Hunter Consulting, Inc.
YOUR Tax & Accounting Authority

A Business Accounting
& Tax Management Firm

P. O. Box 236
Berkeley Heights, New Jersey 07922-0236
Tel: 908-898-0031
Fax: 908-898-0399
Cell: 973-896-4189
www. Hunter-Consulting.com
E-Mail: HunterTaxConsulting@gmail.com

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FOR YOUR ANNUAL TAX APPOINTMENT, PLEASE CALL THE OFFICE AS SOON AS POSSIBLE

Dear Client:

This annual client letter is dedicated to the new tax law that impacts everyone in the United States as of January 1, 2018. I will not debate the merits or issues associated with the law but will present the new rules that everyone has to "play" under. Keep in mind that most of the changes for individuals have a sunset provision and the law basically returns to the December 31, 2017 law in 2025. As always with all tax laws the affect on you is determined by your own personal financial situation and that the law may affect you differently from your co-workers, friends and neighbors. Remember, taxes are a jigsaw puzzle – the pieces you bring determine how the picture will look.

On December 22, 2017 President Trump signed into law the most sweeping change to the United States Tax Code in over thirty years. The **Tax Cuts and Jobs Act** (**TCJA**) amends the Internal Revenue Code of 1986. In summary the major elements of the TCJA

- include reducing tax rates for businesses and individuals
- increasing the standard deduction and family tax credits
- eliminating personal exemptions
- limiting deductions for state and local income taxes and property taxes (SALT)
- further limiting the mortgage interest deduction
- reducing the alternative minimum tax for individuals
- eliminating the alternative minimum tax for corporations
- reducing the number of estates impacted by the estate tax
- repealing the individual mandate of the Affordable Care Act (ACA)

It is important to realize that the some of the changes in the new law are only temporary and will sunset by 2025.

Individual income tax brackets: Most individual income taxes are reduced, until 2025. The number of income tax brackets remain at seven, but the income ranges in several brackets have been changed and each new bracket has lower rates. These marginal rates apply to income in the indicated range as under current law. A different inflation measure (Chained CPI or C-CPI) will be applied to the brackets instead of the Consumer Price Index (CPI), so the brackets increase more slowly. This inflation element is permanent.

Individual Income Tax Brackets					
2017 Tax Law			TCJA- 2018		
Rate	Single	MFJ	Rate	Single	MFJ
10%	$0 - $9,525	$0 - $19,050	10%	$0 - $9,525	$0 - $19,050
15%	$9,526 - $38,700	$19,051 - $77,400	12%	$9,526 - $38,700	$19,051 - $77,400
25%	$38,701 - $93,700	$77,401 - $156,150	22%	$38,701 - $82,500	$77,401 - $165,000
28%	$93,701 -$195,450	$156,151 - $237,950	24%	$82,501 - $157,500	$165,001 - $315,000
33%	$195,451 - $424,950	$237,951 - $424,950	32%	$157,501 - $200,000	$315,001 - $400,000
35%	$426,951 - $426,700	$424,951 - $480,050	35%	$200,001 - $500,000	$400,001 - $600,000
39.6%	> $426,700	> $480,050	37%	> $500,000	> $600,000

Standard deduction and personal exemption: The standard deduction nearly doubles from $12,700 to $24,000 for married couples. For single filers, the standard deduction will increase from $6,350 to $12,000.

Family tax credits: The child tax credit is doubled from $1,000 to $2,000, $1,400 of which will be refundable. There is also a $500 credit for other dependents.

Medical expense: The itemized deduction for medical expense is enhanced for 2017 and 2018. The threshold for deducting the expense is reduced from 10% of adjusted gross income to 7.5% of adjusted gross income. It will revert back to 10% starting in 2019.

Mortgage interest deduction: Mortgage interest deduction for newly purchased homes (and second homes) would be lowered from total loan balances of $1 million under current law to $750,000. Interest from home equity loans (aka second mortgages) will no longer be deductible, unless the money is used for home improvements.

