CITY OF FORT LAUDERDALE RETIREMENT PLANNING SEMINAR

IMPACT OF THE 2017 TAX CUTS AND JOBS ACT ON INDIVIDUALS (ONE YEAR LATER)

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PRESENTED BY
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The 2017 TAX CUT AND JOBS ACT

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act (TCJA). The sweeping tax law package would drastically change the way you compute your taxes and is the largest tax legislation change since 1986. Most of the individual tax changes apply to tax years 2018 -2025.

For 2019 and in the immediate future, generally the tax rates are lower than 2017. For example, the top tax rate has been reduced from 39.6% to 37% and the top tax rate now applies for joint filers whose taxable income is over $612,350,000(as opposed to $470,700 for 2017). **(Please see the chart at the end of your handout).**

Question: Do you feel that the new tax law benefited you, had a negative effect on your income tax liability or not really sure.

Below are many of the changes that will effect everybody in this room:

1. The TCJA suspends the deduction for personal exemptions ($4,050 for 2017).

2. The Standard deduction had been increased from 2017:

		2017	2019
a.	Single	$ 6,350	$12,200
b.	Joint	$12,700	$24,400
c.	HOH	$ 9,350	$18,350
d.	MFS	$ 6,350	$12,200

An elderly or blind taxpayer is still entitled to get an additional standard deduction ($1,300(Married-$1,650- Unmarried).

One would take the **greater** of the standard deduction **or** your itemized deductions. **Basically intended to reduce the number of people who itemized their deductions.**

3. Many changes will limit the deductibility of your itemized deductions:

    a. Prior to the TCJA, one could deduct interest on up to $1,000,000($500,000 if married filing separately) of home acquisition mortgage debt. This was debt used to buy or substantially improve a first or second home. You could also deduct interest up to $100,000($50,000 if married filing separately) of home equity debt, regardless of how the proceeds were used. Both forms of this debt had to be secured by a qualified residence.

b. New Law- the TCJA lowers the limits on home acquisition debt to $750,000(MFS- $375,000). Also initially, the TCJA **generally** disallowed the deduction of home equity debt interest. However, the IRS recently advised homeowners that interest paid on home equity loans and lines of credit may be deductible if the funds were used to buy, build or substantially improve the taxpayer's home that secures the loan and therefore such loans will be treated as home acquisition debt subject to the new $750,000/$375,000 limits. By making this clarification, the IRS has confirmed that the actual use of the proceeds from the loan and not the description is what matters.

c. **State and local Taxes** – Starting in 2018, the deduction for state and local income tax and property taxes is limited to $10,000($5,000 if MFS)

d. **Alimony-** For divorce or separation agreements entered into after 2018, alimony payments aren't deductible nor includible in the income of the receiving spouse.

e. **Moving expenses** – The TCJA eliminates the deduction for job related moving expenses except for active duty military personnel.

f. **Casualty and Theft losses** – The deduction for personal casualty and theft losses has been suspended; however a deduction may be available for losses incurred in a federally declared disaster area.

g. **Miscellaneous Itemized Deductions-** The deduction for tax preparation costs, investment expenses, union dues and unreimbursed employee expenses are no longer available.

h. **Child Tax Credit-** the TCJA increases the child tax credit from $1,000 to $2,000 per qualifying child under the age of 17. The income levels at which the credit phases out has also been increased.

i. **Kiddie tax** – The TCJA taxes a kid's unearned income at rates paid by trusts and estate, which can be as high as 37%. Prior to TCJS, such income was taxed at the parent's marginal rate which could have been as high as 39.6%. Compressed income tax rates at trust and estate level so could create a higher income tax situation.

j. **20% pass through deduction** –individuals may deduct up to 20% of their qualified business income from a sole proprietorship, partnership, limited liability company and "S" corporations with various limitations.

k. **Estate tax-** the estate tax has not been repealed but the estate tax exemption has been increased to roughly $11.4 million per person in 2019.

l. **Tax Forms appearance-** 2018 was dramatically different than 2017 and now drafts of 2019 are somewhat in the middle

