MOORE STEPHENS
DOEREN MAYHEW

House GOP Tax Cuts and Jobs Act 2017 - Individual Clients

Proposed Change	What this means …
Change in marginal brackets.	The change in brackets will create winners and losers. The top rate of 39.6% applies to taxable income over $1 million for joint filers, which is increased from the prior threshold of $450,000 for joint filers.
Mortgage interest deduction limitation on indebtedness incurred after 11/1/17 is capped at $500,000; historic indebtedness generally grandfathered under prior $1.1 million cap. Mortgage interest deductions can only be claimed on a principal residence, debt on second homes no longer eligible.	The tax benefit associated with holding mortgages will diminish for any mortgages taken out after November 1, 2017 that exceed $500,000. Historic indebtedness will generally be grandfathered at a cap of $1.1 million. The cost of future indebtedness should be compared with the opportunity cost of diverting cash from investments for personal real estate purchases.
The property tax deduction will be limited to $10,000.	Taxpayers historically subjected to AMT may feel little effect from this change, but taxpayers not in AMT will lose a tax benefit roughly equivalent to their marginal rate times the amount of property taxes paid.
Deductions for state and local income taxes paid no longer allowed.	Taxpayers historically subjected to AMT may feel little effect from this change, but taxpayers not in AMT will lose a tax benefit roughly equivalent to their marginal rate times the amount of property taxes paid. Since repeal and replace of the ACA efforts have failed, and since the Act is silent on any changes to the Net Investment Income Tax (NII), state tax may still be partially deductible against net investment income thereby allowing for a 3.8% recovery. If this provision comes into effect, accelerating state tax deductions into 2017 will be a likely planning technique (any overpayments though will be picked up into income in 2018).

Proposed Change	What this means …
Cash charitable deduction limitation increase to 60% of AGI from 50% of AGI.	Taxpayers can make more cash donations to charities before incurring the charitable ceiling based on AGI.
Medical expense deduction is repealed.	This deduction was AGI dependent and, therefore, would have little effect on high-income individuals.
Tax prep fee deduction is repealed.	This deduction was AGI dependent and limited by AMT and, therefore, would have little effect on high-income individuals.
Miscellaneous business expense deduction is repealed.	This deduction was AGI dependent and limited by AMT and, therefore, would have little effect on high-income individuals.
Phase-out of itemized deductions repealed.	While tax and mortgage deductions would be limited, there would be no phase out imposed on total itemized deductions meaning that dependent upon AGI, individuals may receive more benefit for charitable contributions in the future.
Alimony deduction is repealed for decrees concluded post-December 31, 2017, as is the alimony income inclusion. Decrees concluded prior to January 1, 2018 are grandfathered under prior rules.	Future alimony negotiations will require a net-of-tax analysis.
Disallows recharacterization of Roth IRA contributions to Traditional IRAs, or vice versa, by the due date of the tax return. The same rule applies to conversions from Traditional IRA's to Roth IRA's.	Once a contribution to an IRA plan occurs, whether to a Traditional or Roth, a taxpayer cannot change his or her mind. For example, if a taxpayer contributes to a Roth IRA and then realizes that he or she exceeds AGI limits, the contribution must be distributed and there will be no opportunity to recharacterize the funds into a Traditional IRA. As for conversions of Traditional IRA's to Roth IRA's, a taxpayer gets one bite at the apple. If a conversion occurs, and then in the subsequent year prior to the due date of a taxpayer's tax return the value of the converted IRA decreases, there will be no opportunity to recharacterize the conversion and convert at a lower market value. This change results in a lack of flexibility that previously existed.

Proposed Change	What this means …
Estate deduction doubles to $10 million per person (plus inflation adjustments) and estate tax is completely repealed after 12/31/2023 while retaining "stepped-up" basis rules at death. Generation skipping transfer tax would also be repealed after 12/31/2023.	Individuals may consider making additional intervivos gifts based on the increase in lifetime exclusion and will want to review their estate plan and investment strategy if these new rules are signed into law.
Gift tax rate set at 35% starting in 2024.	With proper planning taxpayers infrequently incur gift tax, but if gift tax is incurred it will be at a rate of 35% vs. 40%.
Private foundation excise tax on investment income would change from either 1% or 2% to 1.4%.	Depending on a privation foundation's averaging formula, the tax may decrease from 2% to 1.4% or increase from 1% to 1.4%.
AMT repealed after 2017.	The effect of this change may be fairly neutral for individuals who had significant tax deductions that were ultimately disallowed due to AMT. While this provision simplifies the tax code many new rules including the 25% business tax rate and grandfathering of historic deductions serve to further complicate the tax code.
AMT credit.	Now claimable to the extent of regular tax net of other credits with a an additional refundable portion equal to 50% of the remaining credit carryforward. Recovery of this credit will be accelerated considerably for taxpayers who are perennial AMT victims.
25% business passthrough tax with a 70/30 allocation rate to wage vs. business income; many complexities exist depending on industry and other facts that may allow a change to this standard allocation.	This provision may benefit certain business owners and individuals invested in passive activities that generate income.
25% rate applies to all passive activities and dividends paid by REIT's.	REIT dividends were previously subjected to tax at an individual's ordinary rate, hence, this provision may allow for a reduction in tax associated with investments in REITs.

Contact: Moore Stephens Doeren Mayhew, 305 West Big Beaver Road, Troy, MI 48084-0231 U.S.A.
+1 (248) 244-3060 info@moorestephensdm.com www.moorestephensdm.com

Proposed Change	What this means …
No change to capital gains rates.	The 0%, 15% and 20% rates still apply at roughly the same income levels.
The credit for plug-in electric drive motor vehicles would be repealed after 2017.	If you are in the market for a Tesla, you must take possession of the vehicle in 2017 in order to qualify for the government discount via plug-in vehicle credit provided the total units sold limitation has not been met yet.
Qualifying for the exclusion of gain associated with the sale of a personal residence increases the ownership and principal residence use requirement to 5 out of the prior 8 years vs. 2 out of the prior 5 years and applies to one sale every 5 years vs. 2 years. A dollar for dollar reduction in exclusion is imposed to the extent MAGI exceeds $500K married, $250K single.	High income earners stand to be taxed on the full gain associated with future principal residence sales. Individuals in the business of buying homes, living in them for 2 years and then flipping for a gain will be required to own and live in the home for 5 years in the future in order to qualify for the exclusion of gain.