State, local, sales and property tax deduction: The deduction for state and local income tax, sales tax, and property taxes ("SALT deduction") will be capped at $10,000.

Healthcare deductions and credits: The bill repeals the individual mandate of the Affordable Care Act starting in 2019.

Education deductions and credits: There are no changes made to major education deductions and credits, or to the teacher deduction for unreimbursed classroom expenses, which remains at $250.

Casualty loss deduction: Taxpayers will only be able to deduct a casualty loss if it occurs in a disaster that is declared by the president.

Alimony deduction: Alimony paid to an ex-spouse will no longer be deductible by the payer, and alimony payments will no longer be included in the recipient's gross income. This effectively shifts the tax burden of alimony from the recipient to the payer. This provision is effective for divorce and separation agreements signed after December 31, 2018.

Moving expense deduction: Employment-related moving expenses will no longer be deductible.

Tax preparation expense deduction: Expenses related to preparing and filing your taxes (such as accountants or tax-preparation software) will no longer be deductible.

Alternative minimum tax: The TCJA increases the exemption level from $84,500 to $109,400 for couples and from $54,300 to $70,300 for singles.

Charitable deduction expanded: The charitable deduction expands for those who itemize, from 50 percent of income to 60 percent. The charitable deduction is denied for payments made in exchange for seats at college sports games.

529 College savings accounts expanded: 529 college savings accounts—named after their section of the Internal Revenue Code—are expanded to allow parents to save for K–12 and homeschooling expenses. The reform increases the ability of parents to pay for education options outside the public-school system, giving families more education choices.

Pass-through business taxation: TCJA reduces pass-through taxes via a 20% deduction, after which a lower rate of 29.6% will be applied. This benefit phases out starting at $315,000. A majority of small businesses are incorporated as pass-through entities (e.g., partnerships, and S-corporations) meaning the owners pay taxes at individual rates.

20 Percent pass-through deduction: Small and pass-through businesses that pay their taxes as individuals (and face the new lower individual tax rates) will receive a newly created deduction. Pass-through businesses will be able to deduct 20 percent of certain types of non-salary business income, bringing the top marginal tax rate (on most pass-through income) down from 39.6 percent under current law to 29.6 percent. Certain service providers in the fields of health, law, consulting, athletics, financial, or brokerage services are denied the deduction if their income is over a $315,000 threshold, where the deduction begins to phase out.

Roth conversions: The bill repeals the ability to recharacterize Roth conversions.

Withholding tables: The IRS will be rolling out new payroll tax withholding tables to be used by employers no later than February 15, 2018. The implementation of the new withholding tables is not retroactive to January 1 but will reflect the new rates and brackets, the higher standard deduction and the elimination of the personal exemptions. It is important to understand that new W-4's are not required this year and because of this, it may not reflect accurate withholding.

Estate tax: Under current law, estates that exceed $5.6 million are subject to a 40% tax at time of death. The TCJA doubles the taxable threshold to $11.2 million.

Corporate tax: TCJA permanently lowers the corporate tax rate from 35 percent to 21 percent starting in 2018 while some related business deductions and credits would either be reduced or eliminated.

- The corporate Alternative Minimum Tax is eliminated.
- TCJA changes the U.S. from a global to a territorial tax system with respect to corporate income tax. Instead of a corporation paying the U.S. tax rate (35%) for income earned in any country (less a credit for taxes paid to that country), each subsidiary would pay the tax rate of the country in which it is legally established. This means under a territorial tax system; the corporation saves the difference between the generally higher U.S. tax rate and the lower rate of the country in which the subsidiary is legally established.
- One-time repatriation tax of profits in overseas subsidiaries of 8%, 15.5% for cash. U.S. multinationals have accumulated nearly $3 trillion offshore, much of it subsidiaries in tax haven countries. TCJA goal is to encourage companies to bring the money home over time, but at these lower rates