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RESPONSIVE SOLUTIONS

Sweeping Tax Law Revision Affects Nearly Everyone

This article is the first in a five-part series regarding the Tax Cuts and Jobs Act *signed into law December 22, 2017*

As you undoubtedly know, President Trump signed the *Tax Cuts and Jobs Act* three days before Christmas. This law, contained in over 500 pages, represents a sweeping reshuffling of tax policy reminiscent of tax laws signed by President Ronald Reagan in 1981 and 1986 and President George W. Bush in 2001.

The *Tax Cuts and Jobs Act* affects the following aspects of tax policy:

FEDERAL ESTATE AND GIFT TAXES:

- Increased the combined gift and estate tax exemption from $5.49 million to $11.20 million.

What it means to you:

- The increased exemption will allow you to make larger lifetime gifts (typically to children, in trust or outright) to reduce potential federal and Massachusetts estate taxes, without triggering a federal gift tax (there is no Massachusetts gift tax).
- The increased exemption should trigger a review of your estate plan to make sure that any provisions tied to the federal estate tax exemption amount still reflect your intentions.

FEDERAL INCOME TAX ON INDIVIDUALS:

- Reduced income tax rates with seven tax brackets
- Reduced maximum tax rate of 37% from 39.6%
- Increased standard deduction, while eliminating the personal exemption
- Long-term capital gains rates remain the same
- New $750,000 limit on the mortgage interest deduction (new loans)
- Eliminated home equity loan interest deduction
- New $10,000 deduction limit on the total of local property tax and state income tax
- Doubled child tax credit to $2,000 and increased phaseout
- Increased Alternative Minimum Tax (AMT) exemption
- $10,000 annual allowance for tax-free distributions from 529 College Savings Accounts for K-12th grade private school tuition payments

What this means to you:

- There is so much complexity in the changes at the individual level on income taxes that an individualized analysis is needed. You should schedule an appointment with your tax accountant or tax attorney to apply the changes in the law to your individual situation so you can adjust your tax planning in 2018.

FEDERAL INCOME TAX ON BUSINESSES:

- Reduced maximum tax rate to 21% from 35%
- Repealed the corporate alternate minimum tax
- New cap on interest deductions

What this means to you:

- It is anticipated that the reduced corporate tax rate will influence corporate investments in capital, personnel, research and development and expansion. Consequently, it wouldn't hurt to consult with your investment advisor to review your investment portfolio to assess the likely impact these changes may have on your current investment portfolio and, possibly, target new investment opportunities.

"PASS-THROUGH" ENTITIES (INCLUDING LLCS, PARTNERSHIPS, AND TRUSTS AND ESTATES):

- New 20% deduction for pass-through income, subject to a phase out of the deduction for personal services professionals such as lawyers, consultants and accountants.

What this means to you:

- If you are one of the estimated 40 million Americans who claimed pass through income, you may have opportunities to realize increased net income due not only to this new deduction but also from new rules regarding depreciation of capital investments. You should consult with your tax and/or corporate advisor to both understand and take advantage of these new options.

As noted above, the *Tax Cuts and Jobs Act* contains over 500 pages of new law. It is impossible to cover all the complexities in an email alert such as this. Please be assured that we will be preparing specific articles in the first quarter of 2018 on the impact this new law will have on our clients. Look for us to provide suggestions about how to take advantage of the changes that are relevant to you and your family, your business, and your investments.