itemized deduction are his charitable contribution of $5,000 and his Kentucky state income tax of $2,836 =$7,836 itemized deductions.
- Thus, he should take the standard deduction of $18,000 instead.
- Earns $50,000 per year - $18,000 = $32,000 of taxable income
- The standard deduction in 2018 reduces Cassius' taxable income by more than the standard deduction in 2017.
- EFFECT to Cassius: Gain



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Increase of Standard Deduction: How this affects Reggie & Rachel

- Reggie & Rachel files their tax returns as married filing jointly.
- Their itemized deductions are their charitable contributions of $11,000 + mortgage interest of $11,875 + Oklahoma state income tax of $4,900 + property taxes of $2,625 =$30,400 in itemized deductions.
- The increased standard deduction in 2018 is still less than the total of Reggie and Rachel's itemized deductions, so they will itemize instead of claim the standard deduction

- **EFFECT to Reggie & Rachel: None**

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Increase of Standard Deduction: How this affects Shelby

- Shelby files his tax returns single.
- His charitable contributions alone were $38,500 in 2018 + his mortgage interest totaled $18,287.50, + his property taxes are $4,235 = $61,022.50
- The standard deduction is only $12,000, thus he will itemize instead of claiming the standard deduction.
- The increased standard deduction in 2018 is still less than the total of Shelby's itemized deductions, so he will itemize instead of claim the standard deduction

- EFFECT to Shelby: None

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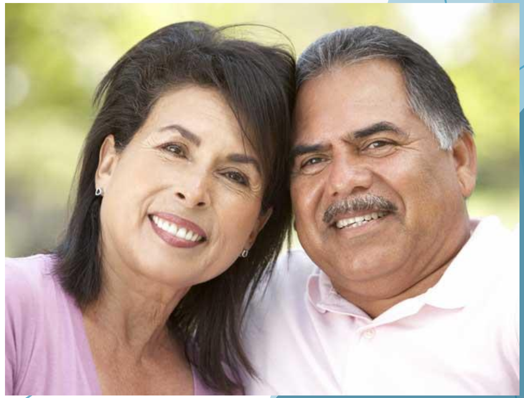
Increase of the Standard Deduction: How this affects John & Sheeba

- John and Sheeba files their tax return as married filing jointly
- Their charitable contributions were $150,000 in 2018
- The standard deduction is only $24,000, thus they will itemize instead of claiming the standard deduction.
- The increased standard deduction in 2018 is still less than the total of John and Sheeba's itemized deductions, so they will itemize instead of claim the standard deduction



- EFFECT to John & Sheeba: None

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Repeal of Pease Limitation

- Under current law, the total amount of allowable itemized deductions (with the exception of medical expenses, investment interest, and casualty, theft or gambling losses) is reduced by 3% of the amount by which the taxpayer's adjusted gross income exceeds the threshold amounts listed below:

Filing Status	Income
Single	$261,500
Married Filing Jointly	$313,800
Head of Household	$287,650
Married Filing Separately	$156,900

- The new law suspends the overall limitation on itemized deductions for years 2018-2025.

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Repeal of Pease Limitation: How this affects Gideon

- Gideon earns $35,000 per year, thus he doesn't earn enough for his itemized deductions to be reduced by pease limitations.
- EFFECT to Gideon: None

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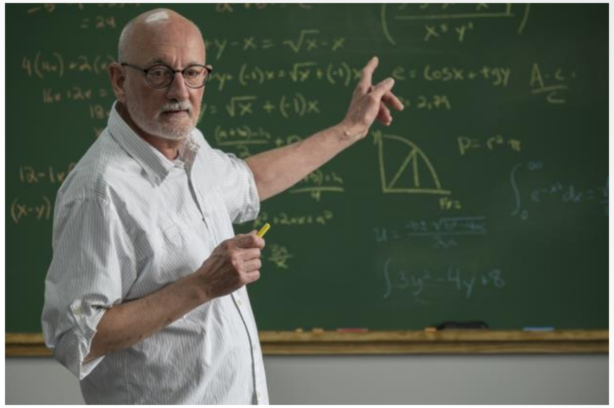
Repeal of Pease Limitation: How this affects Cassius

- Cassius earns $50,000 per year, thus he doesn't earn enough for his itemized deductions to be reduced by pease limitations.
- EFFECT to Cassius: None



