Analysis of the Tax Cuts & Jobs Act of 2017

Presented By:

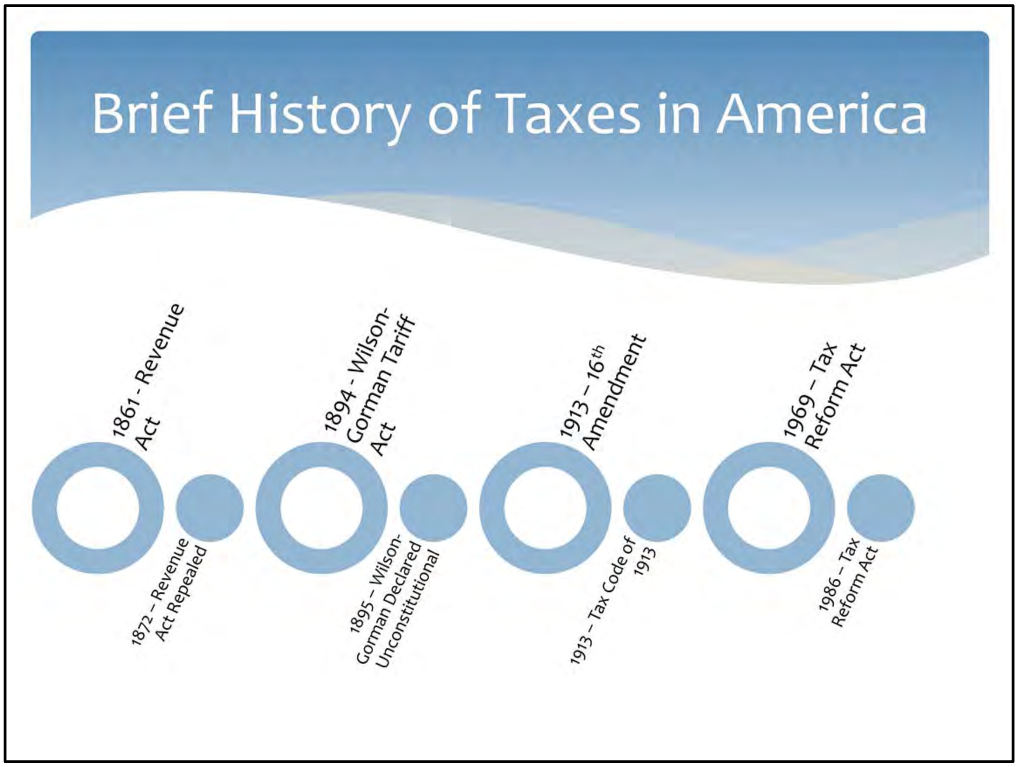
Eliot M. Bassin, MS, CPA, CFE

BREGMAN & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Eliot Bassin is a partner at Bregman & Company, P.C., a full-service accounting firm with offices in Stamford and Farmington, Connecticut. For more than half a century, Bregman & Company has effectively served clients throughout Connecticut, across the country, and around the world.

Eliot specializes in providing tax planning and compliance services to high-income and high-net-worth individuals, small- to mid-sized closely-held businesses and fiduciary entities. Focused on understanding clients' goals and emphasizing proactive planning, Eliot is committed to working with clients' other advisors to develop comprehensive and integrated strategies. This includes managing clients' short- and long-term tax exposure within the context of their financial, business and estate plans.

Prior to joining Bregman & Company, Eliot worked in KPMG's Washington, DC office. He was also a partner in a small firm in the Washington, DC area. He has earned a Bachelor of Accountancy from the George Washington University and a M.S. in Taxation from Baruch College's Zicklin School of Business.



Revenue Act of 1861 – Enacted to pay for cost of waging Civil War. First income tax enacted in the U.S. Prior to this act, revenue was raised through tariffs and property taxes.

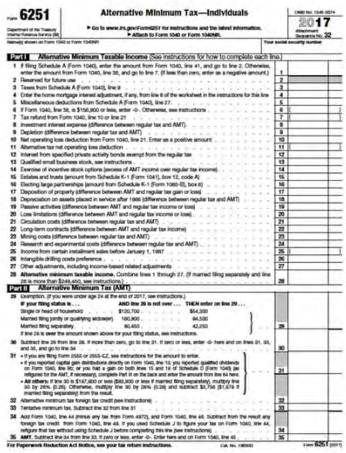
Wilson-Gorman Tariff Act – Imposed a "direct" tax on property in violation of U.S. Constitution. Struck down by SCOTUS in 1895.

