

To Our Clients & Friends,

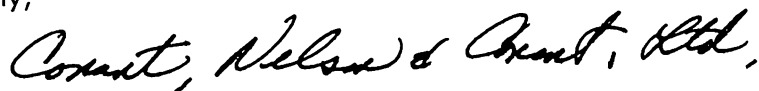
The recently enacted Tax Cuts and Jobs Act (TCJA) is a sweeping tax package. Here's a look at some of the more important elements of the new law that have an impact on individuals. Unless otherwise noted, the changes are effective for tax years beginning in 2018 and through 2025.

- **Tax rates.** The new law imposes a new tax rate structure with seven tax brackets with most rates being two to three points lower than the ones under present law (the top rate goes from 39.6 percent to 37 percent). The top rate kicks in at \$600,000 of taxable income for joint filers, \$300,000 for married taxpayers filing separately, and \$500,000 for all other individual taxpayers.
- **Investment income.** The rates applicable to net capital gains (including the 3.8% net investment income tax) and qualified dividends were not changed.
- **Unearned income of children.** The "kiddie tax" rules were simplified. The net unearned income of a child subject to the rules will be taxed at the capital gain and ordinary income rates that apply to trusts and estates. This could cause an increase in tax in some situations. The top tax rate for trusts and estates is 37% for income over \$12,500.
- **Standard deduction and personal exemptions.** The new law repeals the personal exemption deductions, but nearly doubles the standard deduction amounts to \$24,000 for joint filers and surviving spouses, \$18,000 for heads of household, and \$12,000 for single individuals and married filing separately. Given these increases, many taxpayers will no longer be itemizing deductions. These figures will be indexed for inflation after 2018.
- **Child and family tax credit.** To compensate for the repeal of dependent exemption deductions, the new law increases the credit for qualifying children (i.e., children under 17) to \$2,000 from \$1,000, and increases to \$1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) \$500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to \$200,000 (\$400,000 for joint filers).
- **New deduction for "qualified business income."** Starting in 2018, taxpayers are allowed a new 20 percent deduction for qualified business income from sole proprietorships, S corporations, partnerships, and LLCs taxed as partnerships. The deduction, which is available to both itemizers and nonitemizers, is claimed by individuals on their personal tax returns as a reduction to taxable income. The new tax break is subject to some complicated restrictions and limitations, but the rules that apply to individuals with taxable income at or below \$157,500 (\$315,000 for joint filers) are simpler and more permissive than the ones that apply above those thresholds. This change is by far the most complex part of the new tax law, the details and guidance on application of these rules are still being written.
- **State and local taxes.** The itemized deduction for state and local income and property taxes is limited to a total of \$10,000 starting in 2018.

- **Mortgage interest.** Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to \$750,000 (down from \$1 million), starting with loans taken out in 2018. Also, there is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred.
- **Miscellaneous itemized deductions.** There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2 percent of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses. The deduction for gaming losses remains unchanged.
- **Medical expenses.** Under the new law, for 2017 and 2018, medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income for all taxpayers. Previously, the AGI "floor" was 10% for most taxpayers.
- **Casualty and theft losses.** The itemized deduction for casualty and theft losses has been suspended except for losses incurred in a federally declared disaster.
- **Overall limitation on itemized deductions.** The new law suspends the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded specified thresholds. The itemized deductions of such taxpayers were reduced by 3% of the amount by which AGI exceeded the applicable threshold, but the reduction could not exceed 80% of the total itemized deductions, and certain items were exempt from the limitation.
- **Moving expenses.** The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.
- **Alimony.** For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.
- **Health care "individual mandate."** Starting in 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage.
- **Estate and gift tax exemption.** Effective for decedents dying, and gifts made, in 2018, the estate and gift tax exemption has been increased to roughly \$11.2 million (\$22.4 million for married couples).
- **Alternative minimum tax (AMT) exemption.** The AMT has been retained for individuals by the new law but the exemption has been increased to \$109,400 for joint filers (\$54,700 for married taxpayers filing separately), and \$70,300 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over \$1 million for joint filers, and over \$500,000 for all others.

As you can see from this overview, the new law affects many areas of taxation. There are additional changes for businesses that are not discussed in this letter. We would be happy to discuss the implications of the changes to the 2018 tax landscape as we complete your 2017 returns.

Sincerely,



Conant, Nelson & Conant, Ltd.