Repeal of Pease Limitation: How this affects Reggie & Rachel

- Reggie and Rachel earn $110,000, thus they don't earn enough for their itemized deductions to be reduced by pease limitations.
- EFFECT to Reggie & Rachel: None

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Repeal of Pease Limitation: How this affects Shelby

- Shelby earns $385,000 and files single.
- His itemized deductions were previously limited by the pease provision.
- $385,000-$261,500 (pease threshold) = $123,500 x 3% = $3,705
- Thus, Shelby would have been disallowed $3,705 of his itemized deductions.
- Under the new law, they can write off their entire itemized deduction.
- EFFECT to Shelby: Gain

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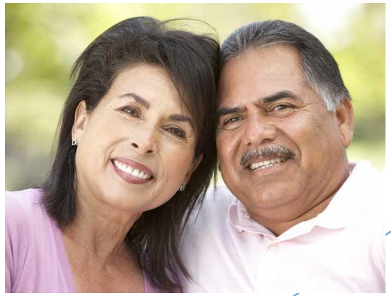
Repeal of Pease Limitation: How this affects John & Sheeba

- John and sheeba earn $1,500,000, and file married filing jointly
- their itemized deductions were limited by the pease provision.
- $1,500,000-$313,800 (pease threshold) = $1,186,200 x 3% = $35,586
- Thus, they would have been disallowed $35,586 of their itemized deductions
- Under the new law, they can write off their entire itemized deduction.
- EFFECT to John & Sheeba: Gain



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Limitation of SALT and Mortgage Interest

- State and local sales tax, plus real property taxes, may be deducted, but only up to a combined total limit of $10,000 ($5,000 if MFS)
- Interest on a new home mortgage is limited to interest paid on a maximum of $750,000 ($375,000 if MFS) of a new mortgage taken out after December 14, 2017.
- Interest on a home equity loan is deductible only if the proceeds are used to make "substantial improvements" to the taxpayers home. Furthermore, the combined total of their mortgage and HELOC cannot exceed the new $750K limit on mortgage amounts qualified for interest deductions.
- Taxpayers with a mortgage taken out before December 15, 2017 can continue to claim home mortgage interest on up to $1 million ($500,000 if MFS) going forward; the $1 million ($500,000 if MFS) limit continues to apply to a refinanced mortgage incurred before December 15, 2017.

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Limitation of SALT & Mortgage Interest: How this affects Gideon

- Gideon lives in Livonia, Michigan.
- Michigan has a personal exemption of $4,000 and a state tax rate of 4.25%
- Gideon will claim a personal exemption of $20,000
- Gideon earns $35,000 per year - $20,000 = $15,000 x 4.25% = $637.50
- Gideon does not have a mortgage
- Gideon will be able to write off the full $637.50 he pays in state taxes
- EFFECT to Gideon: None

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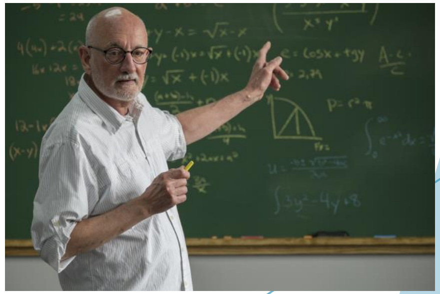
Limitation of SALT & Mortgage Interest: How this affects Cassius

- Cassius lives in Lexington, Kentucky
- Kentucky has a family size tax credit for Cassius’ family of 5 which totals $24,250
- Cassius Kentucky state taxes total $1,251.38
- Cassius does not have a mortgage
- Cassius will be able to write off the full $1,251.38 he pays in state taxes

EFFECT to Cassius: None



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Limitation of SALT & Mortgage Interest: How this affects Reggie & Rachel

- Reggie and Rachel live in Oklahoma City, Oklahoma
- Reggie and Rachel pay total state tax of $5,402.29 + property taxes of $2,625 = $8,027.29
- They also had mortgage interest this year totaling $11,875
- they will be able to write off the full $8,027.29 in State and property taxes
- They will also be able to write off the total mortgage interest paid in 2018.
- EFFECT to Reggie & Rachel: None

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Limitation of SALT & Mortgage Interest: How this affects Shelby