16th Amendment – Repealed Constitutional requirement that "direct" tax on income be apportioned among the states according to each state's census population.

Tax Reform Act of 1969 – Introduced Alternative Minimum Tax ("AMT"). Intended to target 155 high-income households that had been eligible for so many tax benefits that they owed little or no income tax under the tax code of the time.

Tax Reform Act of 1986 – Broadened AMT and refocused on home owners in high tax states.

Does AMT Provide Context for the Tax Cuts & Jobs Act?



Form 6251 — Alternative Minimum Tax—Individuals — 2017

Department of the Treasury, Internal Revenue Service

▶ Go to www.irs.gov/Form6251 for instructions and the latest information.
▶ Attach to Form 1040 or Form 1040NR.

Attachment Sequence No. 32

Name(s) shown on Form 1040 or Form 1040NR | Your social security number

Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)

1 If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41, and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)
2 Reserved for future use
3 Taxes from Schedule A (Form 1040), line 9
4 Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line
5 Miscellaneous deductions from Schedule A (Form 1040), line 27
6 If Form 1040, line 38, is $156,900 or less, enter -0-. Otherwise, see instructions
7 Tax refund from Form 1040, line 10 or line 21
8 Investment interest expense (difference between regular tax and AMT)
9 Depletion (difference between regular tax and AMT)
10 Net operating loss deduction from Form 1040, line 21. Enter as a positive amount
11 Alternative tax net operating loss deduction
12 Interest from specified private activity bonds exempt from the regular tax
13 Qualified small business stock, see instructions
14 Exercise of incentive stock options (excess of AMT income over regular tax income)
15 Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)
16 Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)
17 Disposition of property (difference between AMT and regular tax gain or loss)
18 Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)
19 Passive activities (difference between AMT and regular tax income or loss)
20 Loss limitations (difference between AMT and regular tax income or loss)
21 Circulation costs (difference between regular tax and AMT)
22 Long-term contracts (difference between AMT and regular tax income)
23 Mining costs (difference between regular tax and AMT)
24 Research and experimental costs (difference between regular tax and AMT)
25 Income from certain installment sales before January 1, 1987
26 Intangible drilling costs preference
27 Other adjustments, including income-based related adjustments
28 **Alternative minimum taxable income.** Combine lines 1 through 27. (If married filing separately and line 28 is more than $249,450, see instructions.)

Part II Alternative Minimum Tax (AMT)

29 Exemption. (If you were under age 24 at the end of 2017, see instructions.)

IF your filing status is . . .	AND line 28 is not over . . .	THEN enter on line 29 . . .
Single or head of household	$120,700	$54,300
Married filing jointly or qualifying widow(er)	160,900	84,500
Married filing separately	80,450	42,250

If line 28 is **over** the amount shown above for your filing status, see instructions.

30 Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33, and 35, and go to line 34
31 • If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter.
• If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 9b; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on the back and enter the amount from line 64 here.
• **All others:** If line 30 is $187,800 or less ($93,900 or less if married filing separately), multiply line 30 by 26% (0.26). Otherwise, multiply line 30 by 28% (0.28) and subtract $3,756 ($1,878 if married filing separately) from the result.
32 Alternative minimum tax foreign tax credit (see instructions)
33 Tentative minimum tax. Subtract line 32 from line 31
34 Add Form 1040, line 44 (minus any tax from Form 4972), and Form 1040, line 46. Subtract from the result any foreign tax credit from Form 1040, line 48. If you used Schedule J to figure your tax on Form 1040, line 44, refigure that tax without using Schedule J before completing this line (see instructions)
35 **AMT.** Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 13600G Form 6251 (2017)

- Start with Taxable Income
  - Add Back
    - State and Local Taxes
    - Home Equity Interest
    - 2% Miscellaneous Itemized Deductions
  - Limit
    - Net Operating Loss Deduction
  - Subtract
    - Exemption Amount

Current Environmental Factors

- U.S. National Debt – Approximately $20.838 Trillion
- Current-Dollar GDP for 2017 - $19.386 Trillion
- S. Con. Res 3 – Budget Resolution
- Budget Reconciliation/Byrd Rule
- Statutory Pay-As-You-Go Act of 2010 (PAYGO)

Gross Domestic Product – Value of the goods and services produced by the nation's economy, less the value of goods and services used in production.

