

Tax Cuts and Jobs Act

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act into law, which makes a number of changes to the federal tax laws. The recently signed Tax Cuts and Jobs Act includes far-reaching changes for all United States taxpayers, including individuals, corporations, corporations with substantial international business, and small businesses.

Substantial changes for individuals include:

Individuals		
	2017	2018
Standard Deduction (Single)	\$6,350	\$12,000
Standard Deduction (Married)	\$12,700	\$24,000
Child Tax Credit	\$1,000	\$2,000
Personal Exemption	\$4,050 per Taxpayer / Dependent	Eliminated
State and Local Income Taxes	Deductible	Limited to \$10k for Total State Income, Sales, and Property Taxes

Substantial changes for corporations (for holdings *within* the U.S.) include:

Corporations (for holdings <i>within</i> the U.S.)		
	2017	2018
Corporate Tax Rate	35%	21%
Corporate AMT	Raised effective corporate tax rate to 20%	Eliminated
Ceiling for Cash Method of Accounting	Until \$5M	Until 3 Year Average Receipts Exceed \$25M
Net Operating Losses Allowed	Carried Backwards 2 Years, Forward 20	No carryback (except farmers). Carryforward indefinite. Limit to 80% of Annual Income Offset

Substantial changes for corporations (for holdings *outside* the U.S.) include:

Corporations (for holdings <i>outside</i> the U.S.)	
Taxation of foreign income:	
100% deduction for the foreign-source portion of dividends received from "specified 10% owned foreign corporations"	
Foreign tax credit:	
Foreign tax credit: No foreign tax credit or deduction will be allowed for any taxes paid or accrued with respect to a dividend that qualifies for the deduction	

Substantial changes for small businesses include:

Pass-Through Business
20% deduction for qualified income , then individual rates apply
Reduces flow through income from (up to) 37% to (up to) 29% ; other limitations apply

Substantial changes for estate planning include:

Estate Planning		
	2017	2018
Federal gift/estate tax exemption	\$5,490,000	\$11,200,000
Federal gift/estate tax rate	40%	40%
Federal annual gift tax exclusion	\$14,000 per recipient	\$15,000 per recipient
Federal GST exemption	40%	40%
Federal GST tax rate	\$2,100,000	\$2,400,000
Maximum Minnesota estate tax rate	16%	16%
Basis on death	Step up to fair market value on date of death	Step up to fair market value on date of death

Despite the changes, **Minnesota residents remain subject to Minnesota estate tax laws upon their deaths.** As of January 1, 2018, the Minnesota estate tax exemption is \$2.4 million, meaning that assets transferred after a person passes away having a value in excess of \$2.4 million may be subject to Minnesota estate taxes and taxed at a maximum rate of 16%. Gifts with a value greater than the annual exclusion that are made three years prior to the death of the donor will not be subject to Minnesota estate tax upon the donor's death.

Although not directly affected by the Tax Cuts and Jobs Act, for gifts made after December 31, 2017, the annual gift tax exclusion will increase to \$15,000 per person.

In light of the changes to the tax laws, this is a good time to review your tax and estate plans to determine whether changes are needed. Please note: The Tax Cuts and Jobs Act is over 1,000 pages long. We can provide only a short summary of a few highlights here. Other provisions of the Act may have a material impact on you.