- Shelby lives in Pembroke Pines, Florida
- Florida has no state income tax, but Shelby pays $4,235 in property taxes
- Shelby's mortgage interest this year totaled $38,000
- Because Shelby's mortgage is less than $1,000,000 he will
  be able to write off the full $38,000 in mortgage interest
- Likewise, he will be able to claim the full $4,235 in property taxes
- EFFECT to Shelby: None

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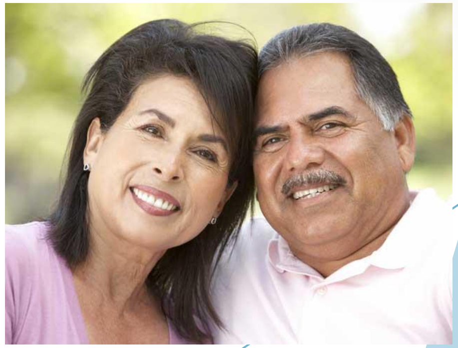
Limitation of SALT & Mortgage Interest: How this affects John & Sheeba

- John & Sheeba live in Venice, California.
- They pay $156,051.20 in California state income tax and an additional $29,000 in property taxes.
- their mortgage interest this year totaled $104,500 on their
  $2.2 million mortgage.
- Under the new law, they can only write off $10k in state income tax, and will be disallowed the full deduction of $185,051.20.
- their mortgage interest write off would remain at $47,500.
- EFFECT to John & Sheeba: Loss



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New Use for 529 Savings Plans

- Funds can be placed in A **529 savings plan** after taxes
- A **529 plan** was designed to encourage saving for future college costs.
- **529 plans** are sponsored by states, state agencies, or educational institutions and are authorized by Section **529** of the Internal Revenue Code and many states provide a deduction on the state income tax return for contributions made.
- Under the new law, 529 plans can now be used for K-12 expenses.
- Plans can distribute up to $10,000 each year for tuition incurred for enrollment or attendance at a public, private, or religious elementary or secondary school.
- Up to $10,000 can be withdrawn per year, per student limit, and no taxes are paid on any recognized gains.

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New Use for 529 Savings Plans : How this affects Gideon

- Gideon’s 4 children are all in public school
- He has no qualified tuition to apply these funds to.
- EFFECT to Gideon: None

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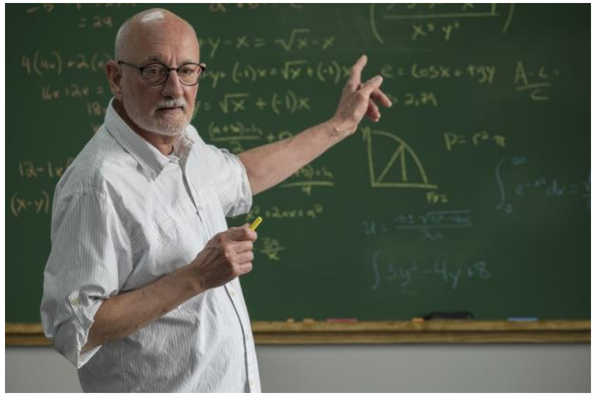
New Use for 529 Savings Plans : How this affects Cassius

- Cassius' 4 children are all in public school
- He has no qualified tuition to apply these funds to.
- EFFECT to Cassius: None



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New Use for 529 Savings Plans : How this affects Reggie & Rachel

- Reggie and Rachel's 4 children are all in public school
- They have no qualified tuition to apply these funds to.
- EFFECT to Reggie & Rachel: None

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New Use for 529 Savings Plans : How this affects Shelby

- Shelby has 4 children in private school.
- Each child's tuition for the year is $9,450.
- Shelby can contribute up to $418,000 to the Florida 529 plan after taxes.
- The private school tuition will be a qualified k-12 withdrawal and he will not have to pay taxes on any gains earned or withdrawn which are applied to the qualified expense.
- EFFECT to Shelby: Gain

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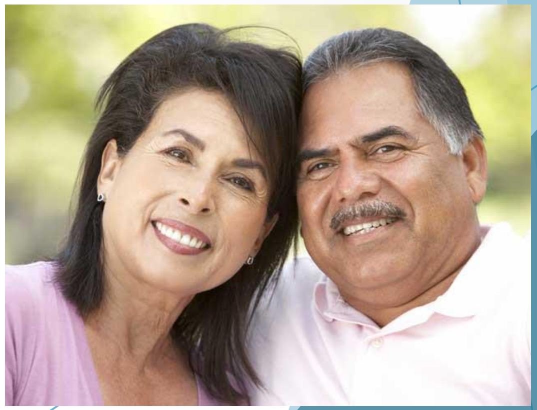
New Use for 529 Savings Plans : How this affects John & Sheeba

