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The Major Tax Changes: An Overview

The new tax law has dominated political discussion for months and will likely continue to do so well into 2018. Consequences, both intended and otherwise, are still largely unclear. For now, here are some of the big changes for both individuals and companies. In general, the changes to individual provisions expire at the end of 2025, but the corporate changes are permanent.

The new tax law is massive, and we will be continuing to digest the details for months to come. We will provide you with updates and are available to help you with any questions.

Taxes for Individuals

The big news here is bracket changes. They've changed and are generally lower:

- 10% (income up to $9,525 for individuals; up to $19,050 for married couples filing jointly)
- 12% (over $9,525 to $38,700; over $19,050 to $77,400 for couples)
- 22% (over $38,700 to $82,500; over $77,400 to $165,000 for couples)
- 24% (over $82,500 to $157,500; over $165,000 to $315,000 for couples)
- 32% (over $157,500 to $200,000; over $315,000 to $400,000 for couples)
- 35% (over $200,000 to $500,000; over $400,000 to $600,000 for couples)
- 37% (over $500,000; over $600,000 for couples)

The standard deduction nearly doubles, to $12,000 for singles and $24,000 for couples. This means fewer people will find it advantageous to itemize.

Those who continue to itemize, however, will see significant changes — especially if they're homeowners:

- All state and local tax deductions are limited to $10,000.
- The mortgage interest deduction is limited to payments on $750,000 of debt for new mortgages post 12/16/17.

The alternative minimum tax is still in existence, but the exemption is increased, meaning fewer will be paying it. If you are considering exercising incentive stock options, you may want to delay such action until 2018 to take advantage of these more favorable rules.

The child tax credit is doubled to $2,000, with a refundable portion up to $1,400.

The estate tax is still with us, but the exemptions have been doubled. The number of families that will be subject to the federal estate tax will now be quite small. The Washington State estate tax remains unchanged.

Taxes for Businesses

The big story here is the lowering of the tax rate from 35% to 21%. However, there are other important provisions:

- The corporate AMT is eliminated.
- The limit on Section 179 expensing is increased to $1 million.
- The new law limits the deduction for net operating losses to 80% of taxable income.
- Instead of being an immediate deduction, research and development expenditures will need to be written off gradually.
- Some “passthrough” companies get a 20% reduction, but there is an income phase out.

The year has only a few more days left, but there's still time to make some last-minute changes to your finances. The new tax reform law is changing the tax landscape radically, and you can take advantage of its provisions, or avoid its repercussions, with some clever moves before January 1.

Some of these strategies are especially important under the new rules, but others are tried-and-true techniques you may have adopted (or forgot about!) last year.

Pay next year's state income tax now. State and local tax deductions will be severely limited in 2018 under the new law, so especially if you live in a high-tax state, make your fourth quarter 2017 estimated tax payment in advance.

Time your charitable deductions. In some cases, depending on your tax bracket, a charitable deduction could be worth more in 2017 than in 2018. Also, with the doubling of the standard deduction, many taxpayers will see no tax advantage to making a charitable donation, as they won't be deducting it. So it's best to make it now while you can still claim it.

Look at other miscellaneous expenses. Many of these, including investment management fees, tax preparation costs, unreimbursed employee business expenses, etc. will disappear in the new year, so if you can, take them now.

Defer any income, if practically and legally possible. There's a good chance that you'll be taxed at a lower marginal rate in 2018. Therefore, income earned in 2018 essentially may be worth more net of income tax.

Sell poorly performing stocks. If you've sold some winners this year, get ready for a capital gains tax bill. That doesn't change under the new law. To get the tax break, you may want to consider selling some securities that have fallen.

Check your Roth Conversions. In many cases, you can switch back from a conversion to a Roth IRA if it makes sense for you to do so. However, this undo option, called a "recharacterization," is eliminated in the new year.

Like-kind exchanges are a popular way to avoid current tax on the appreciation of an asset. But after December 31, 2017, such swaps will be possible only if they involve real estate that isn't held primarily for sale. So if you are considering a like-kind swap of other types of property (such as business autos), do so before year-end. The new law says the old, far more liberal like-kind exchange rules will continue to apply to exchanges of personal property if you either dispose of the relinquished property or acquire the replacement property on or before December 31, 2017.

As many have pointed out, the new tax law is some 70,000 words long and there are few people who have read all of it yet! A lot of provisions are still unclear, and there will be additional official guidance in the coming weeks and months.

Businesses and individuals will need to carefully consider what their situation is in 2018 and plan accordingly. There may be some last minute tax planning strategies for 2017. However, not every strategy is good for every individual. Give us a call by year-end to see what might be appropriate in your situation.