

2018 Tax Law Highlights: Changes that will affect most tax payers beginning in 2018.

| 2017 TAX RATES | | | 2018 TAX RATES | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------------------------------------|-------------------------------------------------------------------------|------------------------|----------------------------------------------------|
| <i>Single Taxable Income Tax Brackets and Rates, 2017</i> | | | <i>Single Taxable Income Tax Brackets and Rates, 2018</i> | | |
| Rate | Taxable Income Bracket | Tax Owed | Rate | Taxable Income Bracket | Tax Owed |
| 10% | \$0 to \$9,325 | 10% of Taxable Income | 10% | \$0 to \$9,525 | 10% of taxable Income |
| 15% | \$9,325 to \$37,950 | \$932.50 plus 15% of the excess over \$9,325 | 12% | \$9,525 to \$38,700 | \$932.50 plus 12% of the excess over \$9,325 |
| 25% | \$37,950 to \$91,900 | \$5,226.25 plus 25% of the excess over \$37,950 | 22% | \$38,700 to \$82,500 | \$4,453.50 plus 22% of the excess over \$38,700 |
| 28% | \$91,900 to \$191,650 | \$18,713.75 plus 28% of the excess over \$91,900 | 24% | \$82,500 to \$157,500 | \$14,089.50 plus 24% of the excess over \$82,500 |
| 33% | \$191,650 to \$416,700 | \$46,643.75 plus 33% of the excess over \$191,650 | 32% | \$157,500 to \$200,000 | \$32,089.50 plus 32% of the excess over \$157,500 |
| 35% | \$416,700 to \$418,400 | \$120,910.25 plus 35% of the excess over \$416,700 | 35% | \$200,000 to \$500,00 | \$45,689.50 plus 35% of the excess over \$200,000 |
| 39.60% | \$418,400+ | \$121,505.25 plus 39.6% of the excess over \$418,400 | 37% | \$500,000+ | \$150,689.50 plus 37% of the excess over \$500,000 |
| <i>Married Filing Joint Taxable Income Tax Brackets and Rates, 2017</i> | | | <i>Married Filing Joint Taxable Income Tax Brackets and Rates, 2018</i> | | |
| Rate | Taxable Income Bracket | Tax Owed | Rate | Taxable Income Bracket | Tax Owed |
| 10% | \$0 to \$18,650 | 10% of taxable income | 10% | \$0 to \$19,050 | 10% of taxable Income |
| 15% | \$18,650 to \$75,900 | \$1,865 plus 15% of the excess over \$18,650 | 12% | \$19,050 to \$77,400 | \$1,905 plus 12% of the excess over \$19,050 |
| 25% | \$75,900 to \$153,100 | \$10,452.50 plus 25% of the excess over \$75,900 | 22% | \$77,400 to \$165,000 | \$8,907 plus 22% of the excess over \$77,400 |
| 28% | \$153,100 to \$233,350 | \$29,752.50 plus 28% of the excess over \$153,100 | 24% | \$165,000 to \$315,000 | \$28,179 plus 24% of the excess over \$165,000 |
| 33% | \$233,350 to \$416,700 | \$52,222.50 plus 33% of the excess over \$233,350 | 32% | \$315,000 to \$400,000 | \$64,179 plus 32% of the excess over \$315,000 |
| 35% | \$416,700 to \$470,700 | \$112,728 plus 35% of the excess over \$416,700 | 35% | \$400,000 to \$600,000 | \$91,379 plus 35% of the excess over \$400,000 |
| 39.60% | \$470,700+ | \$131,628 plus 39.6% of the excess over \$470,700 | 37% | \$600,000+ | \$161,379 plus 37% of the excess over \$600,000 |
| For Married Filing Separately cut the income bracket ranges in half for each rate. Do not use the individual rate if Married Filing Separately. | | | | | |
| <i>Head of Household Taxable Income Tax Brackets and Rates, 2017</i> | | | <i>Head of Household Taxable Income Tax Brackets and Rates, 2018</i> | | |
| Rate | Taxable Income Bracket | Tax Owed | Rate | Taxable Income Bracket | Tax Owed |
| 10% | \$0 to \$13,350 | 10% of taxable income | 10% | \$0 to \$13,600 | 10% of taxable Income |
| 15% | \$13,350 to \$50,800 | \$1,335 plus 15% of the excess over \$13,350 | 12% | \$13,600 to \$51,800 | \$1,360 plus 12% of the excess over \$13,600 |
| 25% | \$50,800 to \$131,200 | \$6,952.50 plus 25% of the excess over \$50,800 | 22% | \$51,800 to \$82,500 | \$5,944 plus 22% of the excess over \$51,800 |
| 28% | \$131,200 to \$212,500 | \$27,052.50 plus 28% of the excess over \$131,200 | 24% | \$52,500 to \$157,500 | \$12,698 plus 24% of the excess over \$82,500 |
| 33% | \$212,500 to \$416,700 | \$49,816.50 plus 33% of the excess over \$212,500 | 32% | \$157,500 to \$200,000 | \$30,698 plus 32% of the excess over \$157,500 |
| 35% | \$416,700 to \$444,500 | \$117,202.50 plus 35% of the excess over \$416,701 | 35% | \$200,000 to \$500,00 | \$44,298 plus 35% of the excess over \$200,000 |
| 39.60% | \$444,550+ | \$126,950 plus 39.6% of the excess over \$444,550 | 37% | \$500,000+ | \$149,298 plus 37% of the excess over \$500,000 |

