

Tax Cut & Jobs Act (H.R. 1) Key Elements & Opportunities



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All examples presented are purely hypothetical and offered for illustrative purposes only. They do not represent any particular product or service nor offer any guarantees of performance.

Planning Factors Today

- Political Environment
- Tax Environment
- Market Volatility
- International Landscape
- Estate Planning Environment

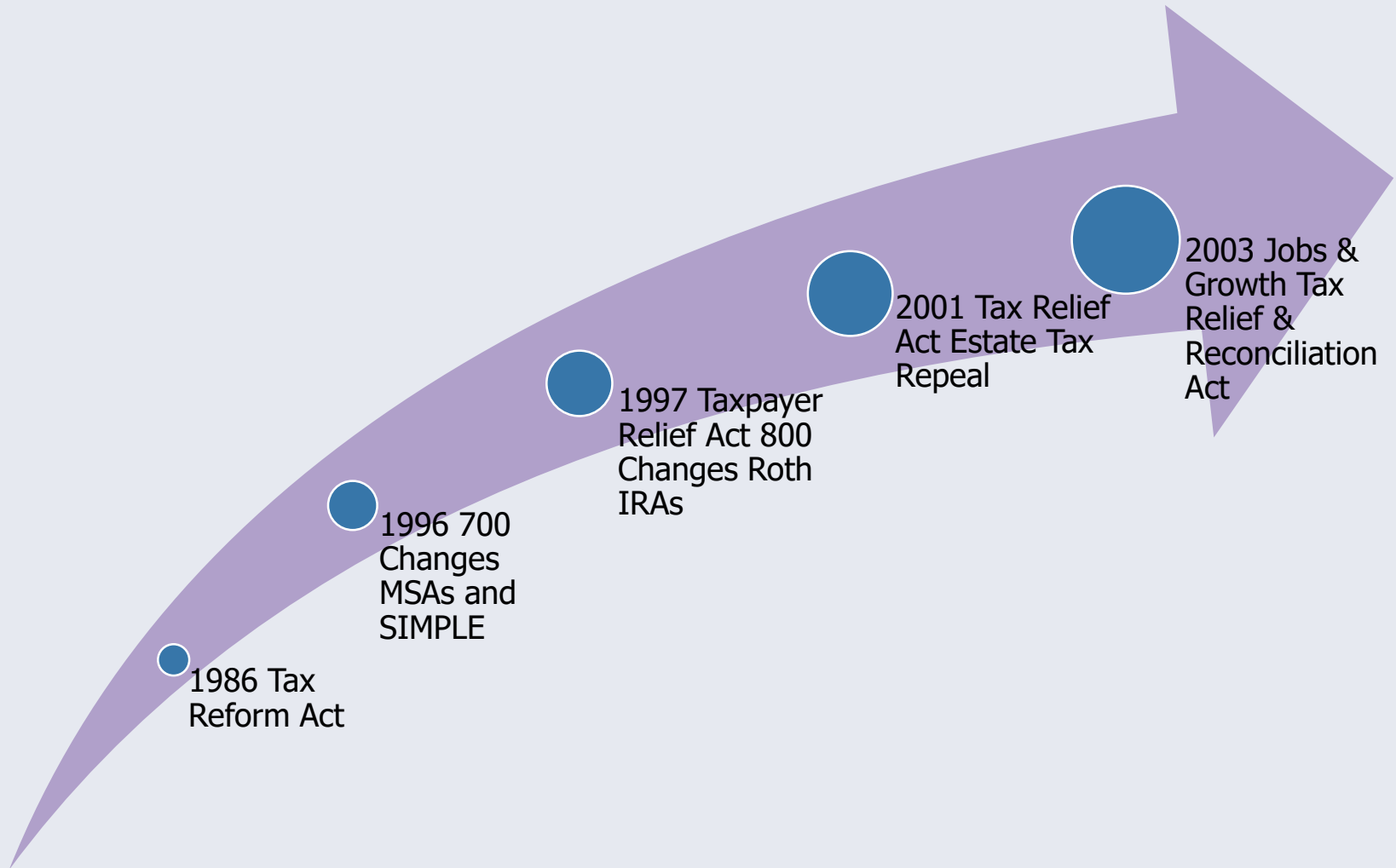


Setting the Stage

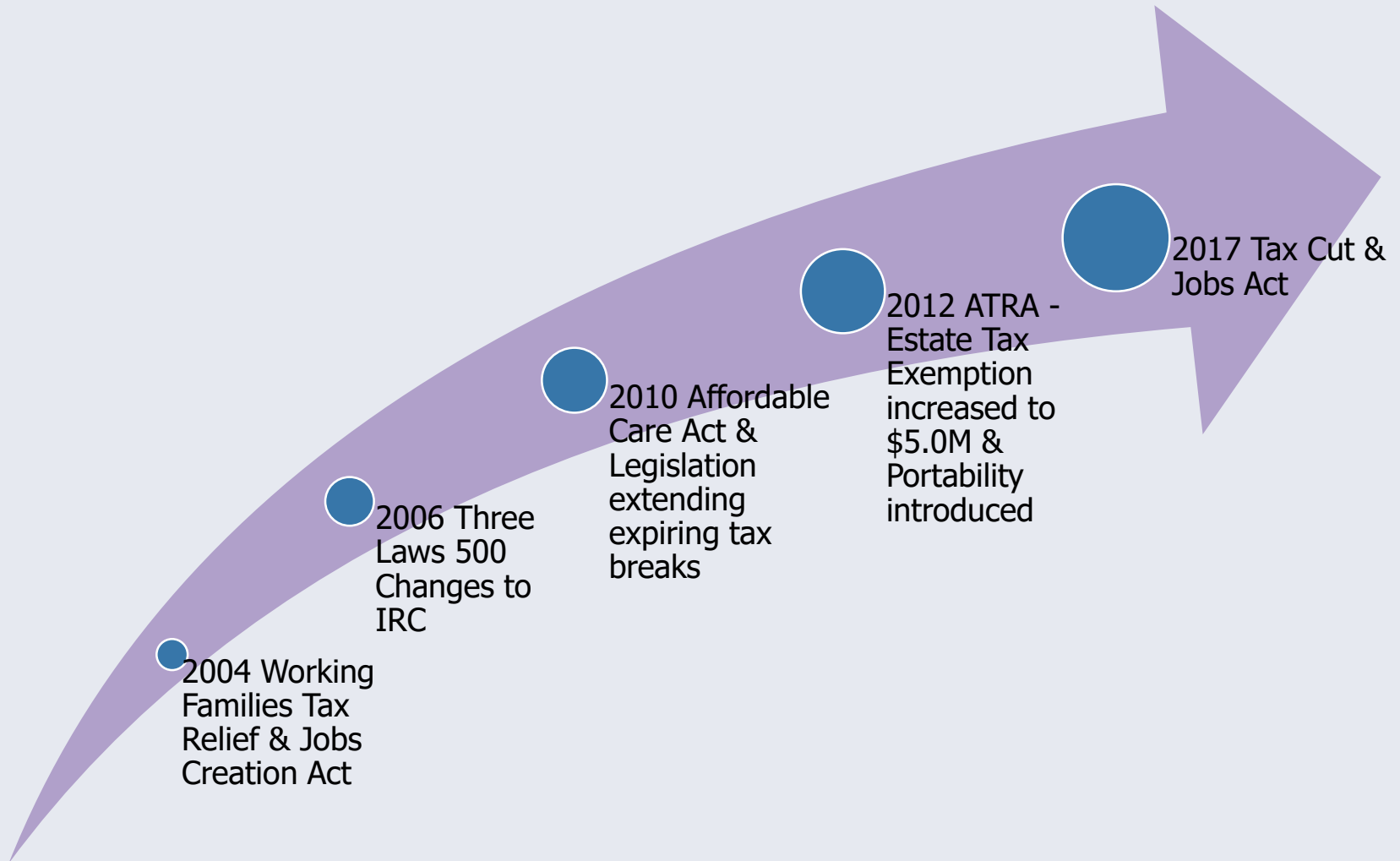
Tax Cut & Jobs Act (H.R. 1)

- Effective 1/1/2018
- Signed into Law December 22, 2017
- Did Not Have Bi-Partisan Support
- Individual Taxpayer Provisions Sunset 12/31/2025

