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Tax season is in full swing.
And it's not just about filing your 2017 returns this year!

Congress passed the Tax Cuts and Jobs Act resulting in sweeping tax law changes for individuals as well as corporations in late December. We summarize some of these changes as they may affect you and your family in this report. These changes provide a good opportunity for you to review your long-term financial plans and uncover areas to implement new strategies especially since many of these rules are scheduled to expire in 2025.

Some of the areas to review may be:

- Your estate plan – especially as it relates to Federal vs State taxes
- Your intra-family gifting plans
- Saving/paying for children/grandchildren's education
- Your choice of state of domicile and ways to still deduct your real estate and state taxes
- Borrowing against the value of your home – mortgage vs home equity loan
- The structure of your business

Over the past decade, many state estate tax thresholds were marching toward the Federal limits. The passage of the new tax bill now places the federal threshold far higher than that of several states. Now more than ever, estate planning is being done to contend with a potential state estate or inheritance tax vs one at the federal level, particularly for states in the northeast.

We look forward to working with you, in conjunction with your accountant and attorney, to determine if you need to investigate potential changes to consider.

We welcome your questions.

Barrett Asset Management LLC
March 2018

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2018 Tax Cuts and Jobs Act
What you need to know for tax, estate and financial planning

Congress passed the Tax Cuts and Jobs Act (TCJA) resulting in sweeping tax law changes for individuals as well as corporations in late December. We have not seen changes to the tax laws as broad and deep as these since 1986. We summarize some of these changes as they may affect you and your family. These changes provide a good opportunity for you to review your long-term financial plans and uncover areas to implement new strategies especially since many of these rules are scheduled to expire in 2025.

Personal Income Tax Rates

There are still 7 tax brackets but with changes to the rates and the income levels to which they apply. One notable change is that the top rate has been lowered to 37% from 39.6%.

2017 Taxable Income			2018 Taxable Income		
Tax Rate	**Joint Return**	**Individual**	**Tax Rate**	**Joint Return**	**Individual**
10%	not over $18,650	not over $9,325	**10%**	not over $19,050	not over $9,525
15%	over $18,650	over $9,325	**12%**	over $19,050	over $9,525
25%	over $75,900	over $37,950	**22%**	over $77,400	over $38,700
28%	over $153,100	over $91,900	**24%**	over $165,000	over $82,500
33%	over $233,350	over $191,650	**32%**	over $315,000	over $157,500
35%	over $416,700	over $416,700	**35%**	over $400,000	over $200,000
39.6%	over $470,700	over $418,400	**37%**	over $600,000	over $500,000

The brackets for married couples are almost always twice that of a single person and thus results in a reduction of the marriage penalty.

TAX TIP: If you are employed, you may want to check with your accountant to see if changes to your W-4 withholding level is needed. Withholding rates for IRA withdrawals should also be reviewed. If you receive Social Security benefits, you may want to submit a new form W-4V to adjust your withholding on this income.

Long-Term Capital Gains and Qualified Dividend Income

The capital gains and qualified dividend rates remain at 0%, 15%, and 20%, but the break-points change.

2017 Taxable Income			2018 Taxable Income		
Tax Rate	Joint Return	Individual	Tax Rate	Joint Return	Individual
0%[1]	not over $75,900	not over $37,950	0%	not over $77,200	not over $38,600
15%[2]	over $75,900	over $37,950	15%	not over $479,000	not over $425,800
20%[3]	over $470,700	over $418,400	20%	over $479,000	over $425,800
1 Linked to two lowest income tax brackets. 2 Linked to next four lowest income tax brackets. 3 Linked to the highest income tax bracket.			Note: Rates are no longer linked to income tax brakets. Income amounts for each rate will adjust annually for inflation beginning in 2019.		
The law still maintains the 3.8% Medicare surtax on the net investment income of taxpayers with a modified adjusted gross income over $250,000 for married couples or $200,000 for individuals. This is in addition to the standard 0.9% Medicare tax.					

Individual Standard Deduction, Exemptions and Credits

Previously, exemptions were available for you, your spouse, and your dependents. Personal exemptions were phased out for those with higher adjusted gross incomes. You could also choose to take the standard deduction or to itemize deductions.

Under the TCJA, the standard deduction is significantly increased. However, the personal and dependency exemptions are no longer available. These provisions sunset and revert to pre-existing law after 2025.

Personal and Dependency Exemptions		
	Previously	Under TCJA
Exemption	$4,150	None

Standard Deduction		
	Previously	Under TCJA
Married Filing Jointly	$13,000	$24,000
Head of Household	$9,550	$18,000
Single/Married Filing Separately	$6,500	$12,000

Itemized Deductions		
	Previously	**Under TCJA**
Medical Expenses	Yes, if over 10% AGI	Yes, if over 7.5% of AGI
State and Local Income & Property Taxes	Yes.	Limited to a combined total of $10,000 for joint filers
Home Mortgage Interest	Yes, but limited to mortgage loans up to $1 million and home equity loans up to $100,000	Yes, but limited to mortgage loans up to $750,000 for joint filers plus home equity loans of $100,000 for home improvements. Debt incurred prior to 12/15/17 has been grandfathered.
Charitable Gifts	Yes.	Yes, and 50% AGI limit has been raised to 60% for certain cash gifts.
Casualty and Theft Losses	Yes.	Federally declared disasters only.
Job Expenses and Misc. Deductions	Yes.	No.