S. Con. Res 3 - A concurrent resolution setting forth the congressional budget for 2017 and setting forth the appropriate budgetary levels for fiscal years 2018 through 2026. Provided for an increase in the deficit of $1.5 Trillion over 10 years.

Byrd Rule – Proposal must either increase revenues or reduce spending, and the changes cannot be merely incidental. Proposal cannot have any impact on Social Security.

Paygo – ensures that most new spending is offset by budget cuts or added revenue eslsewhere.

P.L. 115-97, an Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.

Also known as The Tax Cuts and Jobs Act of 2017 (the "Act")

Enacted December 22, 2017

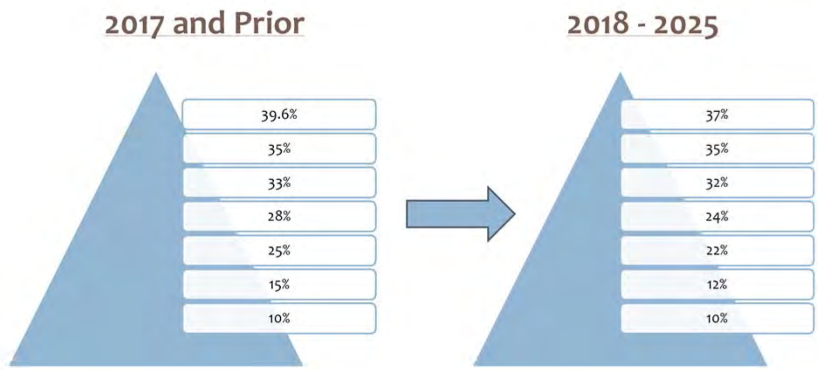
Important Reminders

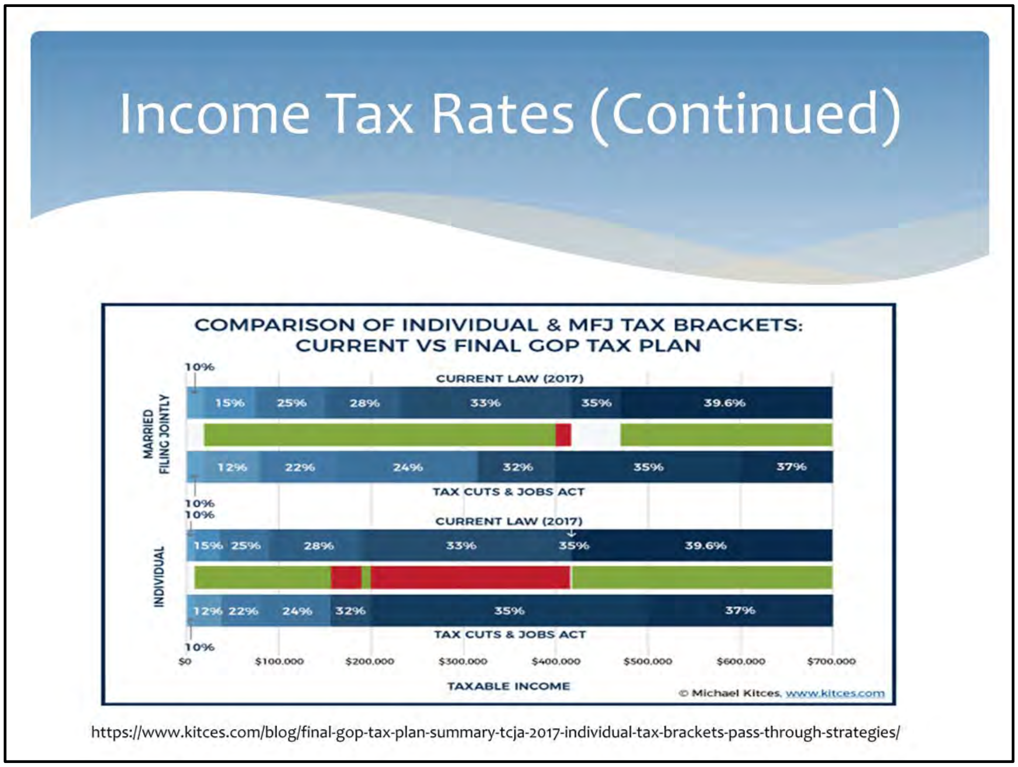
- Most provisions of the Act do not take effect until January 1, 2018.
- Most Individual provisions of the Act expire December 31, 2025.
- The Secretary of the Treasury will be required to issue regulations addressing many changes in the law.
  - Executive Order 13771

Alternative Inflation Adjustments

- The Act requires the use of the Chained Consumer Price Index for All Urban Consumers (C-CPI-U) to adjust tax parameters currently indexed by the CPI-U.
- C-CPI-U differs from CPI-U in accounting for the ability of individuals to alter their consumption patters in response to relative price changes.
- Generally results in a lower measure of inflation over time.