COMMON MISTAKES THAT CAN WRECK YOUR RETIREMENT

1. IRS continues to crack down on common retirement errors and contribution or withdrawal errors.

   a. One must take required minimum distributions in the year that reach 70 ½ or no later than April 1 of the year after they turn 70 ½. If they wait until April 1 of the following year, one must take two distributions in the subsequent year. Failure to do so can result in a penalty of 50% of the amount that should have been withdrawn. **(Talk about extending withdrawal date to 72 years of age as well as minimize the length of time a beneficiary can withdraw inherited retirement benefits.)**

   b. Once you inherit an IRA, there are also required minimum distributions. There can also be a 50% excise tax on a distribution missed. Be careful in year of death, if the decedent has not taken their RMD, you are required to take it! (See below).

   c. Also don't forget that if you inherit a Roth IRA, you are required to take a required minimum distribution no later than December 31 of the year following the year of death. Even though the decedent had no required minimum distributions pertaining to their Roth IRA, one is required for an "inherited Roth IRA". Please see below.

   d. If you have multiple IRAs, one can take required minimum distribution out of just one account, but the calculation must be based on total values of all accounts. If you do this, please be aware if there are different beneficiaries of your IRAs.

   e. Also the IRS is starting to look at the contribution limits and whether taxpayers are secretly socking extra money in attempt to rack up tax free earnings. Refer to table below for income limitations for traditional and Roth IRAs. Penalty on excess contributions can be 6% of the excess contribution annually.

   f. IRS is also making one prove that they rolled an IRA over within the 60-day limit.

   g. One must be very careful if you borrow against a 401k or 403b, as you must comply with loan terms or noncompliance can result in the loan being treated as a distribution and, therefore, treated as taxable income and possibly be subject to the 10% additional tax. One way to avoid this is to never borrow. In my opinion, borrowing against your retirement account should be the last resort.

   h. Don't forget to consider withholding federal income tax on retirement distributions.

   i. The ability to defer paying income tax can create significant wealth over a period of time through the world of compounding.

2. Generally, taxable distributions from a qualified retirement plan or IRA are subject to a 10 percent additional tax if they are made before the participant reaches age 59 ½. Certain exceptions are as follows:

   a. Distributions that are timely rolled over;

   b. Distributions upon death or disability of the participant;

   c. Distributions that are part of a series of substantially equal periodic payments over the life of the participant or the joint lives of the participant and the beneficiary;

   d. Distributions after the participant's separation from service, provided the separation of service occurred during or after the calendar year in which the participant reached age 55(age 50 in the case of distributions from a government plan to a retired police officer, firefighter or emergency medical service provider)

   e. Distributions under a qualified domestic relations order;

   f. Distributions from certain plans for first time home purchases

   g. Used for qualified higher educational expenses

3. Inherited IRAs:

   a. First thing to do when a relative dies and you're a designated beneficiary is to do nothing and consult with your CPA and attorney before you take action.

   b. Might be a required minimum distribution in the year of death if the decedent hadn't already taken his (hers).

   c. If a beneficiary of an inherited IRA, you must begin taking a required minimum distribution the year after death based on your life expectancy.

   d. If decedent is your spouse, one can either roll the account into your own IRA, or set up an inherited account and postpone taking the required distributions until the deceased spouse would have turned 70 1/2. **(Give client example)**

   e. Never take money directly. Must remain in deceased person's name. Ex- Mitch Margolies, deceased fbo Jessica Garfield

   f. The 60 day rollover is not available to a non-spouse beneficiary as money now becomes taxable. Will not be able to get reversed once take money.

   g. Inherited Roth IRA also requires minimum distribution payments. If you inherit a Roth IRA you need to keep up with those withdrawals or there can be a 50% penalty for missing the withdrawal.

4. As I mentioned the past several years, please make sure that you have named the proper beneficiary on all your designated beneficiary forms (retirement accounts, life insurance, bank and brokerage accounts, annuities etc.). (Florida statute now addresses some of the complexities). Anytime you have a significant life changing event (marriage, divorce, death etc.) please revisit your forms in the near future.

   a. You should have at a minimum a primary and contingent beneficiary listed on your designated beneficiary forms.

   b. What controls the disposition of your retirement accounts? Will, trust, or designated beneficiary form?

   c. Who can be a designated beneficiary of your retirement account?

