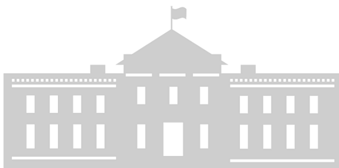
Cora Capital Advisors 2018 Tax Brief

Finally, a single piece of legislation was released which merged together the differences in tax reform from both the House and Senate. This tax brief highlights the changes that would affect individuals, including the new rates and brackets, the increased standard deduction and elimination of personal exemp-



tions, the repeal of penalties under Obamacare, and limitation on property or state and local taxes. This brief is not meant to be a comprehensive look at the Act, but a rundown of the major points that impact our individual clients. This data, provided by Baratz & Associates, P.A., is for informational purposes only.

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CORA Capital Advisors

Quick Comparison of Conference Bill and Current Law

☑	Item of Interest	Current Law		Conference Bill 2018
	Child Tax Credit	$1,000 (refundable up to $1,000)	↑	$2,000 (refundable up to $1,400)
	Individual Rates	10, 15, 25, 28, 33, 35, 39.6%	↓	10, 12, 22, 24, 32, 35, 37%
	Standard Deduction	MFJ: $12,700 S: $6,350 HH: $9,350	↑	MFJ: $24,000 S: $12,000 HH: $18,000
	Alternative Minimum Tax	Individual: 26, 28%	↓	Exemption Increased
	Personal Exemptions	$4,050 per Individual/ dependent	☒	Repealed
	State and Local Taxes	Deductible	↓	Maximum $10,000 deduction
	Mortgage interest	$1M limit	↓	$750,000 limit

~~The above chart does not include highlighted changes for businesses. Details on the highlights above can be found inside this tax brief.

Standard Deduction Increased

Taxpayers are allowed to reduce their adjusted gross income (AGI) by the standard deduction or the sum of itemized deductions to determine their taxable income.

Under pre-Act law, the standard deduction amounts, indexed to inflation, were to be: $6,500 for single individuals and married individuals filing separately; $9,550 for heads of household, and $13,000 for married individuals filing jointly (including surviving spouses).

New law. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the standard deduction is increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other taxpayers, adjusted for inflation in tax years beginning after 2018. No changes are made to the current-law regarding additional standard deduction for the elderly and blind. ⌘

STATE AND LOCAL TAX

Currently, taxpayers could deduct from their taxable income as an itemized deduction several types of taxes paid at the state and local level, including real and personal property taxes, income taxes, and/or sales taxes.

New law. For tax years beginning after Dec. 31, 2017 subject to the exception described below, State, local, and foreign property taxes, and State and local sales taxes, are deductible only when paid or accrued in in the production of income.

However, a taxpayer may claim an itemized deduction of up to **$10,000** ($5,000 for a married taxpayer filing a separate return) for the aggregate of State and local property taxes not paid or accrued in carrying on a trade or business or activity. Foreign real property taxes may not be deducted.

Prepayment provision. A taxpayer who, in 2017, pays an **income tax** that is imposed for a tax year after 2017, can't claim an itemized deduction in 2017 for that prepaid income tax. ⌘

CHILD TAX CREDIT

Under pre-Act law, a taxpayer could claim a child tax credit of up to $1,000 per qualifying child under the age of 17. The aggregate amount of the credit that could be claimed phased out. To the extent that the credit exceeds a taxpayer's liability, a taxpayer was eligible for a refundable credit (i.e., the additional child tax credit) equal to 15% of earned income in excess of $3,000 (the “earned income threshold”).

New law. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, **the child tax credit is increased to $2,000**, and other changes are made to phase-outs and refundability during this same period.

Phase-out. The income levels at which the credit phase out is increased to $400,000 for married taxpayers filing jointly ($200,000 for all other taxpayers) (not indexed for inflation). Non-child dependents. In addition, a $500 nonrefundable credit is provided for certain non-child dependents.

Refundability. The amount that is refundable is increased to $1,400 per qualifying child credit, and this amount is indexed for inflation, up to the base $2,000 base credit amount. The earned income threshold for the refundable portion of the credit is decreased from $3,000 to $2,500. ⌘

PEASE LIMITATION

Higher-income taxpayers who itemized their deductions were subject to a limitation on these deductions (commonly known as the “Pease limitation”). For taxpayers who exceed the threshold, the otherwise allowable amount of itemized deductions was reduced by 3% of the amount of the taxpayers' adjusted gross income exceeding the threshold. The total reduction couldn't be greater than 80% of all itemized deductions, and certain itemized deductions were exempt from the Pease limitation.

New law. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the “Pease limitation” on itemized deductions is suspended. ⌘

MORTGAGE INTEREST

Previously, a taxpayer could deduct qualified residence interest, which included interest paid on a mortgage secured by a principal residence or a second residence. The underlying mortgage loans could represent acquisition indebtedness of up to $1 million, plus home equity indebtedness of up to $100,000.

