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Tax Cuts & Jobs Act (TCJA) Highlights

- Still seven brackets but most lowered: 10%, 12%, 22%, 24%, 32%, 35%, & 37%
- All changes adjusted for inflation using **chained** CPI-U
- **Standard Deductions**: nearly doubled to: $12,000 single, $18,000 HoH, $24,000 married
- **Personal Exemptions:** eliminated; $4,150 for 2018 gone…
- **Child Care Tax Credit** doubled (from $1K to $2K);
- **PEP** and **Pease** eliminated
- AMT **repealed** for corporations; **retained** for individuals – but with raised AGI thresholds
- **3.8% surtax** for ACA individual mandate reduced to **zero** $'s in 2019 – not 2018…
- **Estate tax** exemption **doubled** (from $5.6MM to $11.2MM per person) – but **no repeal.** Will revert back after 2025.
- **Step up in basis** (§1014) retained.
- **Capital gains tax** rates stay the same – even greater incentive to 1031 exchange: *"swap till you drop!"*
- 1031 exchanges – **retained** for real (estate) property; **eliminated** for personal property
- **Mortgage interest deduction (MID) retained**, *with some changes:* only applies to maximum **new** debt of $750K on one primary residence (down from current $1MM), plus any second home MID on debt retained; equity debt like HELOCs **eliminated**, including current HELOCs
- **Personal home sale exclusion of gains (§121) retained** – still 2 out 5 years
- **SALT: State And Local Taxes,** eliminated except for **first $10K** which can be used for State or Local property taxes, income taxes, and/or sales taxes
- **Carried Interest** retained, but expanded to a minimum three-year holding period

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Tax Cuts & Jobs Act (TCJA) Highlights

- **Technical Termination (Section 708(b)(1)(a))** avoided: exchanges involving partnerships or LLCs could get easier
- **Elimination of Business Interest Expense:** for firms with $25million or more of gross revenues:
  - Interest expense exceeding 30% EBITDA is disallowed from 2018 to 2021
  - Interest expense exceeding 30% EBIT is disallowed from 2022 to 2025
- **Immediate expensing** and **no more depreciation** for capital assets – *but not for real estate*
  - Only applies to assets with 20 years of life or less – so no impact on real estate
  - 100% expense provision is phased down by 20% per calendar year beginning in 2023 (i.e., 80%, 60%, 40%, and 20% for calendar years 2023 through 2026, respectively). Normal depreciation rules apply after that.
- **Depreciation** on real estate **stays the same** if the taxpayer is subject to the business interest limitations
  - But depreciation schedules **extend slightly** if taxpayer chooses unlimited business interest deductions: commercial real estate: 40 years; residential: 30 years; qualified improvements: 15 years
- **Corporate income tax rate** reduced from 35% to 21% as a single, all-encompassing rate
- **Deemed repatriation** of corporate profits at 15 ½% interest on cash, and 8% for illiquid assets or reinvested earnings
- **Transition** the U.S. to a Territorial tax system from a Worldwide tax system
- **Deduction of 20% of income for pass-through entities (**sole proprietorships, S-corps, partnerships, LLCs) **subject to certain W-2 rules – the greater of:**
  - 50% of the W-2 wages paid by the business, or
  - 25% of the W-2 wages paid by the business **+** 2.5% of the cost of tangible depreciable property
  - **Limitations don't apply** if taxable income is $157,500 for single filers, or $315,000 for married joint with $100,000 phase out
  - Certain industries cannot utilize: **law, health, finance.**
- **NOLs:** no carryback, only forward unlimited number of years, but limited to 90% taxable income, falling to 80% after 2022