      1. Good beneficiaries- individuals or certain trusts
      2. Bad beneficiaries – estate, charities, and trust, etc.

   d. Besides making sure that the person you want to receive the funds (retirement) does receive the inheritance, there are significant income tax savings if the form is filled out correctly.

5. If you have a parent who is involved in a second marriage, even though a sensitive issue, you want to have the conversation making sure that the designated forms properly reflect your parent's wishes.

   a. As mentioned in prior years, your 401k or 403b basically presumes spouse is your beneficiary regardless of what designated beneficiary form states unless obtain a waiver.

   b. If you are single when you die, the designated beneficiary form will generally dictate who will be the recipient.

   c. If not married, make sure an individual is named because if left blank it will go to your estate. That will require a faster payout rather than over the life expectancy of beneficiary. Basically must be paid out by the fifth year following the year of death unless the decedent already began taking out their minimum distribution.

   d. If you have an IRA, you can basically designate whomever you wish. (Watch state law)

   e. Possible trusts as beneficiary but rules are complex and trust agreement must be drafted correctly.

TRADITIONAL AND ROTH IRAS

1. Are you maximizing the amount of retirement benefits that are available? **Do not overlook this opportunity!**

   a. Can I contribute to an Individual Retirement Account (Traditional /Roth) while I am a participant in the current pension plan? (Maximum up to $6,000 or $7,000 if age 50 and above before the end of the year.)

Traditional IRA		Adjusted Gross Income
Unmarried Person -	Active participant	$ 64,000 - $74,000
Married filing jointly –Participating Spouse		103,000-123,000
Married filing jointly – Nonparticipating spouse		193,000-203,000
Roth IRA – **Only an income restriction**		
Unmarried Person		$122,000-137,000
Married filing jointly		193,000 – 203,000

   Participation in the pension plan does not affect the ability to contribute to a Roth.

2. Traditional IRA vs Roth IRA

   a. Traditional IRA – contributions tax deductible

      Earnings tax deferred
      Upon withdrawal – contributions and earnings are taxable

   b. Roth IRA – contributions are not deductible

      Qualified withdrawals are not taxable – contributions as well as earnings

   c. To avoid income restriction, some people are doing nondeductible IRAs and then converting to a Roth. Have to be very careful with this strategy as one has to consider all IRAs (traditional deductible and nondeductible) held by the individual when converting. Consider a Roth for your child if working!

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CHECKPOINT™

National Tax Advisory®

TO: All Professional Tax Personnel
FROM: Shaun M. Hunley, J.D., LL.M.

NTA-1044
DATE: May 28, 2019

RE: Quick Access Federal Tax Data Sheet (2017–2019)

	2019	2018	2017
Beginning of 12% Bracket (15% for 2017)[1]			
Joint or Qualifying Widow(er) (MFJ)	$ 19,400	$ 19,050	$ 18,650
Single	9,700	9,525	9,325
Head of Household (HOH)	13,850	13,600	13,350
Married Filing Separately (MFS)	9,700	9,525	9,325
Estates and Nongrantor Trusts	N/A [2]	N/A [2]	0
Beginning of 22% Bracket (25% for 2017)			
MFJ	$ 78,950	$ 77,400	$ 75,900
Single	39,475	38,700	37,950
HOH	52,850	51,800	50,800
MFS	39,475	38,700	37,950
Estates and Nongrantor Trusts	N/A [2]	N/A [2]	2,550
Beginning of 24% Bracket (28% for 2017)			
MFJ	$ 168,400	$ 165,000	$ 153,100
Single	84,200	82,500	91,900
HOH	84,200	82,500	131,200
MFS	84,200	82,500	76,550
Estates and Nongrantor Trusts	2,600	2,550	6,000
Beginning of 32% Bracket (33% for 2017)			
MFJ	$ 321,450	$ 315,000	$ 233,350
Single	160,725	157,500	191,650
HOH	160,700	157,500	212,500
MFS	160,725	157,500	116,675
Estates and Nongrantor Trusts	N/A [2]	N/A [2]	9,150
Beginning of 35% Bracket			
MFJ	$ 408,200	$ 400,000	$ 416,700
Single	204,100	200,000	416,700
HOH	204,100	200,000	416,700
MFS	204,100	200,000	208,350
Estates and Nongrantor Trusts	9,300	9,150	N/A [2]
Beginning of 37% Bracket (39.6% for 2017)			
MFJ	$ 612,350	$ 600,000	$ 470,700
Single	510,300	500,000	418,400
HOH	510,300	500,000	444,550
MFS	306,175	300,000	235,350
Estates and Nongrantor Trusts	12,750	12,500	12,500

