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Re: Tax reform as implemented by the Tax Cuts and Jobs Act

Dear Clients and Friends:

As most of you know, President Trump signed into law the Tax Cuts and Jobs Act (TCJA) just before Christmas. Here are a few highlights and some planning opportunities you can take advantage of this week before the new law takes effect on January 1, 2018.

1. **Increase of the Standard Deduction and Elimination of the Personal Exemption**

The law increases the standard deduction to $24,400 from the $13,000 that was currently scheduled for 2018. On the downside, the new law calls for an end to the personal exemption, which would be $4,150 under current law. Married couples with dependent children that have taken the standard deduction in the past can expect this provision to lead to a higher taxable income than they would have had under the old law.

2. **Significant Limitation of the Deduction for State and Local Taxes**

The TCJA limits the amount of state and local taxes (both property and income tax) that you can deduct to $10,000. One of the best things that you can do to save tax is to make absolutely sure that your Georgia tax estimates are paid by year-end. Keep in mind that your 2017 estimates were most likely calculated based on your 2016 income. If you expect 2017 income to be more than 2016, we strongly advise that you send in additional estimated tax to cover your expected increased income by year-end. If there were ever a year for you to be overpaid on your Georgia estimated tax, this is the one. A very bad tax result would be for you to owe additional Georgia tax on your 2017 return that you did not pay until 2018 because the 2018 payment will not be deductible. We are available to help you determine how much to pay in and to help you get updated Georgia payment vouchers. Our preferred method for paying estimated taxes is now to pay them online as this method is safer than mailing a check and helps to ensure that your payment is not posted in error. To make online payments of Georgia tax, go to https://gtc.dor.ga.gov/_/#1

For those that are thinking that you will prepay your 2018 taxes to get a deduction this year, the government beat us to the punch. The new law specifically provides that a tax payment paid for a tax imposed in a year beginning after December 31, 2017 is not deductible in 2017.

3. Decreased Tax Rates for Ordinary Income

The TCJA reduces marginal income tax rates across the board. Rates will now range from 10% to 37% rather than from 10% to 39.6%. For married couples, the top marginal rate begins at $600,000 of taxable income rather than around $470,000 of income under current law (note brackets for single taxpayers are one-half of the married filing joint amounts). The changes in the tax rates will reduce your effective tax rate by two to three percentage points. The rates under the new law are as follows:

Old Law		New Law	
Income from	Marginal Rate	Range	Marginal Rate
$0 - $18,650	10%	$0 to $19,050	10%
$18,650 to $75,900	15%	$19,050 to $77,400	12%
$75,900 to $153,100	25%	$77,400 to $165,000	22%
$153,100 to $233,350	28%	$165,000 to $315,000	24%
$233,350 to $416,700	33%	$315,000 to $400,000	32%
$416,700 to $470,700	35%	$400,000 to $600,000	35%
$470,700 +	39.60%	$600,000 +	37%

For example, a married couple with taxable income of $250,000 would pay federal tax as follows:

OLD LAW

Income from:	Up to:	Federal tax
-	18,650	1,865
18,651	75,900	8,587
75,901	153,100	19,300
153,101	233,350	22,470
233,351	250,000	5,494
Total federal tax		57,716

NEW LAW

Income from:	Up to:	Federal tax
-	19,050	1,905
19,051	77,400	7,002
77,401	165,000	19,272
165,001	250,000	20,400
Total federal tax		48,578

4. Make Your UGA Athletic Association Contributions Early

The law calls for eliminating the currently allowed deduction for 80% of charitable contributions made to colleges in exchange for purchasing sports tickets. Make your UGA contributions now!! In fact, you might consider contacting the Athletic Association and arranging to make a multi-year contribution now to be credited to your ticket purchases over time. We have seen the Athletic Association allow this in the past.

5. Repeal of all Miscellaneous Itemized Deductions

The law calls for eliminating the deduction for miscellaneous itemized deductions. This means that all investment management fees on your brokerage accounts, most attorney's fees, tax preparation fees and unreimbursed employee expenses will not be deductible.

For those paying investment management fees, our best advice would first be to ensure you are getting good value for your investment management fees. Once you have done that, consider working to prepay some investment management fees. Commissions on trades are deducted from gross proceeds or added to your investment basis, so commission based accounts have a better tax result than fee based accounts. However, we understand the advantages for fee based account have to be weighed against the better tax result of commission based accounts. Further, many brokerages are moving accounts that charge management fees rather than commissions, so some of these changes might not be possible.

For those that have unreimbursed employee expenses, the best option would be to work with your employer to get the employer to implement a written, accountable reimbursement plan. This would result in the cost being deductible to the employer and excluded from the income of the employee. For those with large amounts of unreimbursed expenses, it might even be worth negotiating a change in pay rate in exchange for the currently unreimbursed costs to be reimbursed.

6. Change in Pass-Through Business Income Taxation

Under current law, any income that you receive from pass-through entities, partnerships and S-corporations, is taxed based on the nature of the income. Income from operating your business is taxed as ordinary income at ordinary income rates. Capital gains are taxed at capital gain rates. The TCJA introduces a new income tax deduction for pass-through income. Congress intended this deduction to level the playing field between the corporate tax rate (lowered to 21% under the TCJA) and the rate that business owners pay on income that flows-through to their individual returns.

The TCJA added Code Section 199A which provides for a deduction of 20% of the taxpayer's "qualified business income" against the taxpayer's taxable income. It appears that this deduction will be treated similar to an itemized deduction, but it isn't yet clear if the deduction will be grouped with other itemized deductions. There are a number of fairly complex special rules, thresholds and phase-outs related to this new deduction, and we expect that the IRS will have to issue a series of regulations to interpret the exact way that these rules will operate. For now, we wanted you to be aware that the new deduction exists and it will lead to lower taxable income, and thus lower taxes, beginning in 2018.

7. Estate Tax Exemption Doubled

The TCJA doubles the base federal estate and gift tax exemption from $5 million to $10 million per person for gifts and decedents after December 31, 2017. This figure is indexed for inflation and the 2018 exemption is expected to be $11.2 million per person. With a very small amount of planning, a married couple could exclude up to $22.4 million in value from estate tax. The law does not specifically address the exemption from the generation-skipping transfer tax. Current law expresses the generation-skipping transfer tax exemption in relation to the estate and gift tax exemption. It would then logically follow that the generation-skipping exemption should also double. We will follow developments on this issue.

8. **Charitable Contributions**

Generally speaking, most of you will be better off to defer income to 2018 from 2017 where possible. One available option for decreasing your 2017 taxable income is making charitable contributions this week. If you have the available cash, we suggest making any charitable contributions that you were considering making over the next year before December 31. The tax savings from a charitable contribution is greater in 2017 than it will be in 2018.

This letter is only intended to highlight a few of the changes under the TCJA as they are generally applicable. Additionally, applying the changes to your specific situation is something that we can best do in working with each of you directly. The law is several hundred pages long and revamps a large portion of the tax code, so it would be impossible to cover everything in a letter that you would want to read. The law's proponents argued that the law will simplify the tax code. And for a large number of people they are correct. However, the law also added some complexity in different areas that we will all be working to digest. We will plan to advise you about how the changes will affect you as we digest it.

We will have this letter available on the front page of our website at www.ttccpa.com

Very truly yours,

Treadwell, Tamplin & Co.