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## MEMORANDUM

The following is a bullet point summary of the most significant aspects of the recent tax legislation introduced by the Republican leadership in the U.S. House of Representatives known as the “Tax Cuts and Jobs Act.” All changes are proposed to take effect after December 31, 2017, unless otherwise noted.

### Estate Tax

- Repealed, effective for decedents dying after December 31, 2023
- Exemption amount is doubled, effective for decedents dying after December 31, 2017 (\$11,210,000 in 2018, adjusted annually for inflation)
- Portability to a surviving spouse of a decedent’s unused exemption amount will still be available, provided that certain steps are taken following the decedent’s death
- Tax rate remains at 40% on assets in excess of the exemption, effective for decedents dying prior to January 1, 2024
- Stepped-up basis under Section 1014 to remain, *even after* December 31, 2023

### Gift Tax

- Not repealed
- Exemption amount is doubled, effective for gifts made after December 31, 2017 (\$11,210,000 in 2018, adjusted annually for inflation)
- Doubled exemption amount will still be available after December 31, 2023
- New tax rate of 35% for taxable transfers made in excess of the exemption after December 31, 2023
- Annual exclusion is unaffected; will be \$15,000 in 2018, adjusted annually for inflation

### Generation-Skipping Transfer (“GST”) Tax

- Repealed, effective for generation-skipping transfers occurring after December 31, 2023

- Exemption amount is doubled, effective for generation-skipping transfers occurring after December 31, 2017 (\$11,210,000 in 2018, adjusted annually for inflation)
- Tax rate remains at 40% on transfers of assets in excess of the exemption, effective for transfers occurring prior to January 1, 2024

## **Income Tax**

- Four (4) income tax brackets: 12%, 25%, 35% and 39.6%. Tax tables are included at the end of this summary.
- Personal exemption is repealed; merged with higher standard deduction and child tax credit
- New standard deductions: \$24,000 for married taxpayers; \$18,000 for single taxpayers with at least one qualifying child; and \$12,000 for single taxpayers. Standard deductions are indexed for inflation.
- New child tax credit: \$1,600 per child under age 17.
- New family flexibility credit: \$300 per taxpayer (i.e., \$300 for single taxpayers; \$600 for married taxpayers), plus \$300 per each qualifying dependent (other than a child under age 17). This credit will not be available after the 2022 tax year.
- Child tax credit and family flexibility credits are phased out at certain income levels to eliminate marriage penalty in the credits.
- Sale of principal residence: Taxpayers may continue to exclude from gross income up to \$500,000 for married taxpayers (\$250,000 for individual taxpayers) from the sale of a principal residence, provided that the taxpayer(s) owned and used the residence as a primary residence for five out of the previous eight years. The exclusion would be available only once every five years and would begin to phase out dollar-for-dollar by the amount which a taxpayers' gross income exceeds \$500,000 for married taxpayers (\$250,000 for individual taxpayers). The provision would be effective for sales and exchanges after 2017.
- Income tax deductions retained:
  - Charitable deduction: Taxpayer may deduct charitable contributions up to 60% of adjusted gross income ("AGI") (increased from 50%); excess deduction may be carried over for 5 years
  - Mortgage interest deduction:
    - Deduction is retained for existing mortgages
    - For mortgages incurred after November 2, 2017, maximum loan subject to deduction will be \$500,000 (reduced from \$1,000,000)
    - Limited to principal residence (second home no longer qualifies)
    - Interest on home equity loans is no longer deductible

- State and local property tax deduction: Limited to \$10,000
- Notable income tax deductions repealed:
  - Medical expenses
  - State and local income taxes
  - State and local sales taxes
  - Student loan interest
  - Alimony payments (no longer treated as income to recipient spouse; effective for divorces occurring after 2017)
  - Moving expenses
  - Tax preparation expenses
  - Tuition and education expenses
  - Personal casualty losses
  - Unreimbursed employee expenses
- Alternative Minimum Tax (“AMT”) is repealed for both individual and corporate taxpayers, effective for tax years after December 2017. In 2019, 2020 and 2021, if a taxpayer would have an AMT credit carryforward, the taxpayer will be able to claim a refund of 50% of the remaining credit
- Net Investment Income (“NII”) is unchanged

### **Pass-Through Entities**

- Creation of a new characterization of income: “business income.” Each owner or shareholder:
  - Would separately determine his, her or its proportion of business income by reference to a “capital percentage” of net income from active business activities, determined under a facts and circumstances test, *or*
  - May elect to apply a capital percentage of 30 percent to the net business income derived from active business activities
- 25% maximum tax rate (excludes professional service firms) to apply to “business income;” remainder taxed at ordinary income tax rate
- Active participation rules apply