	2019	2018	2017
Standard Deductions			
MFJ	$ 24,400	$ 24,000	$ 12,700
Single	12,200	12,000	6,350
HOH	18,350	18,000	9,350
MFS	12,200	12,000	6,350
Additional for Elderly/Blind—Married	1,300	1,300	1,250
Additional for Elderly/Blind—Unmarried	1,650	1,600	1,550
Taxpayer Claimed as a Dependent	1,100 [3]	1,050 [3]	1,050 [3]
Qualifying Educator Expense Deduction	$ 250	$ 250	$ 250
Personal/Dependent Exemption[7]	$ 0	$ 0	$ 4,050
Beginning of Personal Exemption and Itemized Deduction Phase-out—Based on AGI			
MFJ	$ N/A [6]	$ N/A [6]	$ 313,800
Single	N/A [6]	N/A [6]	261,500
HOH	N/A [6]	N/A [6]	287,650
MFS	N/A [6]	N/A [6]	156,900
AMT Exemptions			
MFJ	$ 111,700	$ 109,400	$ 84,500
Single	71,700	70,300	54,300
HOH	71,700	70,300	54,300
MFS	55,850	54,700	42,250
Estates and Nongrantor Trusts	25,000	24,600	24,100
Gift and Estate Tax			
Estate and Gift Tax Exclusion	$ 11,400,000 [4]	$ 11,180,000 [4]	$ 5,490,000 [4]
Gift Tax Annual Exclusion	15,000	15,000	14,000
FICA/SE Tax Maximum Earnings	$ 132,900	$ 128,400	$ 127,200
Auto Standard Mileage Allowances			
Business	$ .58	$ .545	$ .535
Charity Work	.14	.14	.14
Medical/Moving	.20	.18	.17
Luxury Depreciation Limits			
Autos			
First Year	$ 10,100	$ 10,000	$ 3,160
with Bonus Depreciation	18,100	18,000	11,160
Second Year	16,100	16,000	5,100
Third Year	9,700	9,600	3,050
Fourth Year and Thereafter	5,760	5,760	1,875
Light Trucks and Vans			
First Year	$ 10,100	$ 10,000	$ 3,560
with Bonus Depreciation	18,100	18,000	11,560
Second Year	16,100	16,000	5,700
Third Year	9,700	9,600	3,450
Fourth Year and Thereafter	5,760	5,760	2,075
Section 179 Deduction Limit	$ 1,020,000	$ 1,000,000	$ 510,000
SUV Deduction Limit	25,500	25,000	25,000
Qualifying Property Phase-out Threshold	2,550,000	2,500,000	2,030,000
Earnings Ceiling for Social Security Benefits			
Below Full Retirement Age	$ 17,640	$ 17,040	$ 16,920
Year Full Retirement Age Reached[5]	46,920	45,360	44,880
Full Retirement Age	Unlimited	Unlimited	Unlimited

[1] This table has been updated for amounts known as of 5/28/19.

[2] For tax year 2017, there is no 35% tax bracket for estates and nongrantor trusts. For tax years 2018 and 2019, estates and nongrantor trusts are subject to four tax brackets: 10%, 24%, 35%, and 37%.

[3] If an individual who can be claimed as a dependent has earned income, the standard deduction is the greater of $1,050 ($1,100 for 2019), or $350 plus the earned income (but no more than the standard deduction).

[4] Plus the amount, if any, of the deceased spousal unused exclusion amount.

[5] Limit applies to months prior to reaching full retirement age.

[6] The Tax Cuts and Jobs Act eliminates personal exemptions and the overall limitation on itemized deductions for tax years 2018 and 2019.

[7] In determining whether a person is a qualifying relative under a Code provision that refers to the definition of *dependent* in IRC Sec. 152, the exemption amount will be treated as $4,150 (adjusted for inflation for tax years beginning after 12/31/18). For 2019, the gross income limitation for a qualifying relative is $4,200.

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