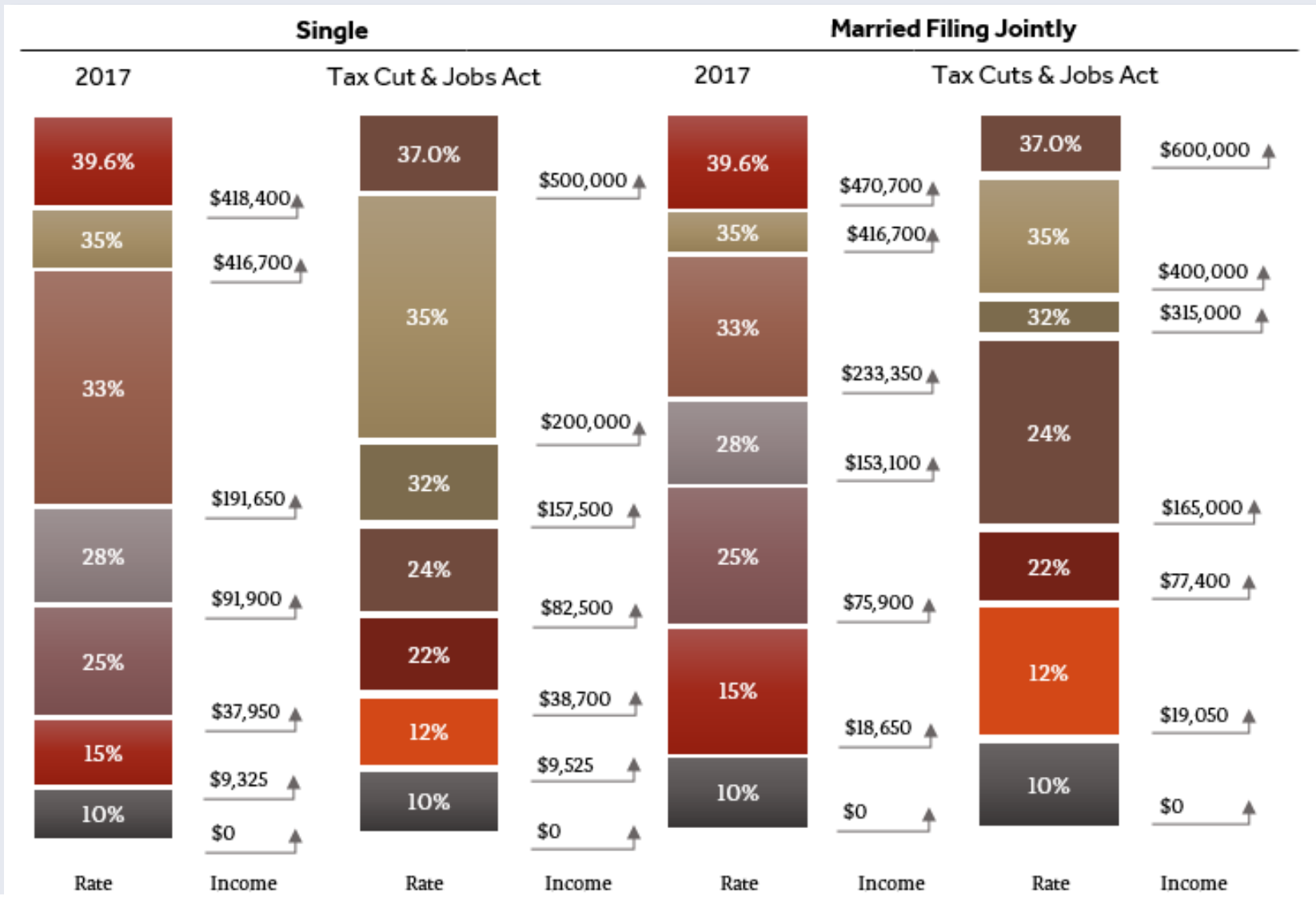
Timeline of Significant Modern Tax Law Acts



