



Tax Reform Highlights

Effective 1/1/2018



These are the highlights and provisions of the previously titled Tax Cuts and Jobs Act¹ that may affect you.

Changes for individuals

Individual tax brackets

2018 under previous tax law			2018 under the Tax Cuts and Jobs Act		
Tax Rate	Taxable Income		Tax Rate	Taxable Income	
	Individual	Married Filing Jointly		Individual	Married Filing Jointly
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%	\$424,951 - \$426,700	\$424,951 - \$480,050	35%	\$200,001 - \$500,000	\$400,001 -\$ 600,000
39.6%	\$426,701 +	\$480,051 +	37%	\$500,001 +	\$600,001 +

*Effective 1/1/2018
 Revert to 2017 law: 1/1/2026
 Code sec. 1
 Bill sec. 11001*

These tax brackets will be adjusted for inflation using new factors

Standard Deductions

2018 Filing Status	Deduction Amount
Single	\$12,000
Married Filing Jointly	\$24,000
Head of Household	\$18,000
Personal Exemption	\$0

The withholding rules for 2018 stay the same 2017. They change for 2019.

You may take the standard deduction or itemize deductions and receive a personal exemption for each family member. The Act increases the standard deduction amount while reducing (or eliminating) numerous itemized deductions. It also eliminates the personal exemption.

You should review the amount your employer withholds in light of these changes.

*Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code secs. 63 and 151*

Bill sec. 11041 (personal exemption) and 11021 (standard deduction)

Deduction amounts will be adjusted each year by new inflation factor.

Adjustment to capital gains taxation

Rates for long-term capital gains and qualified dividends continue to use the prior income thresholds. This means that capital gains and qualified dividend rates don't align with ordinary income tax brackets.

Capital Gains Rate/Filing Status	Single Filer Income	Married Filing Jointly Income
0%	\$0 - 36,600	\$0 - \$77,200
15%	\$36,601 - \$452,400	\$77,201 - \$479,000
20%	\$452,401 +	\$479,001 +

*Effective: 1/1/2018
Code sec. 1(h)
Bill sec. 11001*

Child tax Credit

The child tax credit increases from \$1,000 to \$2,000. Begins to phase out for taxpayers whose AGI is over \$400,000 (joint filers) and \$200,000 for all others. There's also a new nonrefundable credit of \$500 for each dependent who isn't a qualifying child. The refundable portion of the credit can't exceed \$1,400 for a qualifying child, and is adjusted for inflation after 2018.

*Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 24
Bill sec. 11022*

Temporary reduction in medical expense deduction floor.

For tax years 2017 and 2018 medical expenses that exceed 7.5% of AGI will be deductible for all taxpayers. The percentage will go back to 10% in 2019.

*Code sec. 213
Bill sec. 11027*

529 account funding for elementary and secondary education



529 plan distributions can be used for elementary or secondary public, private or religious school expenses, up to \$10,000 per year per student. So, even though a student may be the beneficiary of multiple accounts, only \$10,000 per year can be distributed tax-free for that student.²

*Effective: 1/1/2018
Code sec. 529
Bill sec. 11032*

Limitation on deduction for state and local taxes

The aggregate amount of all state and local property, income and sales taxes that are deductible will be \$10,000 (\$5,000 if married filing separately) per year. EXCEPT, if any of those taxes are paid in carrying on a trade or business then the cap does not apply. Also, unless paid or accrued in carrying on a trade or business, a taxpayer can no longer deduct foreign real property taxes.

If state/local tax is paid before 1/1/2018 for a tax imposed for a taxable year beginning after 12/31/2017, the tax will be treated as paid on the last day of the taxable year for which such tax is imposed.

The Joint Committee on Taxation analysis of the Act makes it clear that an individual may not claim an itemized deduction in 2017 on pre-payment of income tax for a future taxable year in order to avoid the \$10,000 cap.

Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 164
Bill sec. 11042



Limit on deduction for qualified residence interest

Interest paid on home equity loans are not deductible.

Interest on a qualified residence is limited to \$750,000 (\$375,000 married filing separately). This is lowered from \$1 million (\$500,000 married filing separately).

Applies only to loans after 12/15/2017.

Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 163(h)
Bill sec. 11043

Repeal of individual mandate

Repeals the penalty tax on individuals who do not have health insurance.