Income Tax Rates





Married filing separate tax rates continue to be ½ of the tax rates for married filing jointly.

Marriage penalty now applies once combined income exceeds $600,000 (33% bracket).
Under existing law, marriage penalty applied at $153,100 (25% bracket).

Capital Gains Rates

2017 and Prior

Capital gains rates are 0%, 15% and 20%. The applicable rate is determined based upon a taxpayer's filing status and where they fall in the respective income tax brackets.

2018 - 2025

Capital gains rates remain 0%, 15% and 20%. However, the thresholds are decoupled from the income tax tables and apply at specific dollar thresholds.

Maximum Zero Rate Amount	
Married Filing Joint or Surviving Spouse	77,200
Head of Household	51,700
Any other Individual	38,600

Maximum 15-Percent Rate Amount	
Married Filing Joint or Surviving Spouse	479,000
Married Filing Separate	239,500
Head of Household	452,400
Single	425,800

Net Investment Income Tax still applies – 3.8% on income in excess of $250,000.

Alternative Minimum Tax

2017 and Prior

- Taxpayers are allowed an exemption, as follows:

Filing Status	
Married Filing Joint or Surviving Spouse	84,500
Single or Head of Household	54,300
Married Filing Separately	42,250

- The exemption is phased out by an amount equal to 25% of the excess of the amount by which taxable income exceeds:

Filing Status	
Married Filing Joint or Surviving Spouse	160,900
Single or Head of Household	120,700
Married Filing Separately	80,450

2018 - 2025

- Taxpayers are allowed an exemption, as follows:

Filing Status	
Married Filing Joint or Surviving Spouse	109,400
Single or Head of Household	70,300
Married Filing Separately	54,700

- The exemption is phased out by an amount equal to 25% of the excess of the amount by which taxable income exceeds:

Filing Status	
Married Filing Joint or Surviving Spouse	1,000,000
Any other Taxpayer	500,000

Kiddie Tax

2017 and Prior

- Unearned income of child taxable at parent's marginal tax rate.

2018 - 2025

- Unearned income of child taxable at ordinary and capital gains rates applicable to estates and trusts.
- Child's tax is unaffected by the tax situation of the child's parent or the unearned income of any siblings.

Standard Deductions

2017 and Prior

- Standard deductions available based on a taxpayer's filing status, as follows:

Filing Status	
Married Filing Joint or Surviving Spouse	12,700
Head of Household	9,350
Any other Individual	6,350

2018 - 2025

- Standard deductions almost doubled:

Filing Status	
Married Filing Joint or Surviving Spouse	24,000
Head of Household	18,000
Any other Individual	12,000

No changes to additional standard deduction for elderly and blind ($1,550 per condition per taxpayer).

Personal Exemptions

2017 and Prior

- Taxpayers are entitled to a deduction of $4,050 per taxpayer, spouse and dependent listed on a return, subject to certain limitations.

2018 - 2025

- The deduction for personal exemptions is effectively suspended by reducing the exemption amount to zero.

Qualified Business Income Deduction

- The Act created a deduction, which is neither an itemized deduction nor an above the line deduction, equal to 20% of Qualified Business Income.
- Qualified business income means the net amount of qualified income, gain, deduction, and loss with respect to any qualified trades or businesses.
- Deduction reduces income subject to federal income taxes but not self-employment taxes or AMT.

Qualified Business Income Deduction (Continued)

- Various Limitations
  - Service Trade or Business
    - No deduction allowed if income of taxpayer exceeds \$207,500 if single or \$415,000 if married filing jointly.
  - Non-service Trade or Business
    - For single taxpayers with income in excess of \$157,500 or \$315,000 if married filing jointly, limited to the greater value of either 50% of their W-2 wages or the sum of 25% of their wages plus 2.5% of their depreciable property.