Timeline of Significant Modern Tax Law Acts



New Tax Brackets for Individuals



Major Provisions Sunset 12/31/25

Tax Brackets Revert to Current Brackets

Standard Deduction Cut In Half

Itemized Deductions Return

Personal Exemptions Return

Child Tax Credit Reduced

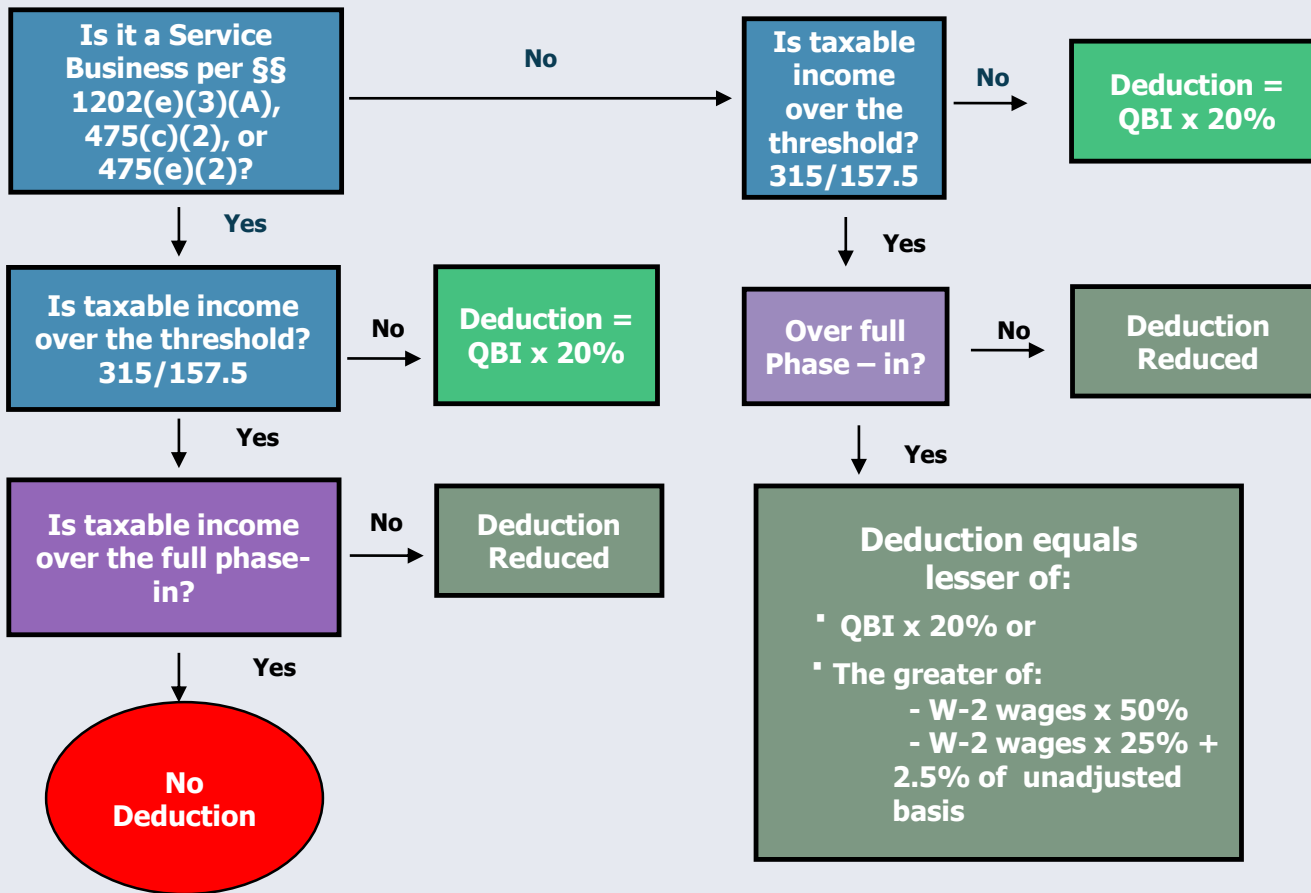
State & Local Taxes Full Deduction

Mortgage Interest Fully Deductible

Estate, Gift & GST Exemptions return to 2017 levels

Qualified Business Income (QBI) Deduction Eliminated





Case Study: Small Business Owner

Golden Squirrel, LLC FMV \$5.0M

Pass Through Income \$500,000

- Two local college students started a business making nut butters
- Used less sugar and added unusual ingredients
- Sold at festivals around the state
- After graduation ran a Kick Starter fundraiser
- Expanded offerings
- Hired a salesperson & additional staff to help make the nut butters
- Business is 5 Years old.
- Capital assets have unadjusted basis of \$1.0M

Golden Squirrel LLC

One owner, Kelsey O’Leary, is married with 1 child. Jack, her husband is an Engineer . They have a home valued at \$500k

Is Golden Squirrel Nut
Butters, LLC
a Service Business?

