Quarterly Financial Integration Planning Pointer
2018 – Tax Reform – "Finally"

This time last year, our commentary focused on political campaign promises of tax reform. Ironically, the actual legislation did not pass until the final week of 2017. Many of the potential tax law changes we suggested might occur, did find their way into the final tax bill, though in some cases on a modified basis.

* **Individual Income Tax Changes**
  - A reduction in ordinary tax rates is in the new law, yet the 37% top marginal rate is higher than initially promised.
  - Personal exemptions were eliminated, but offset by higher standard deduction amounts and the elimination of the phase-out rules for itemized deductions.
  - Itemized deductions for state and local taxes are now capped at $10,000 per year, and miscellaneous deductions eliminated. Medical expenses, mortgage interest, and charitable contributions continue with some modifications.
  - No change occurred to the favorable exclusion of gain on the sale of a principal residence.
  - Alternative Minimum Tax was *not* repealed, but will impact less taxpayers.
  - The 3.8% net investment income tax remains, resulting in a combined long-term capital gains and qualified dividend rate of 23.8%.

* **Business Income Tax Changes**
  - The top corporate rate was reduced from 35% to 21%.
  - Reduced tax rates will apply to qualifying pass-through entities (partnerships, LLC's, S Corporations, and Sole Proprietorships).
  - Tax rates were significantly reduced for repatriation of corporate profits held off-shore by US multinational corporations.

* **Estate and Gift Tax Changes**
  - Though *not* repealed, the estate tax exemption amounts were doubled. Beginning in 2018, these exemptions will be $11.2 million per individual, thus married couples will be able to shield $22.4 million from the federal estate tax. The exemptions for gift tax and generation-skipping (GST) transfer taxes also doubled.

Conclusions

- The various individual income tax changes will "net" to a nominal positive tax reduction for most individual taxpayers.
- The business income tax reductions are significant, hopefully resulting in a positive environment for the US economy.
- The estate and gift tax changes are extremely positive and will significantly diminish the number of taxpayers subject to the death tax.

We sincerely thank you for the opportunity to serve you as your financial advisor and look forward to assisting you in 2018.

Happy New Year!
Your TD Capital Team