Capital Gains Tax Rates

| Long Term Capital Gains Rate | Single | Married Filing Jointly | Head of Household | Married Filing Separately |
|------------------------------|-----------------------|------------------------|-----------------------|---------------------------|
| 0% | \$0 to \$38,600 | \$0 to \$77,200 | \$0 to \$51,700 | \$0 to \$38,600 |
| 15% | \$38,600 to \$425,800 | \$77,200 to \$479,000 | \$51,700 to \$452,400 | \$38,600 to \$239,500 |
| 20% | \$425,800+ | \$479,000+ | \$452,400+ | \$239,500 |

Investors will still be able to determine the most appropriate tax lot to use for cost basis purposes on investment sales and not use first-in first out accounting for cost basis.

Exemption & Standard Deduction

| Number of 2017 Exemptions | 2017 Standard Deduction & Exemption Amount | 2018 Standard Deduction | Additional Deduction | Tax Rate 2018 | Tax Savings |
|------------------------------------------------------|--------------------------------------------|-------------------------|----------------------|---------------|-------------|
| Single or Married Filing Separate (No Dependents) | \$6,350 | \$12,000 | \$1,600 | 10% | \$160 |
| | <u>+ \$4,050</u> | | | 12% | \$192 |
| | \$10,400 | | | 22% | \$352 |
| | | | | 24% | \$384 |
| Head of Household (One Dependent) | \$9,350 | \$18,000 | \$550 | 10% | \$55 |
| | <u>+ \$8,100</u> | | | 12% | \$66 |
| | \$17,450 | | | 22% | \$121 |
| | | | | 24% | \$132 |
| Married Filing Joint (No Dependents) | \$12,700 | \$24,000 | \$3,200 | 10% | \$320 |
| | <u>+ \$8,100</u> | | | 12% | \$384 |
| | \$20,800 | | | 22% | \$704 |
| | | | | 24% | \$768 |

Effects of Your dependents

| Number of 2017 Exemptions | Total Deduction Lost In 2018 | Tax Rate 2017/2018 | 2017 Tax Savings | 2018 Potential Tax Increase | Additional Child Tax Credit If Under Age 17 | Tax Savings |
|---------------------------|------------------------------|--------------------|------------------|-----------------------------|---------------------------------------------|-------------|
| 1 | \$4,050 | 10%/10% | \$405 | \$405 | \$1,000 | \$595 |
| | | 15%/12% | \$608 | \$486 | \$1,000 | \$514 |
| | | 25%/22% | \$1,013 | \$891 | \$1,000 | \$109 |
| 2 | \$8,100 | 10%/10% | \$810 | \$810 | \$1,000 | \$1,190 |
| | | 15%/12% | \$1,215 | \$972 | \$1,000 | \$1,028 |
| | | 25%/22% | \$2,025 | \$1,782 | \$1,000 | \$218 |
| 3 | \$12,150 | 10%/10% | \$1,215 | \$1,215 | \$1,000 | \$1,785 |
| | | 15%/12% | \$1,823 | \$1,458 | \$1,000 | \$1,542 |
| | | 25%/22% | \$3,308 | \$2,673 | \$1,000 | \$327 |
| 4 | \$16,200 | 10%/10% | \$1,620 | \$1,620 | \$1,000 | \$2,380 |
| | | 15%/12% | \$2,430 | \$1,944 | \$1,000 | \$2,056 |
| | | 25%/22% | \$4,050 | \$3,564 | \$1,000 | \$436 |
| 5 | \$20,250 | 10%/10% | \$2,025 | \$2,025 | \$1,000 | \$2,975 |
| | | 15%/12% | \$3,038 | \$2,430 | \$1,000 | \$2,570 |
| | | 25%/22% | \$5,063 | \$4,455 | \$1,000 | \$545 |
| 6 | \$24,300 | 10%/10% | \$2,430 | \$2,430 | \$1,000 | \$3,570 |
| | | 15%/12% | \$3,645 | \$2,916 | \$1,000 | \$3,084 |
| | | 25%/22% | \$6,075 | \$5,346 | \$1,000 | \$654 |

The 2018 Potential Tax Increase does not factor in your loss of the child tax credit if your child turns 17 during the tax year since this credit would normally be lost anyways. Going forward, a child turning 17 during the tax year will likely result in a \$2,000 or more tax increase to your federal liability. From 2017 to 2018 use the 2018 Potential Tax Increase column to figure out how much your taxes will go up for the number of exception deductions you are losing in 2018 that you would have had under pre-2018 law. Child Tax Credit will now phase out at \$400,000 for Married Filing Joint and \$200,000 for individuals, increasing from phase outs of \$110,000 and \$75,000 prior to 2018.

