

2018 Tax Reform

What Has Changed and What Are the Implications?

January 2018

The Tax Cuts and Jobs Act of 2017 (TCJA), known colloquially as the “GOP Tax Reform” or the “Trump Tax Cuts” will affect individual taxes from 2018 through 2025, when most of the provisions for individual taxpayers expire (and return to their current state). It isn’t possible to provide a comprehensive assessment of the bill – including the elements focused on corporations. Instead, Bailard will try to highlight areas most likely to affect its clients.

FEDERAL INDIVIDUAL INCOME TAX BRACKETS ARE ONLY marginally CHANGED

Income Tax Rate		Income Levels for Those Filing As:		Implications
2017	2018-2025	Single	Married-Joint	
10%	10%	\$0-\$9,525	\$0-\$19,050	The largest percentage impact will be for taxpayers in lower tax brackets; the largest monetary impact will occur for taxpayers in upper brackets.
15%	12%	\$9,525-\$38,700	\$19,050-\$77,400	
25%	22%	\$38,700-\$82,500	\$77,400-\$165,000	
28%	24%	\$82,500-\$157,500	\$165,000-\$315,000	
33%	32%	\$157,500-\$200,000	\$315,000-\$400,000	
33%-35%	35%	\$200,000-\$500,000	\$400,000-\$600,000	
39.6%	37%	\$500,000+	\$600,000+	
Alternative Minimum Tax: Amount exempt from tax goes from \$55,400 for individuals and \$86,200 for married couples to \$70,300 and \$109,400 under the new plan.				
The inflation indexing of brackets will change from traditional CPI to “chained CPI” which reflects individuals’ choice to replace a more expensive good with a cheaper one on a month-to-month basis. This is estimated to reduce CPI adjustments by 0.25% per year.				

STANDARD AND PERSONAL DEDUCTIONS

	2017	2018-2025	Implications
Standard Deduction	\$6,350 for single	\$12,000 for single	High deduction may result in fewer itemizers
	\$12,700 for joint	\$24,000 for joint	
Personal Exemption	\$4,050 per person	Discontinued	Change in child tax credit may offset
Child and Family Tax Credits	Refundable tax credit of \$1,000 for 1 st two children. Phase-out for individual AGI above \$75,000, \$110,000 for married couples	Increase to \$2,000 per child of which \$1,400 is refundable and indexed to inflation. Phase out levels rise to \$200,000 and \$400,000	A large win for bigger families, even those with higher incomes.

Rates and rules for long-term capital gains and qualified dividend brackets and rates are unchanged. This includes the 3.8% Medicare surtax on net investment income introduced in the Affordable Care Act of 2010.

ITEMIZED DEDUCTIONS

Retained	2017	2018-2025	Implications
Home	Interest deduction on primary residence up to \$1mm mortgage; home equity up to \$100k	Primary reduced to \$750k; home equity is suspended	Mortgages in place prior to December 15, 2017 are grandfathered.
Charitable	Cash donations up to 50% of AGI	Cash donations up to 60% of AGI	Should have marginal impact.
Student Interest	Maximum deduction of \$2,500	Unchanged	
Retirement Contributions	Unchanged		
Medical Deductions	For 2017-2018, deductibility increased to 7.5% of AGI, then reverts back to 10%		
Pease Limitation	3% phase-out of deductions above income limits	Eliminated	Could be large benefit for some high income taxpayers
Eliminated/Reduced	2017	2018-2025	Implications
State and Local Taxes	Sales tax or combination of property and income tax are deductible	Maximum deduction limited to \$10,000	Affects high tax states greatly. California is exploring turning taxes into a charitable contribution.
Moving Expenses	Deductible if related to employment	Eliminated	
Miscellaneous Deductions	Deductible over 2% of AGI	Eliminated	Includes: employee business expenses, investment advisory fees, accountant fees, others.
Alimony	Deductible for payor	Eliminated for divorces after December 31, 2018	

OTHER CRITICAL AREAS

Area	2017	2018-2025	Implications
Estate Taxes	\$5.6mm/person exemption	\$11.2mm/person exemption	Greater than \$22 million exemption for couples means many fewer will be subject to estate tax
Individual Mandate	Under Affordable Care Act, individuals subject to a tax if not covered by health insurance	Eliminated after 12/31/2018	
Pass-Through Income	No deduction	Allows deduction of 20% of qualified business income	Big break for real estate, private equity as well as small businesses
529 Plans	Assets for post-secondary school only	Expanded to private primary and secondary school as well as home-schooling expenses	

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