NO

Is taxable income
over the threshold?
MFJ \$315,000
Single \$157,500

Part II of QBI Deduction Test

O'Leary's Taxable Income: \$500,000

Over full
Phase in
Of \$415,000?

Yes

**Deduction equals
lesser of:**

- QBI x 20% or
- The greater of:
 - W-2 wages x 50%
 - W-2 wages x 25% +
2.5% of unadjusted basis

Golden Squirrel LLC: Kelsey & Jack O'Leary

Step One: Calculate 20% of QBI

$$\text{QBI} = \$250,000 \times 20\% = \$50,000$$

Golden Squirrel LLC: Kelsey & Jack O'Leary

Step Two: Determine the Greater of these two tests

50% of W2 Wages of 500,000 = \$250,000

Is Greater Than

25% of W2 Wages of \$500,000 = \$125,000
2.5% x Unadjusted Basis of \$1.0M = \$25,000
Total= \$150,000

Result

\$250,000

Golden Squirrel LLC: Kelsey & Jack O'Leary

Compare Results & Use the Lesser of the Two

$$\text{QBI} = \$250,000 \times 20\% = \$50,000$$

Compared to

$$50\% \text{ of W2 Wages of } 500,000 = \$250,000$$

Lesser of the two is \$50,000

2018 Tax Estimate

Estimated Tax Analysis

Gross income (subject to personal rates)		\$250,000
Taxable Pass-Through Income	+	\$200,000
Qualified plan contributions	-	\$18,500
Adjusted gross income	=	\$431,500
Standard/Itemized deductions	-	\$30,000
Taxable income	=	\$401,500

2018 Estimated Tax Liability: \$88,904

O'Leary's Have Only W-2 Income – Move to California

W-2 \$500k, 401(K) Max Contribution, One Child

2017 Itemized Deductions:

CA Income Tax: \$38,387

CA Property Tax: \$7,534

Charitable Donations: \$20,000

Total \$65,921

2018 Itemized Deductions:

SALT Deduction \$10,000

Charitable Donations: \$20,000

Total \$30,000

2017 Tax Estimate

Estimated Tax Analysis

Gross income		\$500,000
Qualified plan contributions	-	\$18,000
Adjusted gross income	=	\$482,000
Standard/Itemized deductions	-	\$60,335
Personal exemptions	-	\$0
Taxable income	=	\$421,665

Itemized Deductions Reduced by \$6K under Pease Limitations
Personal Exemptions fully phased out

207 Estimated Tax Liability \$114,466

2018 Tax Estimate

Estimated Tax Analysis

Gross income (subject to personal rates)		\$500,000
Taxable Pass-Through Income	+	\$0
Qualified plan contributions	-	\$18,500
Adjusted gross income	=	\$481,500
Standard/Itemized deductions	-	\$30,000
Taxable income	=	\$451,500

