THE TAX CUTS AND JOBS ACT
SUMMARY OF INDIVIDUAL TAX CHANGES

Note that the following changes are only temporary, they are set to sunset after 2025. These changes take effect for tax years beginning after December 31, 2017.

<u>Tax Rates:</u>
The top individual tax rate has been decreased from 39.6% to 37%. For married filing jointly, this rate is reached on taxable income above $600,000.

<u>Standard Deduction</u>:
The standard deduction has been increased to $24,000 for married/joint, $12,000 for single, and $18,000 for head of household. This is almost a 100% increase.

<u>Personal Exemptions:</u>
The deduction for personal exemptions has been repealed. However, the child credit has been increased to $2,000 (for qualifying taxpayers).

<u>Capital Gains Rates:</u>
Remain unchanged, including the 3.8% net investment tax, if applicable.

<u>New Deduction for Pass-through Entities:</u>
A new deduction (deductible below the line) will be allowed for owners of partnerships, S corporations, or sole proprietorships. The base deduction will be 20% of the net income from the entity, but subject to certain limitations:

General Businesses (i.e. not rental businesses or service businesses)
The 20% deduction is limited to the greater of:
50% of W-2 wages paid by the entity OR
The sum of 25% of W-2 wages plus 2.5% of the original cost of any depreciable property [this provision allows for rental businesses to take advantage of the deduction. (Note: the “cost” of property received in a like-kind exchange is vague at this point).
The W-2 limitation does not apply if the taxpayer’s taxable income (before the deduction) is $315,000 or less (married filing joint) or $157,500 or less (all others).

Service Business (including doctors, lawyers, accountants, performing artists, consultants, financial advisors, etc. but NOT engineers & architects)
The deduction is not available for these businesses UNLESS the taxpayer’s taxable income (before the deduction) is $315,000 or less (married filing joint) or $157,500 or less (all others).
Note: the rules become rather complicated if the taxpayer has more than one pass-through entity.

Carried Interest:
The new law allows for certain profits interest received in connection with the performance of service to be taxed at capital gains rates; however, there is now a three year holding period before this treatment is allowed.

Casualty Losses:
No deduction will be allowed for casualty losses.

State and Local Tax Deduction:
The combined deduction for state property taxes and state income taxes cannot exceed $10,000.

Home Equity Interest:
The deduction for interest paid on home equity loans has been repealed.

Home Mortgage Interest:
The deduction for debt incurred to acquire a home (or second home) is capped at $750,000 ($375,000 married filing separately) down from $1,000,000 under the old law. This applies only to purchases AFTER 12/15/17. The old rules still apply to old loans (and to refinances of old loans to the extent the loan is not increased).

Charitable Contributions:
The 50% AGI limit to public charities has been increased to 60%.

Alimony:
For divorce decrees finalized AFTER 2018, no deduction will be allowed to the payor and no income to the payee.

Miscellaneous Itemized Deductions:
The deduction for miscellaneous itemized deductions subject to 2% of AGI has been repealed.

Moving Expenses:
The exclusion for moving expense reimbursements and the deduction for moving expenses have been repealed.

Alternative Minimum Tax:
The Alternative Minimum Tax for individuals is still around (it has been repealed for corporations), but the exemption has been increased significantly (subject to phase-out at higher incomes).

NOTE: California does not automatically follow these Federal changes, so unless the California legislature affirmatively acts to have the state conform to these laws (which in our opinion is unlikely), the California tax treatment will not change.