Itemized Deduction Increases

- **Medical Expenses** – For 2017 and 2018, medical expenses paid during the taxable year are deductible to the extent they exceed **7.5%** of adjusted gross income.
  - This limit returns to 10% beginning in 2019.
- **Charitable Contributions** – Cash contributions are limited to **60%** of a taxpayer's adjusted gross income.
  - Excess contributions may be carried forward 5 years.

Itemized Deduction Decreases

- State and Local Income Taxes Limited to $10,000
- Interest on home equity indebtedness disallowed
- Interest on acquisition indebtedness limited to $750,000 of principal
  - Applies to initial loans originated after December 15, 2017
- Suspends deduction for 2% miscellaneous itemized deductions.

Enhanced Child Tax Credit and New Family Credit

2017 and Prior

- Maximum child tax credit of $1,400 per qualifying child.

2018 - 2025

- Maximum child tax credit of $2,000 per qualifying child.
- Maximum credit of $500 per qualifying dependent other than children.
- Credit begins to phase out for taxpayers with adjusted gross income in excess of $400,000 (in the case of married taxpayers filing jointly) and $200,000 (for all other taxpayers).

Various Other Changes

- Alimony
- Discharge of Indebtedness on Student Loans
- Excess Business Losses
- Net Operating Losses
- Moving Expense Deduction
- 529 Distributions
- Rollover Between 529 & ABLE Account

Various Other Changes (Continued)

- Phase-Out of Itemized Deduction (Pease Limitation)
- Shared Responsibility Payment (Individual Mandate)
- Personal Casualty & Theft Losses
- Roth Recharacterization
- Plan Loan Offsets
- Carried Interest
- Bonus Depreciation

Various Other Changes (Continued)

- §179 Expense Election
- Like-Kind Exchanges
- Entertainment Expenses for Businesses

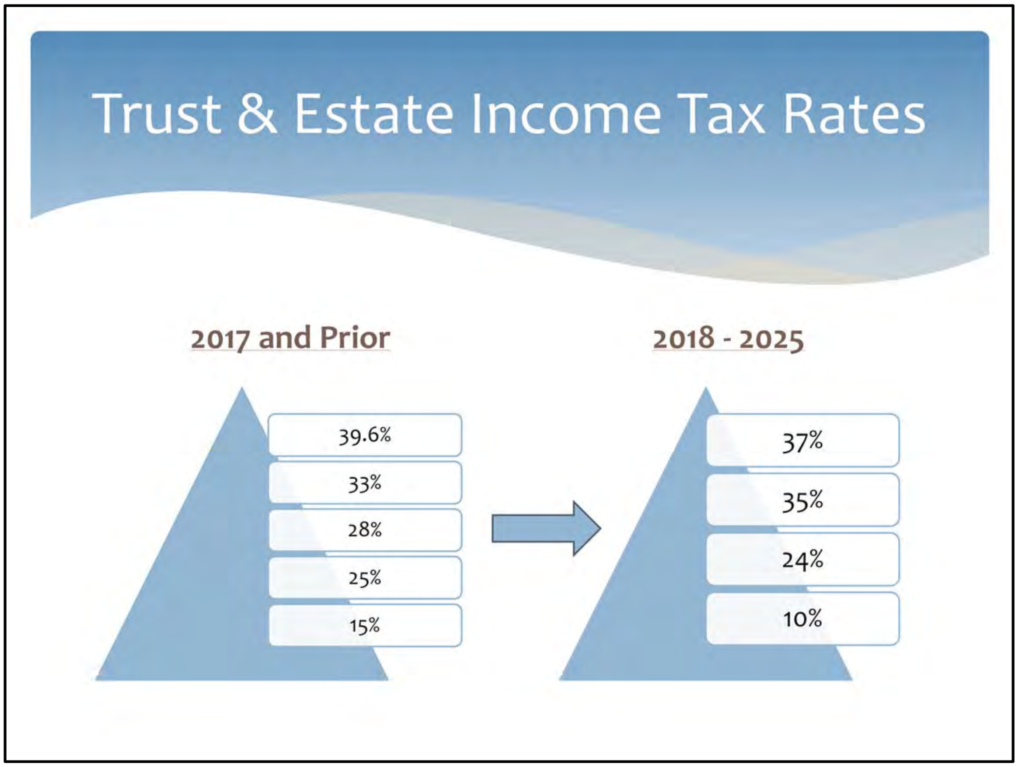
What is the Anticipated Impact?

