

## *An Overview of the 2017 Tax Legislation: Impact to Individuals*

	<b>Pre-Reform 2018 Tax Rules</b>	<b>Post-Reform 2018 Tax Rules</b>																																																						
<b>Individual tax rates</b>	<ul style="list-style-type: none"> <li>• Maximum tax rate is 39.6%</li> <li>• Rates associated with specific income brackets are designated below:</li> </ul>	<ul style="list-style-type: none"> <li>• Maximum tax rate reduced to 37%</li> <li>• Rates associated with specific income brackets are designated below:</li> </ul>																																																						
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<b>Alternative minimum tax (AMT)</b>	<ul style="list-style-type: none"> <li>• Exemption amounts of \$86,200 (married) and \$55,400 (single)</li> <li>• Phase-out of exemption amount begins at \$164,100 (married) and \$123,100 (single)</li> </ul>	<ul style="list-style-type: none"> <li>• Exemption amounts increased to \$109,400 (married) and \$70,300 (single)</li> <li>• Phase-out of exemption amount begins at \$1,000,000 (married) and \$500,000 (single)</li> </ul>																																																						
<b>Individual standard deduction/ personal exemptions</b>	<ul style="list-style-type: none"> <li>• Standard deduction is \$13,000 (married) and \$6,500 (single)</li> <li>• Personal exemption of \$4,150 phased out for higher incomes</li> </ul>	<ul style="list-style-type: none"> <li>• Standard deduction nearly doubled to \$24,000 (married) and \$12,000 (single) + \$1,600/\$1,300 each for taxpayers 65+ or blind</li> <li>• Personal exemptions repealed at all income levels</li> </ul>																																																						

**Pre-Reform 2018 Tax Rules****Post-Reform 2018 Tax Rules**

<b>Itemized deductions</b>	<b>Pre-Reform 2018 Tax Rules</b>	<b>Post-Reform 2018 Tax Rules</b>
	<ul style="list-style-type: none"> <li>• Deductions allowed but subject to the “PEASE limitation,” which reduces availability of itemized deductions at income levels starting at \$320,000 (married) and \$266,700 (single)</li> </ul>	<ul style="list-style-type: none"> <li>• Individual deduction for state and local taxes (SALT) for income, sales and property is limited in the aggregate to \$10,000 (married and single filers) and \$5,000 (married filing separately)</li> <li>• “PEASE limitation” (including for charitable contributions) is repealed</li> <li>• Most miscellaneous itemized deductions that were subject to the 2% of AGI floor will no longer be allowed (e.g. tax preparation and investment expenses)</li> </ul>
<b>Capital gain /qualified dividend rate</b>	<ul style="list-style-type: none"> <li>• Maximum tax rate on long-term capital gains and qualified dividend income (before 3.8% net investment income tax) is 20%</li> </ul>	<ul style="list-style-type: none"> <li>• Unchanged: <ul style="list-style-type: none"> <li>- 0% for those in 10% &amp; 12% brackets</li> <li>- 15% for those in 22%-35% brackets</li> <li>- 20% for those in 37% bracket</li> </ul> </li> </ul>
<b>Medical expense deduction</b>	<ul style="list-style-type: none"> <li>• Floor of 10% of AGI before deduction can be taken</li> </ul>	<ul style="list-style-type: none"> <li>• Floor reduced to 7.5% of AGI for tax years 2017 and 2018</li> </ul>
<b>Cost of securities</b>	<ul style="list-style-type: none"> <li>• Investors have the ability to “specifically identify” which tax lot of a security is sold</li> </ul>	<ul style="list-style-type: none"> <li>• Unchanged</li> </ul>
<b>Mortgage interest</b>	<ul style="list-style-type: none"> <li>• Individuals are generally allowed an itemized deduction for interest on <ol style="list-style-type: none"> <li>1. Principal residence and second residence mortgages up to \$1,000,000 (married) or \$500,000 (single) (limit applies on a combined basis)</li> <li>2. Home Equity Line of Credit (HELOC) up to \$100,000</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Individuals are generally allowed an itemized deduction for interest on principal residence and second residence mortgages up to a combined \$750,000</li> <li>• Pre 12/16/17 mortgages are grandfathered and new purchase money mortgages may be grandfathered if the purchase contract is dated before 12/16/17 and other conditions are met</li> <li>• Refinancing of grandfathered mortgages are grandfathered, but not beyond the original mortgage’s term/amount (some exceptions apply for “balloon payment” mortgages)</li> <li>• Interest on a HELOC is no longer deductible</li> </ul>