New law. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the deduction for interest on home equity indebtedness is suspended, and the deduction for mortgage interest is limited to underlying indebtedness of up to $750,000 ($375,000 for married taxpayers filing separately). This suspension will end on Dec. 31, 2025. The new lower limit doesn't apply to any acquisition indebtedness incurred before Dec. 15, 2017.

“Binding contract” exception. A taxpayer who has entered into a binding written contract before Dec. 15, 2017 to close on the purchase of a principal residence before Jan. 1, 2018, and who purchases such residence before Apr. 1, 2018, shall be considered to incur acquisition indebtedness prior to Dec. 15, 2017.

Refinancing. The $1 million/$500,000 limitations continue to apply to taxpayers who refinance existing qualified residence indebtedness that was incurred before Dec. 31, 2017, so long as the indebtedness resulting from the refinancing doesn't exceed the amount of the refinanced indebtedness. ⌘

HEALTHCARE PROVISIONS

Short-Term Reduction to Medical Expense Deduction Threshold

A deduction is allowed for the expenses paid during the tax year for the medical care of the taxpayer, the taxpayer's spouse, and the taxpayer's dependents to the extent the expenses exceed a threshold amount. To be deductible, the expenses may not be reimbursed by insurance or otherwise. If the medical expenses are reimbursed, then they must be reduced by the reimbursement before the threshold is applied. Under pre-Act law, the threshold was generally 10% of AGI.

New law. For tax years beginning after Dec. 31, 2016 and ending before Jan. 1, 2019, the threshhold on medical expense deductions is reduced to 7.5% for all taxpayers.

Repeal of Obamacare Individual Mandate

New law. For months beginning after Dec. 31, 2018, the amount of the individual shared responsibility payment is reduced to zero. This repeal is permanent.

The Act leaves intact the 3.8% net investment income tax and the 0.9% additional Medicare tax, both enacted by Obamacare. ⌘

ALTERNATIVE MINIMUM TAX

In computing the AMT, only alternative minimum taxable income (AMTI) above an AMT exemption amount is taken into account. The AMT exemption amount is set by statute and adjusted annually for inflation, and the exemption amounts are phased out at higher income levels.

New law. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the Act increases the AMT exemption amounts for individuals as follows:

* For joint returns and surviving spouses, $109,400.
* For single taxpayers, $70,300.
* For marrieds filing separately, $54,700.

Under the Act, the above exemption amounts are reduced (not below zero) to an amount equal to 25% of the amount by which the alternative taxable income of the taxpayer exceeds the phase-out amounts, increased as follows:

. . . For joint returns and surviving spouses, $1 million.

. . . For all other taxpayers (other than estates and trusts), $500,000. ⌘

ESTATE AND GIFT TAX

A gift tax is imposed on certain lifetime transfers and an estate tax is imposed on certain transfers at death.

New law. For estates of decedents dying and gifts made after Dec. 31, 2017 and before Jan. 1, 2026, the Act doubles the base estate and gift tax exemption amount from $5 million to $10 million.

The language in the Act does not mention generation-skipping transfers, but because the generation-skipping transfer tax exemption amount is based on the basic exclusion amount, generation-skipping transfers will also see an increased exclusion amount. ⌘

EDUCATION PROVISIONS

ABLE Accounts under Code Sec. 529A provide individuals with disabilities and their families the ability to fund a tax preferred savings account to pay for "qualified" disability related expenses.

New law. Effective for tax years beginning after the enactment date and before Jan. 1, 2026, the contribution limitation to ABLE accounts with respect to contributions made by the designated beneficiary is increased, and other changes are in effect as described below. After the overall limitation on contributions is reached (i.e., the annual gift tax exemption amount; for 2018, $15,000), an ABLE account's designated beneficiary can contribute an additional amount, up to the lesser of (a) the Federal poverty line for a one-person household; or (b) the individual's compensation for the tax year.

Recordkeeping requirements. The Act also requires that a designated beneficiary (or person acting on the beneficiary's behalf) maintain adequate records for ensuring compliance with the above limitations.

Expanded Use of 529 Account Funds

Currently, funds in a Code Sec. 529 college savings account could only be used for qualified higher education expenses. If funds were withdrawn from the account for other purposes, each withdrawal was treated as containing a pro-rata portion of earnings and principal. The earnings portion of a nonqualified withdrawal was taxable as ordinary income and subject to a 10% additional tax unless an exception applied.

New law. For distributions after Dec. 31, 2017, "qualified higher education expenses" include tuition at an elementary or secondary public, private, or religious school, and various expenses associated with home school, up to a $10,000 limit per tax year. ⌘