Tax Cuts and Jobs Act
Distribution of Impact by Income Group (Average $ per Taxpayer)

Income Group	% Taxpayers in Group	Average $ Impact per Taxpayer				
		2019	2021	2023	2025	2027
Less than $10k	11%	79	305	396	462	533
$10k-20k	11%	7	391	516	547	799
$20k-30k	12%	-51	365	430	515	760
$30k-40k	9%	-298	19	157	178	483
$40k-50k	8%	-502	-196	-90	-42	384
$50k-75k	15%	-841	-680	-533	-506	141
$75k-100k	10%	-1,266	-1,156	-915	-906	-88
$100k to 200k	18%	-2,305	-2,114	-1,593	-1,526	-228
$200k to 500k	5%	-7,173	-6,578	-4,952	-4,930	-673
$500k to 1m	1%	-20,915	-18,475	-11,956	-11,434	-2,716
$1m+	0.3%	-64,580	-51,592	-17,104	-16,301	-14,181

Average taxpayer in highlighted group incurs a net cost ($)

Source Data: CBO and JCT


Trust & Estate Income Tax Rates
2017 and Prior
39.6%
33%
28%
25%
15%
2018 - 2025
37%
35%
24%
10%

Trust & Estate Capital Gains Rates

2017 and Prior

- Threshold below which 0% rate applies - $2,550
- Threshold below which 15% rate applies - $12,500

2018 - 2025

- Maximum Zero Capital Gains Rate Amount - $2,600
- Maximum 15-Percent Capital Gains Rate Amount - $12,700

Net Investment Income Tax still applies – 3.8%

Estate & Gift Tax Exemption

- The basic exclusion amount utilized in determining the unified credit for estate and gift tax purposes is doubled from $5,000,000 to $10,000,000, before adjustments for inflation.
  - For decedents dying in 2018, the basic exclusion amount will be $11,200,000, up from $5,490,000 in 2017.
- The annual gift tax exclusion is increased from $14,000 to $15,000 per person.

P.L. 115-119, An act to amend title 4, United States Code, to provide for the flying of the flag at half staff in the event of the death of a first responder in the line of duty.