Effective: 1/1/2019
Code sec. 5000A
Bill sec. 11081

Suspension of miscellaneous itemized deductions

Miscellaneous itemized deductions are no longer allowed.

effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 67
Bill sec. 11045

Code sec. 68 currently has an overall limit on all itemized deductions. Bill sec. 11046 removes this limit for tax years 2018 through 2025.

For tax years 2018 through 2025, qualified moving expense reimbursement will be included in the taxpayer's income.

Code sec. 132
Bill sec. 11048

For tax years 2018 through 2025, there will be no deduction for moving expenses except for members of the Armed Forces.

Code sec. 217
Bill sec. 11049

Taxpayers will no longer be able to take a deduction for alimony payments, and alimony recipients will no longer include the payment in income. This applies to alimony payments made pursuant to a divorce or separation instrument executed after 12/31/2018 and to one executed before that date that is modified after that date if it is done so to have this statutory change apply to the modification.

Code secs. 215 and 61(a)(8)
Bill sec. 11051

Suspension of personal casualty loss deduction

Personally casualty loss deductions will only be allowed for a Federally-declared disaster.

Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 165
Bill sec. 11044



Estate/gift tax



For estates of those who die, or for gifts made after 12/31/2017 and before 1/1/2026, the exclusion amount is \$10 million (indexed for inflation occurring after 2011).

The annual gift exclusion amount is \$15,000. Basis step-up rules remain unchanged.

For those dying in 2018, the estate tax exemption amount is \$11.2 million. Life insurance planning for these taxes may see an even greater decrease.

*Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 2010(c)
Bill sec. 11061*

Changes for businesses

Pass-through entities

The Act adds a new Code sec. 199A — Qualified Business Income, which is intended to allow pass-through entities to deduct the first 20% of their business income up to a threshold amount of \$157,500 (\$315,000 if joint return), adjusted for inflation after 2018. This is meant to allow a lower effective tax rate for taxpayers' business enterprise income, but to still subject a portion of their earnings to the individual tax rates. Because the deduction is meant to assist businesses and not wage earners, the deduction cannot be taken by those in specified personal service professions whose income is above the threshold amount plus \$50,000 (\$100,000 if filing a joint return). These include health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business *where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees* (new provision) and the performance of services that consist of investing and investment management, trading or dealing in securities, partnership interests or commodities. The Act specifically excludes engineering and architecture from the list of service providers who cannot take advantage of the deduction.

The new rules are complex and it will take time for privately-held companies to determine when or if they should convert to a C corporation, or for a C corporation to convert to a pass-through entity.

*Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 199A (new)
Bill sec. 11011*

Corporate tax rate

The corporate rate is changed from a graduated rate ranging from 15% to 35% to a flat tax rate of 21%.

*Effective: 1/1/2018
Code sec. 11
Bill sec. 13001*

Alternative minimum tax

This tax is repealed for corporations.

*Effective: 1/1/2018
Code sec. 55(a)
Bill sec. 12001*

The repeal of the alternative minimum tax (AMT) will be a win for companies that own COLI and BOLI policies because cash values and death benefits are a preference item under the AMT.

The AMT remains in place for noncorporate taxpayers; however, the exemption amount increases to \$109,400 for joint return/surviving spouse (up from \$86,200) and \$70,300 all others (up from \$55,400 for single filers and \$43,100 for married filing separate returns (except estates and trusts)). The phase out thresholds are increased to \$1 million for joint filers (up from \$164,100) and \$500,000 for individuals (up from \$123,100) for single filers and \$82,020 for married filing separately) (except estates and trusts). These amounts are indexed for inflation.

*Effective: 1/1/2018
Reverts back to 2017 law: 1/1/2026
Code sec. 55(d)
Bill sec. 12003*

Expensing depreciable business assets

The annual cost that can be taken into account is increased from \$520,000 (in 2018) to \$1 million. This limit is reduced by the amount of which the cost of section 179 property placed in service during the year

exceeds \$2.5 million (increased from \$2,070,000 in 2018). It also expands the definition of section 179 property. *Effective for property placed in service after 12/31/2017*
 The \$1 million and \$2.5 million are indexed for inflation beginning 1/1/2019.

*Code sec. 179
 Bill sec. 13101*

Temporary 100% expensing for certain business assets

New depreciation schedule for “qualified property” depending on when it is first placed in service. (To be qualified, property must have a recovery period of 20 years or less; computer software, etc.)