- John & Sheeba have 4 kids in private school
- Each child's tuition for the year is $26,400
- John & Sheeba can contribute up to $475,ooo to the California 529 plan after taxes.
- The private school tuition will be a qualified k-12 withdrawal and he will not have to pay taxes on any gains earned or withdrawn which are applied to the qualified expense

- EFFECT to John & Sheeba: Gain



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Increased Child Tax Credit

- The Child Tax Credit under 2018 tax reform is worth up to $2,000 per qualifying child. The age cut-off remains at 17 (the child must be under 17 at the end of the year for taxpayers to claim the credit).
- The refundable portion of the credit is limited to $1,400. This amount will be adjusted for inflation after 2018.
- The beginning credit phaseout for the CTC increases to $200,000 ($400,000 for joint filers).
- The child must have a valid SSN to claim the nonrefundable and refundable credit.

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Increased Child Tax Credit: How this affects Gideon

- Gideon has 4 qualifying children for the child tax credit
- Increased child tax credit is $2,000 for each qualifying child
- Thus Gideon's total tax bill could be reduced by up to $8,000

- EFFECT to Gideon: Gain

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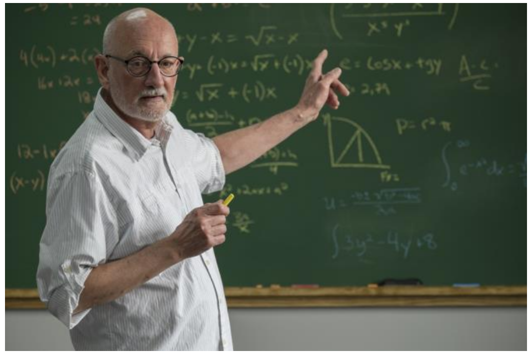
Increased Child Tax Credit: How this affects Cassius

- Cassius has 4 qualifying children for the child tax credit
- Increased child tax credit is $2,000 for each qualifying child
- Thus CFassius' total tax bill could be reduced by up to $8,000

▶EFFECT to Cassius: Gain



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Increased Child Tax Credit: How this affects Reggie & Rachel

- Reggie and Rachel have 4 qualifying children for the child tax credit
- Increased child tax credit is $2,000 for each qualifying child
- Thus their total tax bill could be reduced by up to $8,000

- EFFECT to Reggie & Rachel: Gain

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Increased Child Tax Credit: How this affects Shelby

- Shelby has 4 qualifying children for the child tax credit
- Increased child tax credit is $2,000 for each qualifying child
- However, Shelby's income exceeds the AGI threshold
- Thus Shelby is not eligible to claim the child tax credit

- EFFECT to Shelby: None

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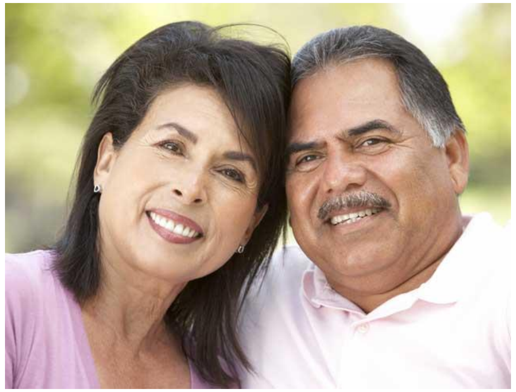
Increased Child Tax Credit: How this affects John &Sheeba

- John & Sheeba have 4 qualifying children for the child tax credit
- Increased child tax credit is $2,000 for each qualifying child
- However, their income exceeds the AGI threshold
- Thus they are not eligible to claim the child tax credit

- EFFECT to John & Sheeba: None



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Reduced Tax Brackets: How this affects Gideon

