

Tax Cuts and Jobs Act of 2017: What Taxpayers Need to Know



Presented by Greg Patterson

On December 22, the president signed the Tax Cuts and Jobs Act of 2017 (the act or TCJA). The legislation makes significant changes to the Internal Revenue Code (IRC), including individual, corporate, and gift and estate taxation. We highlighted some of those major changes in our financial article last month, and

there are several more changes we would like to make you aware of that could be impactful.

Family tax credits. The child tax credit will be doubled, from \$1,000 to \$2,000, and the refundable portion of that credit will be allowable up to \$1,400. The act also will grant a new credit of \$500 for other dependents. These will phase out at income limits of \$200,000 (single) and \$400,000 (married).

Estate and gift taxes. Effective January 1, 2018, the individual unified gift and estate tax exemption will be raised to \$11.2 million (up from what was set to be \$5.6 million), and, with portability remaining intact, \$22.4 million for a married couple. The top rate will remain 40 percent. The new rates are set to expire—and return to 2017 levels—at the end of calendar year 2025.

Cash donations to charity. Under 2017 law, gifts of cash to charity offer a taxpayer the ability to deduct the contribution, up to 50 percent of adjusted gross income (AGI). The TCJA will increase the limitation to 60 percent of the taxpayer's AGI.

Education planning. The TCJA includes an expansion of 529 savings plans that will allow families to save for K-12 expenses, in addition to college expenses. 529 plans will also be able to use qualified distributions for elementary and secondary school expenses, up to \$10,000 per year, per student.

1031 exchanges. Beginning January 1, 2018, 1031 exchanges will be limited to real property.

Affordable Care Act individual mandate. The TCJA will eliminate the penalty imposed under the IRC for individuals who do not maintain individual health care coverage.

Individual alternative minimum tax (AMT). The individual AMT exemption amount will increase to \$70,300 for individual filers and \$109,400 for joint filers. The phase-out for the AMT exemption will increase to \$500,000 for individuals and \$1 million for married couples. With enactment of the new act, fewer Americans will be subject to the AMT.

Retirement recharacterizations. The TCJA will eliminate the ability for a taxpayer to unwind a Roth conversion and “recharacterize” back to a traditional IRA. This will begin for conversions occurring after January 1, 2018. Be sure to speak with your financial advisor before considering any new recharacterizations, as there is current debate as to whether Roth conversions that occurred in 2017 may still be characterized in 2018.

Pass-through business income. Under law in effect for the 2017 tax year, all pass-through business income is taxed at the individual taxpayer's marginal rate, as is most ordinary income. Under the TCJA, qualified pass-through business income will be addressed in a new IRC Section 199A as follows:

- Deduction of 20 percent of the non-wage allocation of qualified business income from the trade or business
- Deduction limited to 50 percent of W-2 wage income (The limitation was set in an effort to prevent abuse in classifying wage income as business income in order to receive a lower rate for income that should be taxed at ordinary income rates.):
 - **For individuals:** Income earned over \$157,000

- **For married couples:** Income earned over \$315,000
- Certain service professionals (e.g., attorneys, accountants, financial professionals) will be excluded from taking the deduction for income above \$157,000 for an individual and \$315,000 for a married couple.

Please note: The changes to pass-through business income taxation sunset at the end of calendar year 2025, as written in the TCJA.

Corporate taxation. Although the changes to how individual income is taxed are set to expire at the end of 2025, the corporate tax changes provided for in the TCJA will be permanent. One of the largest tax cuts in the legislation will lower the corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. Furthermore, the TCJA will completely repeal the corporate AMT. The act will also impose some limitations on certain corporate tax deductions, including those for net operating loss, business interest, and R&D expenditures.

Assess where you are headed. In light of the sweeping changes, 2018 should result in a complete review of your financial snapshots. An overall review of income, assets and balance sheet is important in order to get a clear picture of how the significant changes to individual income taxation will affect you. More planning opportunities will continue to arise as the new tax code unfolds. Your financial advisor can answer your questions and provide educational resources to help navigate these changes. We highly recommend that you reach out to him or her as soon as possible.

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Get to Know Your Clerk's Office

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case prior to 2010. When you came to court then, you needed cash or a cashier's check.

The Special Proceedings office covers actions such as foreclosures, adoptions, incompetency, name changes, and some land actions (such as a process called partitioning).

The Civil Division encompasses two courts, District and Superior. Within those two divisions are divorces/domestic, child support, magistrate's court (small claims) and medical malpractice cases.

Our Criminal Division has two courts, District and Superior. District court entails traffic and lesser crimes, such as misdemeanor drugs, assaults and probation issues. Superior Court is for felony cases, such as murder, rape and arson.

Finally, the Estates Division is where someone goes to process the will or estate of a deceased individual. Each estate is as different as the individuals who passed, and how they are processed can be confusing to those who remain. We have restructured the Estates Division in an attempt to streamline the process and make it easier for those trying to negotiate the individual's last wishes. Guardianships are also handled through this office after a determination of incompetency is made.

Of course, this is not a complete list of actions that can happen under the umbrella of the County Clerk's office, but rather a snapshot of how integral a part of the community your courthouse is. We encourage you to visit our website at carteretclerk.blogspot.com for more information or to call us at 504-4466 with any questions you may have. Although not allowed to practice law, we will do our best to help you find answers.