In Service After	In Service Before	Rate
9/27/2017	1/1/2023	100%
12/31/2017	1/1/2024	80%
12/31/2023	1/1/2025	60%
12/31/2024	1/1/2026	40%
12/31/2025	1/1/2027	20%
2/31/2026	1/1/2028	0%

The current rate is 50% which would have expired 12/31/2019 under current law.

For certain other property including property that has a recovery period of at least 10 years, is transportation property or certain aircraft, rates remain the same. However, the date property must be placed in service before, is one year later than in the chart above.

The table above also applies to plants bearing fruits and nuts for plants planted or grafted before/after those dates. *Code sec. 168(k)
 Bill sec. 13201*

Modification of net operating loss deduction

Limits the net operating loss (NOL) deduction to 80% of taxable income (determined without regard to the deduction), for losses arising in taxable years beginning after 12/31/2017. The limitation does not apply to a property and casualty insurance company.

Repeals the two-year carryback and the special carryback provisions, but provides a two-year carryback in the case of certain losses incurred in the trade or business of farming. Also provides a two-year carryback and 20-year carryforward for NOLs of a property and casualty insurance company. This doesn’t increase NOL carryovers.

*Effective: 1/1/2018
 Code sec. 172
 Bill sec. 13302*

Employer deduction for fringe benefits

Eliminates deduction for entertainment, amusement or recreation activities. No deduction is allowed for qualified transportation fringe benefits under Code sec. 132(f).

No deduction will be allowed for entertainment, amusement or recreation activities, membership dues for clubs organized for business, pleasure, recreation or other social purpose, or a facility used in connection with any of these activities.

Taxpayers may still generally deduct 50% of the food and beverage expenses associated with operating their trade or business. For amounts incurred and paid after 12/31/2017 and until 12/31/2025, expands this 50 percent limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements. Such amounts incurred and paid after 12/31/2025 are not deductible.

*Effective: 1/1/2017 except for meals provided at convenience of employer becomes effective 1/1/2026
 Code sec. 274
 Bill sec. 13304*

Denial of deduction for cash, gift cards and other non-tangible personal property as employee achievement awards

No deduction is allowed for the cost of an employee achievement award if it is cash, gift cards, vacations, meals, tickets to sporting events, etc.

*Effective: 1/1/2018
 Code sec. 274(j)
 Bill Sec. 13310*

Tax reporting for life settlement transaction and basis in life insurance contracts

New Code sec. 6050Y

The purchaser of a life insurance contract or any interest in a life insurance contract in a reportable policy sale must disclose certain information to the IRS, the insurance carrier and the seller for that taxable year. A reportable policy sale means “the acquisition of an interest in a life insurance contract, directly or indirectly, if the acquirer has no substantial family, business, or financial relationship with the insured...”

When death benefits are paid, the insurance company must report information about the payment to the IRS and to the payee, including each recipient of a payment, the gross amount and the company’s estimate of the buyer’s basis in the contract. This applies to any life insurance contract that has been transferred in a reportable policy sale.

To determine the basis in a life insurance or annuity contract, no adjustment is made for mortality, expense or other reasonable charges under the contract (“cost of insurance”). This reverses the IRS in Rev. Rul. 2009-13 that on the sale of a cash value contract, the owner’s basis is reduced by the cost of insurance.

The transfer for value rule will apply in the case of a reportable policy sale so that some portion of the death benefit will ultimately be included in income.

The transfer for value rule will apply effective for reportable sales after 12/31/2017.

*Code sec. 101
Bill sec. 13522*

The basis rules apply for life insurance and annuity contracts transactions entered into after August 25, 2009.

Bill sec. 13520



Retirement plans



Repeal rule permitting recharacterizations of Roth conversions

The special rule that allows a contribution to one type of IRA to be recharacterized as a contribution to the other type of IRA does not apply to a conversion contribution to a Roth IRA. Thus, recharacterization cannot be used to unwind a Roth conversion. However, recharacterization is still permitted with respect to other contributions. For example, an individual may make a contribution for a year to a Roth IRA and, before the due date for the individual’s income tax return for that year, recharacterize it as a contribution to a traditional IRA.