TAX TIP: Several states are in the process of approving charitable donation credits in lieu of property or state taxes paid. This would allow for a greater deduction should your approved itemized deductions exceed the standard amount.

TAX TIP: Timing or "bunching" your itemized deductions, like charitable donations, might allow for greater deductibility. Making a large up front donation via a Donor Advised Fund might allow for a deduction now while giving you the freedom to disburse the charitable gifts in the future.

Alternative Minimum Tax

The Alternative Minimum Tax was not eliminated however the AMT exemption has increased. The AMT changes sunset and revert to the pre-existing law after 2025.

Alternative Minimum Tax (AMT)		
	Previously	**Under TCJA**
Maximum AMT exemption amount	$86,200 (mfj) $55,400 (s/hoh) $43,100 (mfs)	$109,400 (mfj) $70,300 (s/hoh) $54,700 (mfs)
Exemption phase-out threshold	$164,100 (mfj) $123,100 (s/hoh) $82,050 (mfs)	$1,000,000 (mfj) $500,000 (s/hoh/mfs)
26% rate applies to AMT income (AMTI) at or below this amount. 28% rate applied to AMTI above this amount	$191,500 (mfj/s/hoh) $95,750 (mfs)	$191,500 (mfj/s/hoh) $95,750 (mfs)

TAX TIP: Timing of income, such as executives looking to exercise Incentive Stock Options, should take into consideration the AMT exemption and phase out levels when scheduling such transactions.

Individual Miscellaneous Changes

- The Kiddie tax has been simplified but is much more onerous. Children's unearned income is now subject to the trust tax rate of 37% rate on income over $12,500.

- Roth re-characterizations are no longer allowed to undo a Roth conversion.

- The deduction for alimony paid deduction has been eliminated for divorces executed or amended after 12/31/18.

- The deduction for moving expenses have been eliminated.

- 529 "college" savings plans will allow up to $10,000 for "qualified expenses" for elementary and high school tuitions.

- Mandate to purchase health insurance, under the Affordable Care Act that was passed in 2010, has been repealed.

TAX TIP: Contributions to 529 Plans for future educational expenses for children offer significant tax savings compared to depositing funds in custodial accounts as custodial accounts are now taxed as trusts.

TAX TIP: Income and realized capital gains generated in children's custodial accounts should be monitored given the new tax rate.

TAX TIP: If your alimony agreement is scheduled to be amended in coming years, you may wish to try to complete the process in 2018 in order to preserve the deductibility.

Estate, Gift, and Generation-Skipping Transfer Taxes

The TCJA doubled the gift and estate tax basic exclusion amount and the generation-skipping transfer tax exemption to about $11,200,000 for 2018. This provision sunsets and reverts to pre-existing law after 2025.

Going forward, there will be fewer federally taxable estates. That said, there will be a higher likelihood of audit.

Estate Tax		
	Previously	**Under TCJA**
Individuals Subject to Estate Taxes with Assets Over	$5.5 million (adjusted for inflation)	$11.2 million (with annual inflation adjustments)
Couples Subject to Estate Taxes with Assets Over	$11 million (adjusted for inflation)	$22.4 million (with annual inflation adjustments)

TAX TIPS: Ongoing review of estate planning documents is still needed to address several scenarios:

- *Many estate plans are designed around "formula" clauses that automatically adjust when exemption amounts are changed. Unless action is taken, this could lead to the unintended result of giving more to certain beneficiaries than expected, since the Federal exemption amount will in effect be doubled*

- *A number of states, including New York and Connecticut, have exemptions that do not currently mirror the increased Federal exemption. An estate plan with a formula clause equal to the Federal exemption will likely trigger the payment of a significant state estate tax in those states.*

- *Stay up-to-date on IRS guidance to determine whether asset transfers should be made during lifetime to take advantage of the increased gift tax exemption and whether there is a potential for "claw-back" should death occur after 2025.*

- *Future estate planning documents will likely need to anticipate the possible reversion after 2025 to the "old law" and its provision.*

Corporate Tax Rates

Under the TCJA, corporate income is taxed at a 21% rate, down from 35%. The corporate alternative minimum tax is repealed.

Special Provisions for Business Income of Individuals

Under the TCJA, an individual taxpayer can deduct 20% of domestic qualified business income (excludes compensation) from a partnership, S corporation, or sole proprietorship in certain industries. The benefit of the deduction is phased out for specified service businesses with taxable income exceeding $157,500 ($315,000 for married filing jointly). The deduction is limited to the greater of (1) 50% of the W-2 wages of the taxpayer, or (2) the sum of (a) 25% of the W-2 wages of the taxpayer, plus (b) 2.5% of the unadjusted basis immediately after acquisition of all qualified property (certain depreciable property). This limit does not apply if taxable income does not exceed $157,500 ($315,000 for married filing jointly), and the limit is phased in for taxable income above those thresholds. This provision sunsets and reverts to pre-existing law after 2025.

TAX TIP: Review your business entity structure to determine if it can be considered a "Qualified Business".

Source: US Internal Revenue Service