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Tax Cuts and Jobs Act

Key discussions to have with your advisor

New tax law has impact across a wide spectrum of potential opportunities

The Tax Cuts and Jobs Act (TCJA), signed into law on December 22, 2017 is the most significant tax legislation since1986. The broad, sweeping changes offer you numerous opportunities across a wide spectrum of choices. For more detailed information, ask your advisor for a copy of Securian's Tax Reference Guide.

The following are key take-aways from TCJA 2017. Unless otherwise noted, these are due to sunset after tax year 2025.

Standard deduction increased

The standard deduction has been increased across the board. Single filers: $12,000, Married filing jointly: $24,000, separately& Head of household: $18,000. This begins in tax year 2018 and is adjusted for inflation.

State and local tax (SALT) deduction limited

Individual taxpayers may claim an itemized deduction of up to $10,000 (MFJ) for the aggregate of state and local property taxes, state and local income taxes, war profits, and excess profits taxes, and state and local sales taxes paid in lieu of income taxes. Foreign property taxes may not be deducted, unless they are incurred in a trade or business. Individuals carrying on a trade or business will be allowed to deduct state, local and foreign property taxes and state and local sales taxes.

Charitable deduction limitation increased

The deductible limit for cash contributions to qualified charities increases from 50% to 60%. Contributions above the limit are generally allowed to be carried forward for up to five years.

A few highlights

Personal exemption is reduced to zero

Child tax credit increased to $2,000

Pease limitation on itemized deductions suspended

Mortgage interest deduction limited

The deduction for mortgage interest is now limited to indebtedness of up to $750,000 ($375,000 for MFS), effective for debt incurred after Dec. 15, 2017.

Medical expense threshold temporarily reduced

For tax years 2017 and 2018, the threshold on medical expense deductions is reduced to 7.5% of AGI for both regular tax and AMT tax purposes.

Miscellaneous itemized deduction suspended

Miscellaneous itemized deductions (e.g. tax preparation expenses, work clothes, etc.) subject to the 2% floor are suspended.

Alternative minimum tax (AMT) amended for individuals

The minimum tax exemptions and exemption phase-out thresholds under the Act have been increased to $109,400 (MFJ) and $70,300 (Single/HOH) with the exemption phase-outs beginning at $1,000,000 (MFJ) and $500,000 (Single/HOH).

Re-characterization of Roth IRAs eliminated

Re-characterization of Roth conversions have been repealed. Currently, an individual may decide to convert traditional IRA assets into a Roth IRA to create tax-free distributions at retirement. To do so, the individual pays income tax today on the amount to be converted into a Roth. If circumstances change, an individual has the option to "re-characterize" the Roth back into an IRA and undo the transaction. This option will no longer be available beginning in 2018. The repeal only impacts re-characterizations of conversions. Individuals will still be permitted to re-characterize an annual contribution between traditional and Roth IRAs.

529 Plans

Distributions from a 529 plan can be made for "qualified higher education expenses". Prior to the Act, qualified higher education expenses excluded tuition for elementary and secondary schools. The Act expands the use of 529 plan funds to include tuition for elementary and secondary schools up to $10,000 per beneficiary from all 529 plans. This provision is not subject to sunset.

Estate and gift tax exclusion increased

The Act increases the federal estate and gift unified exclusion amount per individual from $5.6 million to $11.2 million for decedents dying or gifts made after December 31, 2017 and before January 1, 2026.

Generation-skipping transfer tax exclusion increased

The generation-skipping transfer tax exclusion will increase to $11.2 million.

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