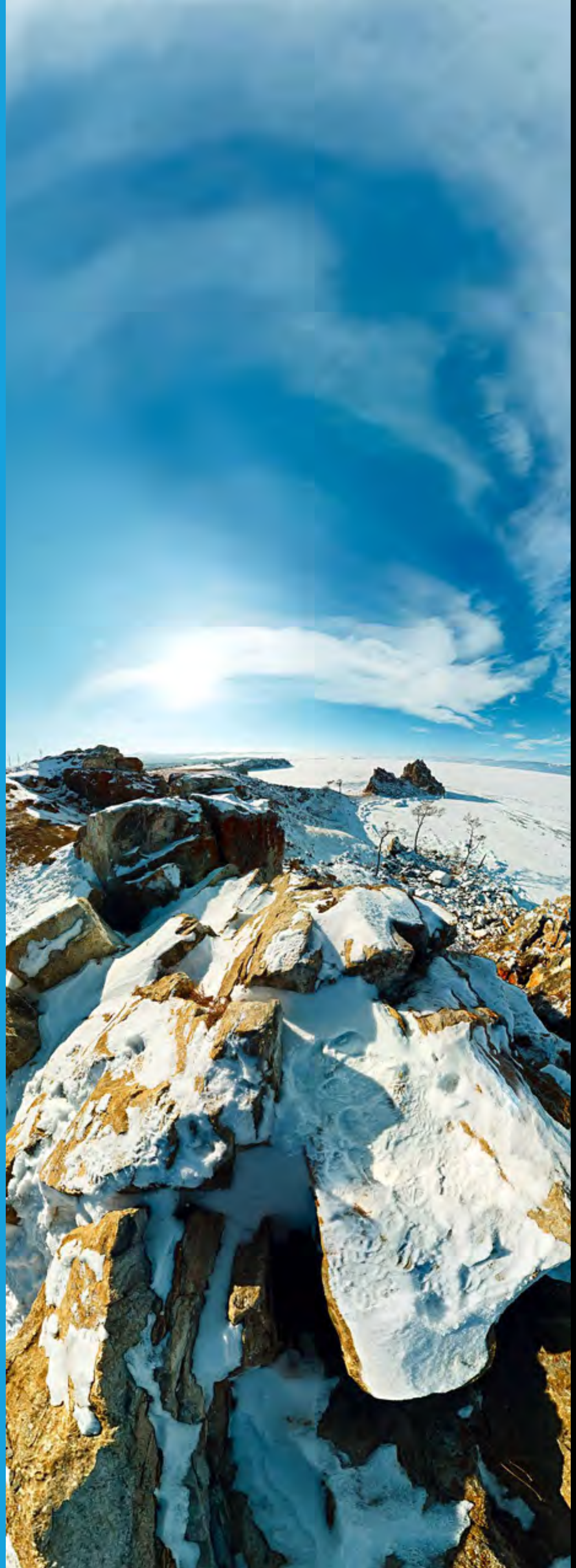
Tax policy update

In late December 2017, Congress approved and President Trump signed into law massive tax reform legislation officially known as *An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018* (the Act). The tax reform package lowers tax rates on corporations, pass-through entities, individuals, and estates and moves the United States toward a participation exemption-style system for taxing foreign-source income of domestic multinational corporations. Some of the cost of that tax relief is offset by provisions that scale back or eliminate many longstanding deductions, credits, and incentives for businesses and individuals.



Historic tax reform becomes a reality

Some of the highlights of the Act that are likely to impact individuals and their estates and business holdings include:

Highlights of provisions for individuals

The Act generally follows the structure of the Senate-approved tax reform bill—and 2017 law—by maintaining seven individual income tax brackets. The top individual income tax rate is 37 percent (lower than in either the House or Senate bills) but includes a significant "marriage penalty." It also nearly doubles the standard deduction, repeals the current Pease limitation on itemized deductions, and expands the refundability of the child tax credit. It retains the deduction for unreimbursed medical expenses (and even offers a boost for 2017 and 2018) and leaves intact the capital gains exclusion on the sale of a primary residence in effect prior to its enactment. On the revenue side, the measure repeals personal exemptions, retains the individual AMT (albeit with higher exemption amounts), pares back the deduction for home mortgage interest (with existing mortgages grandfathered), and places substantial new limits on the ability of taxpayers to deduct state and local taxes. As in the Senate-passed bill, almost all of the Act's individual tax changes (including all of those just mentioned) expire after 2025.

Highlights of provisions for estates

The Act retains the estate tax at its current rate, but doubles the exemption amounts. The expanded estate tax exemption amounts sunset after 2025. The pre-enactment tax regime with respect to the estate, gift, generation-skipping transfer (GST) taxes, and the income tax basis adjustment to fair market value at death remain unchanged under the Act except that the applicable exclusion amount (the amount that each citizen is entitled to transfer either during life or, if otherwise unused, at death without incurring a current tax) and the GST tax exemption (the amount that may be transferred to skip-persons outright or in trust without giving rise to a present or future GST tax) is doubled to $11.18 million from its existing $5.6 million for transfers occurring after December 31, 2017. The exclusion and GST exemption continue to be indexed for inflation. However, beginning January 1, 2026, the exclusion amount and the GST exemption will return to the levels that would have prevailed under pre-enactment law.

Highlights of provisions for pass-throughs

The Act allows a deduction of up to 20 percent of pass-through income, subject to certain additional computations and limitations. However, for those owners of specified service businesses with income under $157,500 (twice that for married filing jointly) and the definition of "specified service" no longer includes architecture or engineering, the additional limitations do not apply. The deduction is available to trusts, including electing small business trusts (ESBTs), as well as individuals, and owners are allowed to calculate their maximum deduction based on either 50 percent of their share of W-2 wages paid or a combination of 25 percent of their share of W-2 wages paid plus 2.5 percent of the unadjusted basis of all qualified property. Carried interest income retains its treatment as a capital gain, although it will be subject to a longer holding period (three years as opposed to one year in prior law) in order to qualify for lower long-term capital gains rates.

Dig deep into the new tax reform law
Learn more about the provisions in the new tax reform law (H.R. 1) and their far-reaching implications for businesses and individuals in Deloitte's report **Reshaping the code: Understanding the new tax reform law**.

Historic tax reform becomes a reality
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Move forward with confidence

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