Prior to 2018 you were eligible for up to a \$1,000 Child Tax Credit and \$4,050 Income Deduction on your return for dependent children age 16 or younger. Once the child turned 17 you were still allowed to claim the \$4,050 Income Exemption. Beginning in 2018, you will no longer receive an income exemption for each dependent, but will be eligible for up to a \$2,000 Child Tax Credit for dependents under age 16.

Children 17 or older, an ailing elderly parent, or an adult child with a disability may now be eligible for a \$500 credit.

Taxpayers with no tax liability may receive up to a \$1,400 child tax credit per child.

Other Key Changes in 2018**Pass Through Income Exclusion**

- Pass-through income earned by sole proprietorships, LLCs, partnerships and S Corporations may be able to exclude up to 20% of the pass-through income beginning with the 2018 tax year. This is a complex exclusion for business income qualifications and limitations so not all business will qualify for this exclusion.

Itemized Deductions

- **Mortgage Interest**
 - The deduction for interest is capped at \$750,000 for mortgages taken out after 12/15/2017 and \$1,000,000 for mortgages that were established prior to 12/15/2017.
 - 2nd Mortgage and Line Of Credit Interest from debt not associated with the purchase or improvement of the home are no longer deductible.
- **State and Local Taxes**
 - The itemized deduction is limited to \$10,000 for both income and property taxes paid during the year. This deduction change will have a major impact on the number of American's that itemize their deductions.
- **Miscellaneous Deductions Subject to 2% Limitation – No longer deductible**
 - Unreimbursed Work Expenses, Union Dues, Etc
 - Investment Management Fees, IRA Custodial Fees, Tax Preparation Fees, Hobby Expenses
- **Charitable Contributions**
 - Limitation on cash contributions to public charities increased from 50 percent to 60 percent of AGI.
 - For taxpayers that take funds out of IRAs they may want to have charitable contributions sent directly from the IRA to their charity of choice through a Qualified Charitable Distribution so that the IRA Disbursement is not taxable. These disbursements can be used to meet RMD Requirements
- **Medical Expenses**
 - The medical expense deduction has been retained to the extent such expenses exceed 7.5 percent of your AGI for years 2017 and 2018. Starting in 2019 through 2025, the AGI limitation increases to 10 percent.

Health Insurance Mandate

- Effective for tax years beginning after Dec. 31, 2018, the new tax bill eliminates the penalty for individuals who do not have adequate health coverage.

Retirement Accounts and IRAs

- Employees who participate in certain retirement plans – 401(k), 403(b) and most 457 plans, and the Thrift Savings Plan – can now contribute as much as \$18,500 this year, a \$500 increase from the \$18,000 limit for 2017.
- Savers who contribute to individual retirement accounts will have higher income ranges following cost-of-living adjustments. Note that the deduction phases out for individuals and their spouses who are covered by workplace retirement plans.
 - For single taxpayers, the limit will be \$63,000 to \$73,000.
 - For married couples, the phase out range will vary depending on whether the IRA contributor is covered by a workplace retirement plan or not.
 - When the spouse who is investing has access to an employer plan, the range is \$101,000 to \$121,000.
 - For individuals who don't have a retirement plan but are married to someone who does, the phase out has been raised to \$189,000 to \$199,000.
 - The phase out was not adjusted for married individuals who file a separate return and who are covered by a workplace retirement plan. That range is \$0 to \$10,000.
- For individuals who are single or the heads of their households, the income phase out for Roth IRA Contributions has been raised to \$120,000 to \$135,000. For married couples who file jointly, the range climbs to \$189,000 to \$199,000. The phase out was not adjusted for married individuals who file a separate return. That is \$0 to \$10,000.

Alternative Minimum Tax ("AMT")

- With the elimination of miscellaneous itemized deductions and state tax deductions capped at \$10,000, many taxpayers who previously paid the AMT will no longer be subject to it.
- Beginning in 2018, the amount that you can subtract from your AMT income (i.e. exemption amount) increases significantly from \$84,500 to \$109,400 (married filing jointly) and from \$54,300 to \$70,300 (single taxpayers). The new tax bill also increases the phase-out of the exemption to \$1 million for married taxpayers filing jointly and \$500,000 for single taxpayers.

Estate Tax

- Estate Tax Exemption is now \$11.2 Million per individual or

Alimony

- **Divorces Before 12/31/2018**
 - Payments made by the tax payer are tax deductible.
 - Payments received by the tax payer are taxable income.
- **Divorce After 12/31/2019**
 - Payments made by the tax payer are not tax deductible.

Moving Expenses

- Moving expenses related to a job change are no longer deductible except for active members of the military.

529 Plan Disbursements For Elementary and Secondary Tuition

- 529 account holders can now use up to \$10,000 per year to pay for tuition for elementary or secondary public, private or religious school.

Annual Gifting Exclusion

- The annual gift exclusion increased from \$14,000 to \$15,000 per person per donor.
- The new tax code makes significant changes to the way pass-through business income is taxed. This includes income earned by sole proprietorships, LLCs, partnerships and S Corporations. This is a complex topic, so we recommend that taxpayers consult their tax advisor for business income qualifications and limitations.