*Effective: 1/1/2018
Code sec. 402
Bill sec. 13611*

Extended rollover period for the rollover of plan loan offset amounts in certain cases

Extends the deadline to avoid having a plan loan be treated as a taxable distribution as a result of an individual’s separation from service (or in the event of plan termination) by permitting employees to roll over the loan balance to an IRA/plan by the due date for filing their tax return (including extensions).

*Effective: 1/1/2018
Code sec. 408A
Bill sec. 13611*

Relief for 2016 disaster areas

There won't be an additional 10% tax on early distributions from qualified plans, 403(b) plans and IRAs if it's a qualified 2016 disaster distribution. The aggregate distribution for a taxable year cannot exceed the excess of (1) \$100,000 over (2) the aggregate amounts treated as qualified 2016 disaster distributions received by such individual for all prior taxable years. (Controlled group rules apply.) Special rules will allow the distribution to be repaid to the plan. The distribution will be included in income over a 3-year period, rateably.

*Applies to 2017 and 2018 tax years for casualty losses arising in 2016 and 2017
Code sec. 72(t)
Bill sec. 11028*



Note: Reducing the tax rate on pass-through entities below the owner's individual tax rate could have a negative impact on the adoption or maintenance of qualified retirement plans. The difference between the reduced marginal tax rate on pass-through entities as a result of the 20% deduction allowed to them and the 37% top individual rate on ordinary income (as well as the favorable tax rate on capital gains income at 20%) may mean the small business owner's retirement benefits could be taxed at 37% (or at 39.6% after 12/31/2025) when distributed, instead of the lower pass-through effective rate and the 20% capital gains rate on accumulated earnings. More than 90% of businesses are organized as passthrough entities, and more than 320,000 of these entities sponsor a retirement plan with an average of 75 participants, so the impact may be significant.



Farm operations and farm cooperatives

Repeal of deduction for income attributable to domestic production activities

Eliminates the deduction that is equal to 9% of the lesser of the taxpayer's qualified production activities income or taxable income produced or marketed through cooperatives.

*Effective: 1/1/2018
Code sec. 199 is eliminated (Income attributable to domestic production activities)
Bill sec. 13305*

Modifications of treatment of certain farm property

The provision shortens the recovery period from 7 to 5 years for any machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business, the original use of which commences with the taxpayer and is placed in service after 12/31/2017.

The provision also repeals the required use of the 150% declining balance method for property used in a farming business (i.e., for 3, 5, 7, and 10-year property). The 150% declining balance method will continue to apply to any 15-year or 20-year property used in the farming business to which the straight-line method does not apply, or to property for which the taxpayer elects the use of the 150% declining balance method.

The term “farming business” means a trade or business involving the cultivation of land or the raising or harvesting of any agricultural or horticultural commodity (e.g., the trade or business of operating a nursery or sod farm; the raising or harvesting of trees bearing fruit, nuts, or other crops; the raising of ornamental trees (other than evergreen trees that are more than six years old at the time they are severed from their roots); and the raising, shearing, feeding, caring for, training, and management of animals). A farming business includes processing activities that are normally incidental to the growing, raising, or harvesting of agricultural or horticultural products. A farming business does not include contract harvesting of an agricultural or horticultural commodity grown or raised by another taxpayer, or merely buying and reselling plants or animals grown or raised by another taxpayer.

*Effective for property placed in service after 12/31/2017
Code sec. 168
Bill sec. 13203*

Use of alternative depreciation system for electing farming businesses

The provision requires an electing farming business, i.e., a farming business electing out of the limitation on the deduction for interest, to use an alternative depreciation system to depreciate any property with a recovery period of 10 years or more (e.g., property such as single purpose agricultural or horticultural structures, trees or vines bearing fruit or nuts, farm buildings, and certain land improvements).

*Effective: 1/1/2018
Code sec. 168
Bill sec. 13205*

H.R.1 – An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018: Tax Cuts and Jobs Act.

This bill amends the Internal Revenue Code (IRC) to reduce tax rates and modify policies, credits, and deductions for individuals and businesses.

<https://www.congress.gov/bill/115th-congress/house-bill/1/text>

¹ The Senate Parliamentarian ruled late on December 18, 2017 that certain provisions of the Act violated the Byrd rule. Included among the changes is that the Act must be cited by its full, official name which is, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.

² A Senate amendment removed the language that would have allowed home schooled students to benefit from this provision.

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