President Trump signed the tax reform bill into law. This chart compares the new law with current tax law.

TAX STRATEGIES

Tax Reform Chart: Former Law Compared to the New Law

By Jay H. Gray
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Tax reform legislation was signed into law by President Trump on Friday, December 22. The final bill reflects three minor changes relative to the House and Senate conference committee agreement, including removal of a rule permitting use of a 529 savings account for home-schooling expenses, an update to the title of the bill, and a change to the criteria for imposing a new excise tax on endowments of private colleges and universities. Here is a summary of the key provisions in the new law.

	Current Tax Law	**New Tax Law**
Personal tax rates[1]	Seven tax brackets: 10%, 15%, 25%, 28%, 33%, 35%, 39.6%	Seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, 37%
Personal long-term capital gains and qualified	Up to 23.8%	Unchanged; rates tied to existing taxable income thresholds

	Current Tax Law	New Tax Law
dividend tax rates		
Maximum pass-through tax rate	39.6%	Ordinary rates with deduction of 20% of qualifying domestic income; limited deduction for income from lower-income service businesses. Service businesses excludes engineers and architects
Maximum corporate tax rate	35%	21%
Personal standard deduction	Married filing jointly: $12,700 Head of household: $9,350 Single: $6,350	Married filing jointly: $24,000 Head of household: $18,000 Single: $12,000
Child tax credit	$1,000 per child	$2,000 per child (refundable to $1,400 per child); $500 for non-child dependents
Personal exemption	$4,050	Repealed
Personal state income, sales tax, and property tax	Allowable as an itemized deduction[2]	Deduction for property tax and either income or sales tax limited to $10,000
Mortgage interest	Deductible on up to $1.1 million of debt; interest on second home deductible	Deductible on up to $750,000 of debt (including second home); no home equity interest deduction
Individual Alternative Minimum Tax (AMT)	Imposed when minimum tax exceeds regular income tax	Increases AMT exemption amounts and phase-out
Medical expenses	Deductible to the extent they exceed 10% of AGI	Deductible to the extent they exceed 10% of adjusted gross income (AGI) (7.5% of AGI for 2017 and 2018)
Alimony	Deductible to payor; taxable to recipient	Not deductible to payor; not taxable to recipient for decrees executed or modified after 2018

	Current Tax Law	New Tax Law
Individual health insurance mandate	Individuals penalized for failure to carry minimum essential health insurance coverage	Repealed
Depreciation	Fixed assets are generally capitalized and depreciated; in some cases, Section 179 immediate expensing of up to $500,000 is available	Immediate expensing of most new and used property (excluding structures) through 2022; section 179 limit increased to $1 million
Depreciable life of buildings	39 years for most non-residential buildings; 27.5 years for residential rentals	Unchanged
Net operating losses (NOL)	Generally carried back 2 years and forward 20 years	Carryback repealed except farms (two years); indefinite carryover deduction limited to 80% of pre-NOL income for losses generated after 2017
Excess business loss	No provision	Net businesses losses in excess of $500,000 ($250,000 single) are not deductible; they become a NOL carried over to the next year
Business interest	Generally deductible	Generally limited to the extent that interest exceeds 30% of income; unlimited carryover of excess. Determined at entity level, but spillover effects to owner. Limitation not applicable if average annual gross receipts do not exceed $25 million
Cash method of accounting	Generally limited to business with less than $1 million, $5 million, or $10 million in receipts, depending on facts	Expanded to include businesses with less than $25 million in receipts with special rules for tracking inventory costs
Domestic production activities deduction	Domestic producers eligible for a deduction equal to 9% of their qualifying income	Repealed after 2017

	Current Tax Law	New Tax Law
Corporate AMT	20% corporate AMT	Repealed after 2017; AMT credits refundable from 2018 through 2021
Gift and estate tax	Tax of up to 40% imposed on gifts and estates, subject to a $5.49 million lifetime exemption per spouse	Lifetime exemption doubled; estate tax remains in effect. Step-up in basis retained

[1]*All individual provisions expire after 2025.*

[2]*The bill clarifies that a payment made in 2017 for 2018 state or local income tax will be deemed paid on December 31, 2018 (i.e., not deductible in 2017). A reasonable estimate of a 2017 tax liability, however, may be paid before December 31, 2017. Any overpayment credited to 2018 from the 2017 tax year is taxable in 2018 to the extent the overpayment provided a tax benefit. Furthermore, a 2017 overpayment credited to a 2018 state and local income tax liability will be subject to the $10,000 limit for the combined state and local income tax (or sales tax, in lieu of income tax) plus real property taxes.*

How we can help

Our tax professionals can answer any questions you have regarding the legislation and devise a personalized year-end tax plan to help you take advantage of opportunities that the new law presents.

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