	<b>Pre-Reform 2018 Tax Rules</b>	<b>Post-Reform 2018 Tax Rules</b>
<b>Capital gain exclusion for primary residence</b>	<ul style="list-style-type: none"> <li>Allows individuals to exclude gain of up to \$500,000 (for joint filers) from the sale of a primary residence</li> <li>Taxpayer must own and use the house as primary residence for 2 out of the previous 5 years and exemption can be used only once every 2 years</li> </ul>	<ul style="list-style-type: none"> <li>Unchanged</li> </ul>
<b>Like-kind exchanges</b>	<ul style="list-style-type: none"> <li>Allows for the disposal of an asset and the acquisition of another replacement asset without generating a current tax liability from the gain on the sale of the first asset</li> <li>Applies to like-kind exchanges of real property as well as certain categories of personal property</li> </ul>	<ul style="list-style-type: none"> <li>Limits applicability to like-kind exchanges of real property that is not held primarily for sale</li> </ul> <p>**This does not expire in 2025</p>
<b>Section 529 plans</b>	<ul style="list-style-type: none"> <li>Distributions may be used for expenses relating to higher (post-secondary) education</li> </ul>	<ul style="list-style-type: none"> <li>In addition to higher (post-secondary) education, distributions from 529 plans of up to \$10,000/year per student can be used for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school</li> </ul> <p>**This does not expire in 2025</p>
<b>Pass-through deduction</b>	<ul style="list-style-type: none"> <li>Income received from partnerships, S corporations, or sole proprietorships is passed-through to the owner's individual tax returns, where it is taxed as ordinary income</li> </ul>	<ul style="list-style-type: none"> <li>There is a new 20% deduction for qualified business income from a partnership, S corporation, or sole proprietorship</li> </ul>
<b>Charitable deduction changes</b>	<ul style="list-style-type: none"> <li>Cash gift to public charities is deductible as long as it doesn't exceed <b>50%</b> of the taxpayers Adjustable Gross Income (AGI)</li> <li>80% of value spent on university athletics seating rights can be deducted</li> </ul>	<ul style="list-style-type: none"> <li>Cash gift to public charities is deductible as long as it doesn't exceed <b>60%</b> of the taxpayers Adjustable Gross Income (AGI)</li> <li>80% deduction for university athletic seating rights is repealed</li> </ul>
<b>Gift/estate/generation-skipping transfer (GST) tax exemption</b>	<ul style="list-style-type: none"> <li>Estate, gift and GST tax exemptions are each \$5.6 million per US domiciliary</li> </ul>	<ul style="list-style-type: none"> <li>Doubles the estate, gift and GST tax exemptions to \$11.18 million per US domiciliary</li> <li>Like most individual provisions, the exemptions sunset after 2025 and revert back to the law in effect for 2017 with inflation adjustments; possibility for "clawback" at death if law is not changed</li> </ul>

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**Pre-Reform 2018 Tax Rules****Post-Reform 2018 Tax Rules**

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<b>Child Tax Credit</b>	<ul style="list-style-type: none"><li>• \$1000/qualified child</li><li>• Phase-out of credit begins at \$75,000 (single) and \$200,000 (married)</li></ul>	<ul style="list-style-type: none"><li>• Increases to \$2,000/qualified child, with \$1,400 being refundable</li><li>• Phase-out of credit begins at \$110,000 (single) and \$400,000 (married)</li></ul>
<b>Individual mandate / Health Insurance</b>	<ul style="list-style-type: none"><li>• Requires most Americans to purchase health insurance coverage; taxpayers must submit proof of healthcare coverage with their tax return or pay a penalty</li></ul>	<ul style="list-style-type: none"><li>• Individual mandate is repealed</li></ul> <p>**This does not expire in 2025</p>
<b>Future Inflation Adjustments</b>	<ul style="list-style-type: none"><li>• In general, tax brackets and many other tax code limits are inflation adjusted using Consumer Price Index – Urban (or CPI-U)</li></ul>	<ul style="list-style-type: none"><li>• Many but not all of the indexed limits would now be indexed using Chained-CPI-U, which generally leads to slightly slower cost of living adjustments each year</li></ul> <p>**This does not expire in 2025</p>

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## Other Pertinent Information:

- 2018 Social Security Wage Base:       \$ 128,400

- 2018 Standard Mileage Rates:

Business	.545 per mile
Charitable	.14 per mile
Medical	.18 per mile
Moving	.18 per mile

## NC Related Highlights:

- 2018 Flat Individual Tax Rate 5.499%

- 2019 Flat Individual Tax Rate 5.25%

- Standard Deduction:

	<u>2018</u>	<u>2019</u>
MFJ	17,500	20,000
HOH	14,000	15,000
Single	8,750	10,000
MFS	8,750	10,000

-New Child deduction of \$0 - \$2,500 per child for taxpayers within the \$0 - \$120,000 income range  
[ Replaces the \$100 Child Tax Credit]