



## IIABA Summary of the “Tax Cuts and Jobs Act”

Dec. 18, 2017

On Dec. 15, compromise legislation on tax reform was released. The legislation is expected to become law and will impact the tax liability of agents and brokers and their employees in 2018 and beyond. The relevant provisions of the bill are summarized below. More in-depth analysis will be provided to Big “I” members in the near future.

### TAXATION OF BUSINESSES

Current Law		Tax Cuts and Jobs Act
<b>C-Corp Rate</b>	Tiered with the highest possible rate being 35%.	Imposes a flat tax of 21% on all C-corps.
<b>Corporate AMT</b>	Corporations may be subject to an alternative minimum tax (AMT) imposed at a flat rate of 20% to the extent the corporation’s minimum tax exceeds its regular tax.	Repeals the AMT.
<b>Pass-Through Taxation</b>	Income from pass-through businesses is taxed at the relevant individual tax rates.	Income from pass-through businesses continues to be taxed at the relevant individual rates. However, for “specified service businesses,” which includes most if not all, activities related to the sale and servicing of insurance, a business owner or shareholder may deduct 20% of their “qualified business income” if their annual taxable income does not exceed \$315,000 (joint)/\$157,500 (single) for 2018. Where filers have annual taxable income between \$315,000 and \$415,000 (joint)/\$157,500 and \$207,500 (single), the benefits of the 20% deduction are phased out. Trusts that are owners or shareholders in a pass-through business may also use the deduction. The income thresholds are indexed for inflation, but the provision expires on 12/31/2025.
<b>S-Corp to C-Corp Conversion</b>	Any distributions of earnings would be subject to the C-corp rules and treated as taxable dividends to the extent of the corporation’s earnings and profits.	For an S-corp converting to a C-corp before 2020 any income adjustments that arise from such a conversion would be taken into account over six years.
<b>Interest Deduction</b>	Interest is deductible, subject to a 50% leveraging limit.	Lowens limit to 30%, but some small businesses may be exempted from the limit.
<b>Small Business Expensing</b>	May immediately expense up to \$500,000 of §179 property (i.e., tangible personal property with a recovery period of 20 years or less, computer software, and qualified leasehold improvements); phases out for property placed in service of more than \$2m.	Increases the maximum amount a taxpayer may expense under §179 to \$1m and increases the phase-out threshold amount to \$2.5m, indexed for inflation. Also expands the types of property that qualify for expensing.
<b>Meals/entertainment/fringe benefits deduction</b>	Meals and entertainment (related to the business) are generally deductible at 50%, and certain fringe benefits (e.g. transportation) are deductible.	Eliminates most deductions for fringe benefits and eliminates the deduction of entertainment expenses, but retains the 50% deduction for meals.



## INDIVIDUAL TAXATION

	Current Law	Tax Cuts and Jobs Act <sup>i</sup>
<b>Tax Brackets</b>	Seven tax brackets of 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. Income levels subject to each bracket are adjusted annually based on the CPI-U.	Seven tax brackets of 10%, 12%, 22%, 24%, 32%, 35% and 37%. Income levels subject to each bracket are adjusted annually based on the C-CPI-U, a slower growing inflationary measure than the CPI-U. The tax bracket changes expire on 12/31/2025 but the indexing changes are permanent.
<b>Standard Deduction/ Personal Exemption</b>	Standard deduction is \$6,350 (single); \$9,350 (HOH); \$12,700 (joint). Personal exemption of \$4,050 per individual/dependent.	Standard deduction is \$12,000 (single); \$18,000 (HOH); \$24,000 (joint). Personal exemption is repealed.
<b>Alternative Minimum Tax (AMT)</b>	Imposes an alternative tax rate on some taxpayers of 26% and 28% on income above certain levels, if the alternative rate is higher than the standard rate.	The AMT income exemption amount is increased to \$109,400 (joint) and \$70,300 (single). The exemption is phased out at \$1m (joint), and \$500,000 (single).
<b>Charitable Deduction</b>	May be deducted up to 50% of Adjusted Gross Income (AGI).	Increased to 60%.
<b>Child Tax Credit</b>	\$1,000 per child, phased out starting at joint income of \$110,000	Increased to \$2,000, phased out at joint income of \$400,000.
<b>Disaster Costs</b>	Can claim itemized deduction for certain losses due to fire and storms.	Limited to losses incurred from a federally declared disaster.
<b>Employer Healthcare</b>	Employer-paid health insurance excluded from income; 40% tax on high cost plans beginning in 2020.	No change.
<b>Estate Tax</b>	40% tax on estates above \$5.49m per individual (adjusted for inflation).	Doubles exemption level.
<b>Individual Mandate</b>	Most people are required to carry health insurance and failure to do so is subject to a tax penalty of \$695 or 2.5% of income (individual) and \$2,085 or 2.5% of income (family).	Eliminates penalty.
<b>Medical Expenses</b>	Can deduct medical expenses above 10% of AGI.	Can deduct medical expenses above 7.5% of AGI through 2019 then reverts to 10%.
<b>Misc. Expenses</b>	Can deduct various misc. expenses (tax preparation fees, professional society dues, unreimbursed job expenses, etc.) if exceed 2% of AGI.	Eliminates.
<b>Mortgage Interest Deduction</b>	Permitted for mortgages balances up to \$1m.	Permitted for new mortgages up to \$750,000, but no deduction permitted for home equity loans.
<b>State &amp; Local Taxes</b>	Can deduct state and local sales, income, and/or property tax.	Caps deduction at \$10,000. Cap does not apply to state and local taxes imposed in carrying on a trade or business.
<b>401(K) contributions</b>	Employee contributions permitted up to certain limits on pre-tax basis.	No change.

<sup>i</sup> All provisions noted here as related to the taxation of individuals in the Tax Cuts and Jobs Act, including changes to rates as well as deductions, expire on 12/31/2025 unless otherwise noted. Therefore, starting on 1/1/2026 current tax law as noted here would again apply unless Congress extends or otherwise amends the provisions of the Act.