Tax Year	2017 – SINGLE	2018 - SINGLE
Gross Income	$35,000	$35,000
-Personal Exemptions	-$20,250	Eliminated Under New Law
-Standard Deduction	-$6,350	-$12,000
-529 Savings Plan	No Qualified Tuition	No Qualified Tuition
-Charitable Contributions	Not itemizing	Not Itemizing
-State and Local Tax	Not itemizing	Not Itemizing
-Mortgage Interest	Not itemizing	Not Itemizing
Adjusted Gross Income	$8,400	$23,000
Total Tax Due	$840	$4,009.52
-Credits	-$4,000 (Non-Refundable)	-$8,000 (Portion Refundable)
Total Tax Due/Refund Due	$0	$1,400 REFUND

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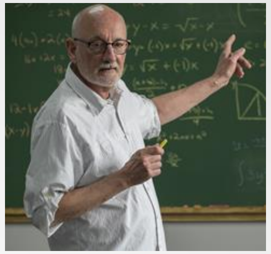
Reduced Tax Brackets: How this affects Cassius



Tax Year	2017 – HOH	2018 - HOH
Gross Income	$50,000	$50,000
-Personal Exemptions	-$20,250	Eliminated Under New Law
-Standard Deduction	-$6,350	-$12,000
-529 Savings Plan	No Qualified Tuition	No Qualified Tuition
-Charitable Contributions	Not itemizing	Not Itemizing
-State and Local Tax	Not itemizing	Not Itemizing
-Mortgage Interest	Not itemizing	Not Itemizing
Adjusted Gross Income	$23,400	$38,000
Total Tax Due	$2,842.50	$4,287.90
-Credits	-$4,000 (Non-Refundable)	-$8,000 (Portion Refundable)
Total Tax Due/Refund Due	$0	$1,400 REFUND

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Reduced Tax Brackets: How this affects Reggie & Rachel

Tax Year	2017 – MFJ	2018 - MFJ
Gross Income	$110,000	$110,000
-Personal Exemptions	-$24,300	Eliminated Under New Law
-Standard Deduction	Not claiming standard	Not claiming standard
-529 Savings Plan	No Qualified Tuition	No Qualified Tuition
-Charitable Contributions	-$11,000	-$11,000
-State and Local Tax	-$8,027.29	-$8,027.29
-Mortgage Interest	-$11,875	-$11,875
Adjusted Gross Income	$54,797.71	$79,097.71
Total Tax Due	$7,287.15	$9,280.49
-Credits	-$4,000 (Non-Refundable)	-$8,000 (Portion Refundable)
Total Tax Due/Refund Due	$3,287.15 TAX DUE	$1,280.49 TAX DUE

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Reduced Tax Brackets: How this affects Shelby

Tax Year	2017 – SINGLE	2018 - SINGLE
Gross Income	$385,000	$385,000
-Personal Exemptions	-$20,250	Eliminated Under New Law
-Standard Deduction	Not taking the Standard	Not taking the Standard
-529 Savings Plan	No Qualified Tuition	Can take out $40K without paying taxes on gains
-Charitable Contributions	-$34,795 (Limited by Pease)	-$38,500
-State and Local Tax	-$4,235 (Property tax)	-$4,235 (Property tax)
-Mortgage Interest	-$18,287.50	-$18,287.50
Adjusted Gross Income	$307,432.50	$323,977.50
Total Tax Due	$84,851.98	$90,355.72
-Child Tax Credit	Not Eligible based on AGI	Not Eligible based on AGI
Total Tax Due/Refund Due	$84,851.98	$90,355.72

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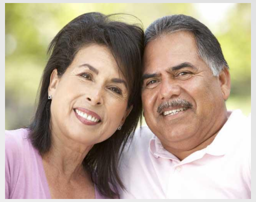
Reduced Tax Brackets: How this affects John & Sheeba



Tax Year	2017 – MFJ	2018 - MFJ
Gross Income	$1,500,000	$1,500,000
-Personal Exemptions	-$24,300	Eliminated Under New Law
-Standard Deduction	Not taking the Standard	Not taking the Standard
-529 Savings Plan	No Qualified Tuition	Can take out $40K without paying taxes on gains
-Charitable Contributions	-$114,414 (Limited by Pease)	-$150,000
-State and Local Tax	-$185,051.20	-$10,000
-Mortgage Interest	-$47,500	$47,500
Adjusted Gross Income	$1,128,735	$1,292,500
Total Tax Due	$392,208.10	
-Child Tax Credit	Not Eligible based on AGI	Not Eligible based on AGI
Total Tax Due/Refund Due	$392,208.10	$417,602.40

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Questions?
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