

IIABA Summary of the "Tax Cuts and Jobs Act"

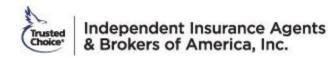
Dec. 18, 2017

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.

	Current Law	Tax Cuts and Jobs Act
C-Corp Rate	Tiered with the highest possible rate being 35%.	Imposes a flat tax of 21% on all C-corps.
Corporate AMT	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.
Pass-Through Taxation	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.
S-Corp to C-	Any distributions of earnings would be subject to the C-corp rules	For an S-corp converting to a C-corp before 2020 any income
Corp	and treated as taxable dividends to the extent of the corporation's	adjustments that arise from such a conversion would be taken into
Conversion	earnings and profits.	account over six years.
Interest Deduction	Interest is deductible, subject to a 50% leveraging limit.	Lowers limit to 30%, but some small businesses may be exempted from the limit.
Small Business	May immediately expense up to \$500,000 of §179 property (i.e.,	Increases the maximum amount a taxpayer may expense under §179
Expensing	tangible personal property with a recovery period of 20 years or	to \$1m and increases the phase-out threshold amount to \$2.5m,
	less, computer software, and qualified leasehold improvements); phases out for property placed in service of more than \$2m.	indexed for inflation. Also expands the types of property that qualify for expensing.
Meals/	Meals and entertainment (related to the business) are generally	Eliminates most deductions for fringe benefits and eliminates the
entertainment/	deductible at 50%, and certain fringe benefits (e.g. transportation)	deduction of entertainment expenses, but retains the 50% deduction
fringe benefits	are deductible.	for meals.
deduction		

TAXATION OF BUSINESSES

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INDIVIDUAL TAXATION

	Current Law	Tax Cuts and Jobs Act ⁱ
Tax Brackets	Seven tax brackets of 10%, 15%, 25%, 28%, 33%, 35%, and	Seven tax brackets of 10%, 12%, 22%, 24%, 32%, 35% and 37%.
	39.6%. Income levels subject to each bracket are adjusted	Income levels subject to each bracket are adjusted annually based
	annually based on the CPI-U.	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.
Standard Deduction/	Standard deduction is \$6,350 (single); \$9,350 (HOH); \$12,700	Standard deduction is \$12,000 (single); \$18,000 (HOH); \$24,000
Personal Exemption	(joint). Personal exemption of \$4,050 per individual/dependent.	(joint). Personal exemption is repealed.
Alternative	Imposes an alternative tax rate on some taxpayers of 26% and	The AMT income exemption amount is increased to \$109,400
Minimum Tax (AMT)	28% on income above certain levels, if the alternative rate is	(joint) and \$70,300 (single). The exemption is phased out at \$1m
	higher than the standard rate.	(joint), and \$500,000 (single).
Charitable Deduction	May be deducted up to 50% of Adjusted Gross Income (AGI).	Increased to 60%.
Child Tax Credit	\$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.
Disaster Costs	Can claim itemized deduction for certain losses due to fire and	Limited to losses incurred from a federally declared disaster.
	storms.	
Employer Healthcare	Employer-paid health insurance excluded from income; 40% tax	No change.
	on high cost plans beginning in 2020.	
Estate Tax	40% tax on estates above \$5.49m per individual (adjusted for	Doubles exemption level.
	inflation).	
Individual Mandate	Most people are required to carry health insurance and failure	Eliminates penalty.
	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).	
Medical Expenses	Can deduct medical expenses above 10% of AGI.	Can deduct medical expenses above 7.5% of AGI through 2019
		then reverts to 10%.
Misc. Expenses	Can deduct various misc. expenses (tax preparation fees,	Eliminates.
	professional society dues, unreimbursed job expenses, etc.) if	
	exceed 2% of AGI.	
Mortgage Interest	Permitted for mortgages balances up to \$1m.	Permitted for new mortgages up to \$750,000, but no deduction
Deduction		permitted for home equity loans.
State & Local Taxes	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.
401(K) contributions	Employee contributions permitted up to certain limits on pre-tax	No change.
	basis.	

ⁱ 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.

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