Also Known as the Bipartisan Budget Act of 2018

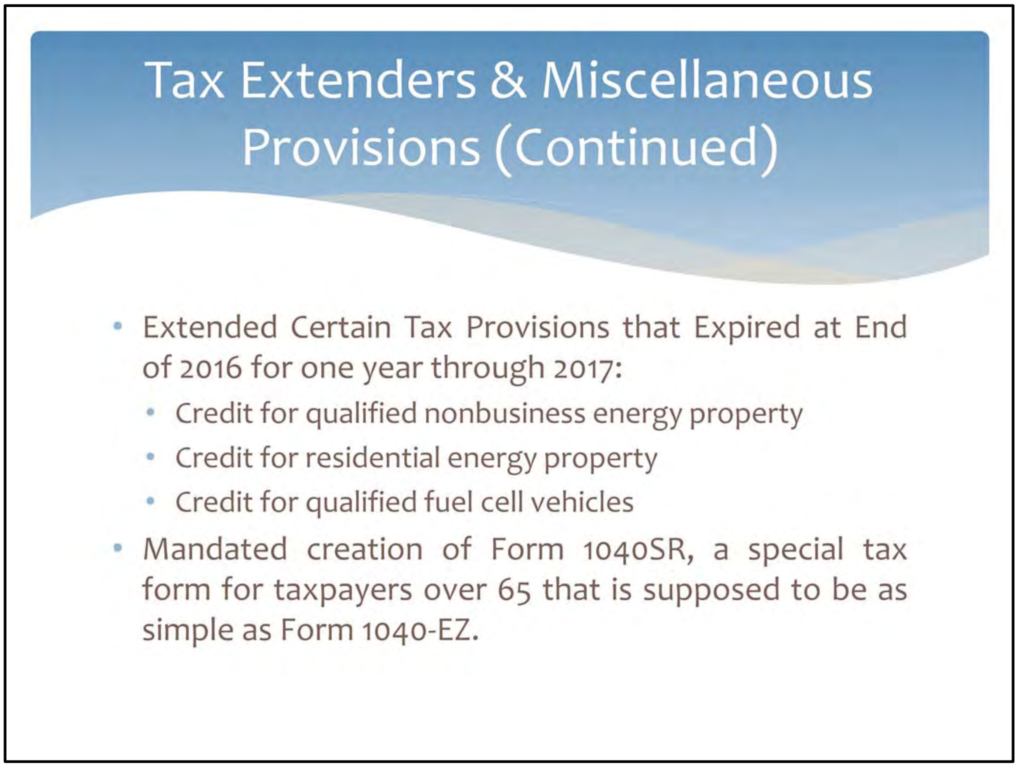
Enacted February 9, 2018

Tax Extenders & Miscellaneous Provisions

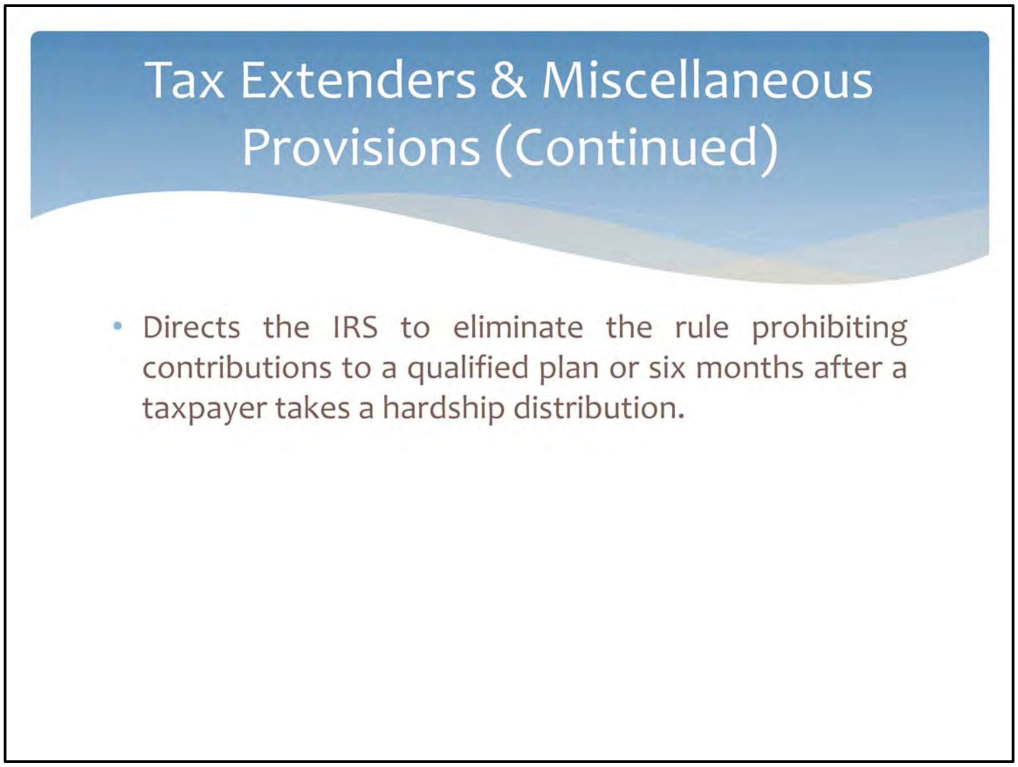
- Charitable contributions
  - For contributions made between October 8, 2017 and December 31, 2018, to a charitable organization for relief efforts in the California wildfire disaster area, the Act temporarily suspends the income percentage limitation and provides that those contributions will not be taken into account when applying the income limitation and carryover provisions to other contributions.

Tax Extenders & Miscellaneous Provisions (Continued)

- Extended Certain Tax Provisions that Expired at End of 2016 for one year through 2017:
  - Exclusion from gross income from discharge of indebtedness on qualified principal residence.
  - Treatment of mortgage insurance premiums as qualified residence interest.
  - Above-the-line deduction for qualified tuition and related expenses.

