Registered Investment Advisor Firm

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Tax Cuts & Jobs Act of 2017

There were many changes in the Tax Cuts and Jobs Act of 2017. Some changes affected many taxpayers while some affected very few. I will address the more common changes and briefly mention the less common.

The major themes were:
- New tax rates and brackets for individuals for 2018-2025
- Deduction Changes
- AMT, estate and child tax credit
- 529 and ABLE account changes
- Retirement provisions
- Small business/ pass-through

Tax rates and brackets generally changed for the middle and lower income levels. The law keeps seven rates but changes the brackets to allow more people to be taxed at lower rates. Without filling this newsletter with too many tables, I will point out general changes.

Single filers making less than $191,650 taxable income will see a tax decrease, while those making more will see an increase in taxes.

Married, filing jointly filers making less than $400,000 taxable income will see a tax decrease, with those making more than that will see an increase.

Married, filing separately filers making less than $200,000 taxable income will see a tax decrease and those making more a tax increase.

Note these changes are not permanent, only through 2025.

Estate and Trust income tax brackets changed 2018 thru 2025. Instead of 5 brackets, there are only 4 and the top rate dropped from 39.6% to 37%.

Estate, gift and generation skipping transfer (GST) taxes are retained, and the exclusion amounts are doubled to $11,180,000 in 2018 and adjusted for inflation until 2025. The step-up in basis rules remain in place as does the flat 40% rate imposed on taxable gifts and estates during this time.

The standard deduction has increased from $12,700 in 2017 (married, filing jointly) and $6,350 in 2017 (single) to $24,000 and $12,000 respectively. This may help more taxpayers use the standard deduction and save the time and expense of keeping track of itemized deductions.

The additional standard deduction for taxpayers who are blind or age 65 and older will continue to apply with an additional $1,600 for single and head of household and $1,300 for married in 2018.

Personal exemptions are suspended through 2025.

State and local itemized tax (SALT) deductions will be generally limited to $10,000 ($5,000 for married, filing separately) for taxes including state and local property tax, plus either state and local income tax or sales tax, from 2018-2025.

Charitable donation deductions remain in place, increasing the limits for cash contributions to public charities from 50% to 60% of adjusted gross income (AGI), with some other minor changes.

Medical expense deductions are retained and expanded for 2017 and 2018 to allow deduction for expenses in excess of 7.5% of AGI (prior rule is in excess of 10% of AGI), however reverts back in 2019.

Mortgage interest deduction largely remains under previous rules. Interest continues to be deductible on mortgages taken to acquire, construct or substantially improve a home. However, for homes purchased in 2018- 2025, the existing $1,000,000 mortgage limitation is reduced to $750,000.

For divorce or separation agreements entered into after 2018, alimony by the payer is no longer tax deductible; alimony received by the payee is not taxable income.

The miscellaneous itemized deductions that have been suspended for 2018- 2025 are: unreimbursed employee business expenses (e.g., travel expense, home office expenses); investment fees and expenses and tax preparation fees.

Alternative Minimum Tax (AMT) remains in place but with amounts temporarily increased for 2018-2025.

The child tax credit was doubled to $2,000 and the income phase-out was also increased. A new $500 non-refundable tax credit for dependents - not qualifying children under age 17- has been added, subject to the same income threshold.

529 plans were expanded to K-12 education, allowing for tax-free withdrawal of up to $10,000 annually per beneficiary for private, public or religious school tuition.

There are no changes to Coverdell Education Savings Account.

ABLE accounts are tax-advantaged savings accounts for individuals with disabilities and their families. A beneficiary may now make contributions in excess of the $15,000 limit (2018) by the lesser of the federal poverty level ($12,060 in 2018) or compensation earned during the taxable year.

There were some limited changes to the retirement provisions and pass-through business tax provisions, mostly dealing with recharacterization and disaster area filing provisions.

If you need more detailed information about the new tax law, contact your tax advisor.

If you need help or more information on this or any other financial matters, contact Bob Davis at (707) 648-2024.

FED Watch

The Fed left rates unchanged at their May meeting, as expected. Currently the June meeting has a 100% probability for rates to rise to the 1.75% -2.0% and a 72.4% probability of the September meeting being the next time of rate increase. The Fed will also continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them. They expect to be at $50 Billion quarterly by October 2018

Next meeting:
June 12th and 13th

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States. Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. The Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:
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