2018 Estimated Tax Liability \$109,404
Tax Savings \$5,062

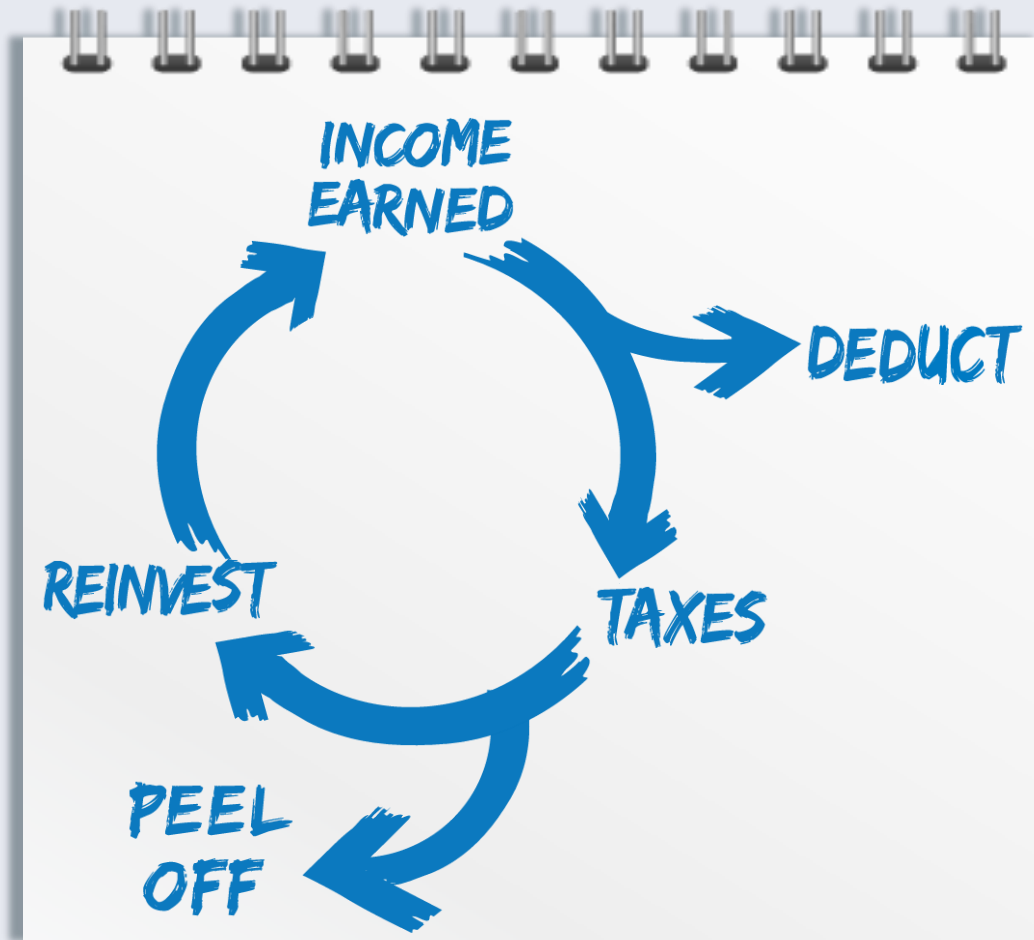
TODAY → **TOMORROW**

DEDUCTION

TAXES

TAXES

TAX-FREE!



Business Tax Law Changes & Opportunities

TAX LAW CHANGES

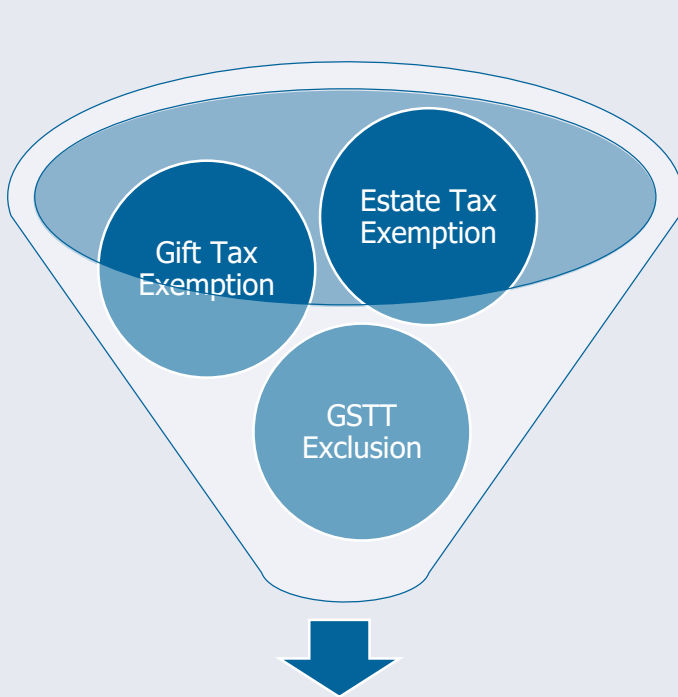
C-Corporation Tax Rate Reduction from 35% to a Flat 21%

Pass through entities new 20% deduction for Qualified Business Income

Sec. 179 Expensing Doubled to \$1.0M

Corporate AMT Repealed

Estate, Gift & GST Tax Changes & Opportunities



- Asset Repositioning
- Leverage Exemptions
- Shift Wealth
- Equalize Estates
- Fund Family Business Buyouts
- GRATS, IDITS, SLATS
- Discounting – No 2704 Regs.

Tax Act Key Changes

New Brackets with Lower Tax Rates

Standard Deduction Doubled

Personal Exemptions Eliminated

Child Care Credit and Phase Out Income level Increased.

Roth re-characterizations eliminated

Pass Through Entities QBI Deduction

Estate, Gift & GSTT Exemptions Doubled