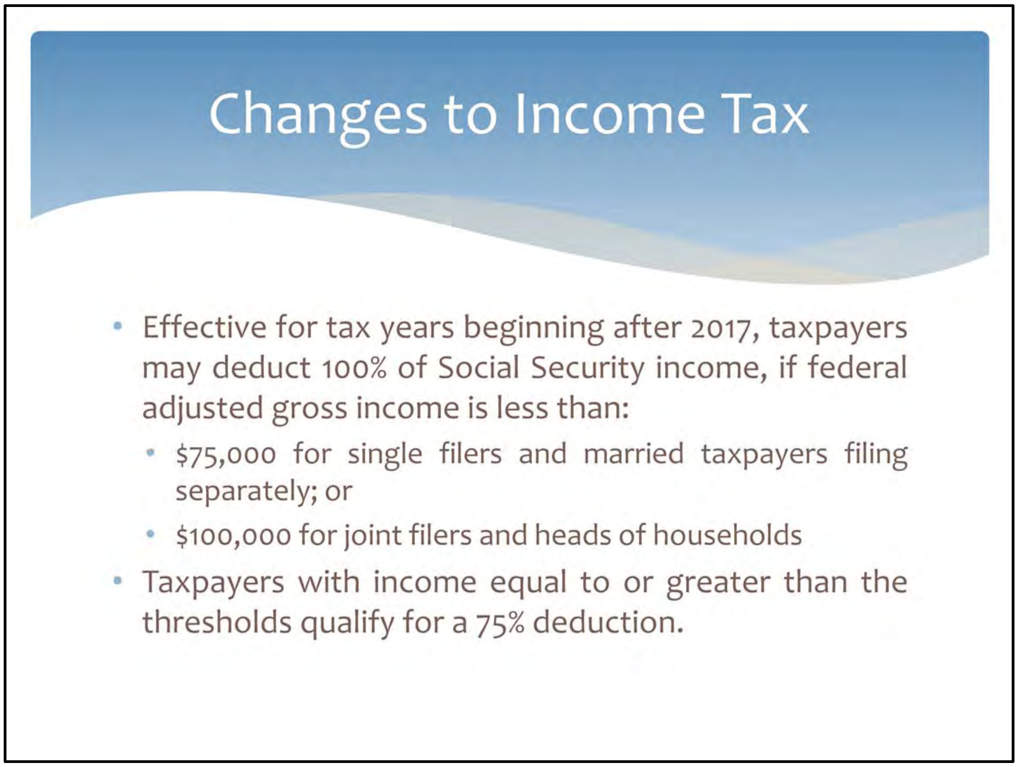


1040SR will allow for reporting of Social Security and Retirement Distributions



1040SR will allow for reporting of Social Security and Retirement Distributions

Updates for Connecticut Residents



Old thresholds were $50,00 - $75,000 for single filers and married taxpayers filing separately, and $60,000 to $100,000 for joint filers and heads of household.

Changes to Income Tax (Continued)

- Effective beginning with the 2019 tax year, taxpayers may deduct a portion of retirement income that is included in federal gross income, if federal AGI is below:
  - $75,000 for single filers, married taxpayers filing separately, and heads of households; or
  - $100,000 for joint filers

Changes to Income Tax (Continued)

- The deduction is equal to:

Tax Year	Deduction
2019	14%
2020	28%
2021	56%
2022	56%
2023	70%
2024	84%
2025	100%

Changes to Income Tax (Continued)

- An increase in the teacher retirement system income tax deduction from 25% to 50% is delayed from 2017 until 2019.
- The property tax credit for real estate taxes paid on a primary residence is limited to individuals, who:
  - Are age 65 or older before the year end; or,
  - May claim at least 1 dependent on their federal income tax.
- Exclusion from CT AGI for Crumbling Foundation Assistance.

Withholding on Pensions & Annuities

- Effective January 1, 2018, payers that maintain an office or transact business in Connecticut and make distributions of taxable pensions or annuities are require to deduct and withhold income tax from such distributions.
- Taxable distributions subject to withholding, include:
  - An employer pension;
  - An annuity;
  - A profit sharing plan;
  - A deferred compensation plan;
  - An individual retirement arrangement (IRA); and
  - A life insurance contract

Withholding is calculated using the same withholding table applicable to employers. Default withholding rate is 6.99% (highest marginal rate in CT.

Changes to Estate and Gift Tax

- On October 31, 2017, Governor Malloy signed into law changes to the Connecticut estate and gift tax law.
- Exemption will increase over a 3 year period to the applicable federal exemption amount.

Tax Year	Exemption Amount
2017	$2,000,000
2018	$2,600,000
2019	$3,600,000
2020	Federal Exemption

Changes to Estate and Gift Tax (Continued)

- Connecticut still does not allow for portability of unused exemption amounts between spouses.
- Connecticut budget was passed prior to Tax Cuts & Jobs Act
  - Will Connecticut decouple from Federal estate tax provisions again?
  - Will Connecticut tie its exemption amount to the anticipated federal estate tax at a specific point in time?