

Family Law Seminar
June 8, 2018
Presentation by Brad Townsend, MBA, CPA/ABV/CFF

The Tax Cuts and Jobs Act of 2017

1. Major Elements of the Act
 - a. Reduction in tax rates for businesses and individuals
 - b. Increase in the standard deduction
 - c. Elimination of the personal exemption
 - d. Limitation on deductions for state and local taxes
 - e. Further limits on the mortgage interest deduction
 - f. Reduction in alternative minimum tax
 - g. Reduction in the number of estates impacted by the estate tax
 - h. Repeal of the individual mandate of the Affordable Care Act
 - i. Elimination in deduction for alimony
 - j. Increase in child tax credit

Potential Issues in Typical Divorce

2. Reduction in tax rate for businesses and individuals
 - a. Examples of changes in table of rates
 - b. CBO expects short-term benefit to individuals but long-term increase after 2027
3. Increase in the standard deduction
 - a. Single filers increase from \$6,350 to \$12,000
 - b. Married filers increase from \$12,700 to \$24,000
4. Personal exemption is eliminated
 - a. Was an exemption of \$4,050 per taxpayer and dependent
 - b. Results in a partial offset to the benefit of the increase in the standard deduction
5. Limitation on deductions for state and local taxes, sales tax, and property tax (SALT)
 - a. Limit is \$10,000
 - b. Previously there was not a limit
 - c. Largest impact on high income earners in states with significant state income tax rates and persons who own real estate in expensive markets
6. Limits on mortgage interest deduction
 - a. Total loan balance limit decreased from \$1,000,000 to \$750,000
 - b. Interest on home equity loans no longer deductible unless used for home improvements
7. Reduction in alternative minimum tax
 - a. Increase in the exemption level from \$54,300 to \$70,300 for single taxpayers and \$84,500 to \$109,400 for married taxpayers filing jointly
8. Reduction in the number of estates impacted by the estate tax
 - a. Increase in exclusion from \$5.6 million to \$11.2 million per individual
 - b. Applies through 2025

9. Repeal of the individual mandate of the Affordable Care Act
 - a. May increase premiums on the health insurance exchanges, perhaps up to 10%
10. Elimination in deduction for alimony
 - a. No longer deductible to payer or taxable to recipient for divorce and separation agreements signed after December 31, 2018
 - b. No longer a benefit to the parties' combined cash flow by shifting tax brackets from payer to recipient
 - i. Example
 - c. Simplifies the calculation of alimony needed to just needs-based analysis without adjusting for taxes
 - d. Increased emphasis on ability-to-pay analysis for payer
 - e. No longer a conceptual reduction to payer for after-tax amount paid
 - i. Example
11. Increase in child tax credit
 - a. The credit doubles from \$1,000 to \$2,000 per child
 - b. Makes allocation of children for tax filing more significant
 - c. Needs to be considered in conjunction with impact of elimination of alimony deduction
 - i. Example
 - d. Threshold for phaseout of the child tax credit increase from \$110,000 AGI to \$400,000 for married filers
12. Capital gains tax rates
 - a. Table showing rates in three different categories
13. Section 529 accounts can now be used for grades K-12
 - a. Needs to be for private school tuition
 - b. Proposal included homeschools but homeschools were not included in the final bill
14. Potential impact on business valuations
 - a. Potential increase in value due to lower corporate tax rates
 - i. Decrease in corporate rate from 35% to 21%
 - ii. Decreases the impact of the so-called "double taxation"
 - iii. Example
 - b. Virtually eliminates difference between C Corporation values and flow-through entity values
 - i. Example

Question and Answer