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Dear Clients and Friends:

As you are undoubtably aware, President Trump recently signed into law the Tax Cut and Jobs Act which drastically changes the tax landscape of this country. The broad picture intention of this law is to stimulate economic growth, increase stagnant wages and create new jobs. While details remain pending, some of the highlights of the new law effective January 1, 2018 are as follows:

INDIVIDUAL AND ESTATE TAX CHANGES

- Continuation of seven (7) tax rates under a new graduated system. I've attached a schedule of the new tax rates. Rates will range from ten percent (10%) to thirty-seven percent (37%).
- Standard deduction doubled to $12,000 for single taxpayer, $18,000 for head of household taxpayer and $24,000 for joint taxpayers.
- State, local and real estate taxes are now capped at a deductible amount of $10,000.
- Limitation on mortgage interest deduction to $750,000 of acquisition indebtedness for principal and second homes incurred after December 15, 2017.
- Home equity loan interest will no longer be deductible.
- Floor for deduction of medical expenses from ten percent (10%) of adjusted gross income (AGF) to seven point five percent (7.5%) of AGI.
- Child care credit expanded to $2,000 per year with a refundable $1,400 regardless of whether the taxpayer pays tax.
- Raises the exemption on the alternative minimum tax from $86,200 to $109,400 for married filers and increases the phase-out threshold to $1,000,000 of income for joint filers.
- Permanently repeals individual mandate enacted by Obamacare and adopts a chained CPI for increases in benefits due to inflation.
- The personal exemption of $4,000 is repealed.
- 529 College saving plans can be used for secondary and home school expenses.
- Estate tax exemptions are doubled from the inflation adjusted $5,600,000 to $11,200,000 **PER PERSON** (*emphasis added).* For a married couple, the joint use of the exemption allows a couple up to $22,400,000 in a lifetime estate tax exemption, adjusted yearly by

inflation increases. This provision is good for eight (8) years and if not renewed or repealed will revert to the 2017 exemption rates increased throughout years by annual inflation adjustments. **Note:** the new annual gift tax exemption of $15,000 per year per person up from $14,000 in 2017.

2. **BUSINESS TAXES**

- Permanently lowers corporate income tax rates to twenty-one percent (21%) from the high of thirty-five percent (35%) in 2017.

- Establishes a twenty percent (20%) deduction of qualified business income from certain pass through entities i.e. S corporations, partnerships and proprietorships. Except for joint filers with $315,000 of income or below ($157,500 for single filers), this deduction is unavailable for service industries, i.e. attorneys, accountants, etc. (Architects and engineers are still to be determined whether they are service providers.) This deduction expires on 12/31/2025. For eligible filers, the maximum tax rate on income is reduced to twenty-nine point six percent (29.6%).

- Full exempting of short-lived capital investments (*five (5) years or less*) under IRC Section 179 from $500,000 to $1,000,000.

- Limits deductibility of net interest expense to thirty percent (30%) of EBITDA (earnings before interest, taxes, depreciation and amortization) formula for four (4) years and thirty percent (30%) of earnings before interest and taxes (EBIT) thereafter.

- Eliminates net operating loss carrybacks and limits carryforwards/carryovers to eighty percent (80%) of taxable income.

- Eliminates the IRC Section 199 domestic production activities deduction.

- Special repatriation tax rate of fifteen point five percent (15.5%) for cash and cash equivalent profits and eight percent (8%) for non-cash reinvested foreign earnings.

- New intentional territorial tax system eliminating the world wide tax system.

- Eliminates corporate alternative minimum tax.

3. **COMMENTS**

- As a result of the limit on deduction of property taxes to $10,000, many Texans who live mortgage-free may elect to use the standard deductions instead of itemizing as in prior years.

- Under the new law, many estates which are significantly under the raised lifetime tax exemptions may wish to simplify their planning by eliminating trusts previously created mainly for tax planning purposes. In addition, with the new Texas Estates Code enacted in 2015 and the Texas Power of Attorney Act effective September 1, 2017, it may be a good time to have estate planning documents reviewed.

- With the individual gift tax exemption raised to $11,200,000 plus annual inflation increases as well as the annual gift tax exemption increasing to $15,000 per year, high asset base taxpayers who are still subject to the forty percent (40%) estate tax may want to utilize estate tools over the eight (8) year effective period to make gifts that will shift future appreciation to a younger generation.

- For small business owners, the short-term expensing allowance of $1,000,000 may attract more deductible expenses rather than the amortization of such assets after five (5) years.

- With a $750,000 face value mortgage interest deduction, a taxpayer may consider reducing their non-deductible portion of the mortgage by investing more equity in the homestead. Same applies for home equity loans.

- The IRS has taken the position of the prepayment of 2018 via taxpayer estimate prior to assessment will not be deductible. That position may be challenged by follow up legislation.

- The taxpayer tools for minimizing income and estate taxes were left largely intact.

4. **<u>FIRM</u>**

- In September 2016, Matthew G. Wheatley became our second attorney and we are on the verge of hiring a third attorney to start with us in September. As most of you know, Angie Wilke is our receptionist and scheduling coordinator and Jessica Gonzalez is our paralegal, with Prissy Roth being the firm administrator. We look forward to your thoughts and comments on the new tax law. Our email addresses are as follows:

    - Leonard S. Roth: taxlsr@aol.com
    - Matthew Wheatley: matthewwheatley@leonardsroth.com
    - Jessica Gonzalez: jessica@leonardsroth.com
    - Angie Wilke: angiewilke@leonardsroth.com

If we can be of any help in your planning, please let us know. Best wishes from us for a healthy and happy new year.

Leonard S. Roth

TAX CUT AND JOBS ACT

I. NEW TAX BRACKETS

RATE	JOINT RETURN		INDIVIDUAL RETURN	
10%	0	19,050	0	9,525
12%	19,050	77,400	9,525	38,700
22%	77,400	165,000	38,700	82,500
24%	165,000	315,000	82,500	157,500
32%	315,000	400,000	157,500	200,000
35%	400,000	600,000	200,000	500,000
37%	Over 600,000		Over 500,000	

II. CURRENT TAX BRACKETS (2017)

RATE	JOINT RETURN		INDIVIDUAL RETURN	
10%	-	19,050	-	9,525
15%	19,050	77,400	9,525	38,700
25%	77,400	156,150	38,700	93,700
28%	156,150	237,950	93,700	195,450
33%	237,950	424,950	195,450	424,950
35%	424,950	480,050	424,950	426,700
39.6%	Over 480,050		Over 426,700	

III. STANDARD DEDUCTION

NEW LAW

SINGLE	12,000
HEAD OF HOUSEHOLD	18,000
JOINT RETURN	24,000

CURRENT LAW (2017)

SINGLE	6,500
HEAD OF HOUSEHOLD	9,550
JOINT RETURN	13,000