### **Corporate Tax Rate**

- 20% maximum tax rate

## TAX TABLES

### Married Filing Jointly

<b>Ordinary Income</b>		<b>Capital Gains</b>	
<b>Income</b>	<b>Bracket</b>	<b>Income</b>	<b>Bracket</b>
\$0-\$90,000	12%	\$0-\$77,200	0%
\$90,001-\$260,000	25%	\$77,201-\$479,000	15%
\$260,001-\$1,000,000	35%	Above \$479,000	20%
Above \$1,000,000	39.6%		

### Comparison Chart to Current Tax Tables

<b>Taxable Income</b>	<b>Top Tax Rate Under Current Law</b>	<b>Top Tax Rate Under Proposal</b>
\$0-\$19,050	10%	12%
\$19,051-\$77,400	15%	12%
\$77,401-\$90,000	25%	12%
\$90,001-\$156,150	25%	25%
\$156,151-\$237,950	28%	25%
\$237,951-\$260,000	33%	25%
\$260,001-\$424,950	33%	35%
\$424,951-\$480,050	35%	35%
\$480,051-\$1,000,000	39.6%	35%
\$1,000,001+	39.6%	39.6%

## TAX TABLES

### Unmarried With at Least 1 Qualifying Child

<b>Ordinary Income</b>		<b>Capital Gains</b>	
<b>Income</b>	<b>Bracket</b>	<b>Income</b>	<b>Bracket</b>
\$0-\$67,500	12%	\$0-\$57,900	0%
\$67,501-\$200,000	25%	\$57,901-\$359,250	15%
\$200,001-\$500,000	35%	Above \$359,250	20%
Above \$500,000	39.6%		

### Comparison Chart to Current Tax Tables

<b>Taxable Income</b>	<b>Top Tax Rate Under Current Law</b>	<b>Top Tax Rate Under Proposal</b>
\$0-\$13,600	10%	12%
\$13,601-\$51,850	15%	12%
\$51,851-\$67,500	25%	12%
\$67,501-\$133,850	25%	25%
\$133,851-\$200,000	28%	25%
\$200,001-\$216,700	28%	35%
\$216,701-\$260,000	33%	35%
\$260,001-\$424,950	33%	35%
\$424,951-\$453,350	35%	35%
\$453,351-\$500,000	39.6%	35%
\$500,001 +	39.6%	39.6%

## TAX TABLES

### Single & Married Filing Separately

<b>Ordinary Income</b>		<b>Capital Gains</b>	
<b>Income</b>	<b>Bracket</b>	<b>Income</b>	<b>Bracket</b>
\$0-\$45,000	12%	\$0-\$38,600	0%
\$45,001-\$200,000	25%	\$38,601-\$239,500	15%
\$200,001-\$500,000	35%	Above \$239,500	20%
Above \$500,000	39.6%		

### Comparison Chart to Current Tax Tables

<b>Taxable Income</b>	<b>Top Tax Rate Under Current Law</b>	<b>Top Tax Rate Under Proposal</b>
\$0-\$9,525	10%	12%
\$9,526-\$38,700	15%	12%
\$38,701-\$45,000	25%	12%
\$45,001-\$93,700	25%	25%
\$93,701-\$195,450	28%	25%
\$195,451-\$200,000	33%	25%
\$200,001-\$424,950	33%	35%
\$424,951-\$426,700	35%	35%
\$426,701-\$500,000	39.6%	35%
\$500,001+	39.6%	39.6%

## TAX TABLES

### Estates and Trusts

<b>Ordinary Income</b>		<b>Capital Gains</b>	
<b>Income</b>	<b>Bracket</b>	<b>Income</b>	<b>Bracket</b>
\$0-\$2,550	12%	\$0-\$2,600	0%
\$2,551-\$9,150	25%	\$2,601-\$12,700	15%
\$9,151-\$12,500	35%	Above \$12,700	20%
Above \$12,500	39.6%		

### Comparison Chart to Current Tax Tables

<b>Taxable Income</b>	<b>Top Tax Rate Under Current Law</b>	<b>Top Tax Rate Under Proposal</b>
0-\$2,600	15%	12%
\$2,601-\$6,100	25%	25%
\$6,100-\$9,150	28%	25%
\$9,151-\$9,300	28%	35%
\$9,301-\$12,500	33%	35%
\$12,501-\$12,700	33%	39.6%
\$12,700+	39.6%	39.6%