WILMINGTON TRUST

Tax Reform *Made Simple*?

A round-up of important highlights for the current tax law

Key Points

- Under current law, there are seven individual tax brackets, with the top rate at 37%
- The current estate, gift, and generation-skipping transfer tax exemption is $11,400,000 for individuals or $22,800,000 for married couples
- The standard deduction is $12,200 for individuals and $24,400 for married couples

In December 2017, President Trump signed into law the highly anticipated tax bill. Like most tax laws, it is neither positive nor negative in and of itself; rather, its effects will vary according to taxpayers' individual circumstances. Most of the law's provisions became effective on January 1, 2018, with numerous provisions expiring after 2025. The law is quite comprehensive and includes both personal and corporate tax changes. The following summary focuses on the key provisions applicable to high-net-worth individuals for 2019.

Tax brackets

The law has seven individual tax brackets, with the top rate at 37%. The top rate applies to single individuals whose taxable income is more than $510,300 a year and $612,350 for married couples.

Exemption

The estate, gift, and generation-skipping transfer (GST) tax exemption is $11,400,000 for individuals or $22,800,000 for married couples.

Deductions

The charitable deduction remains in place and enhances the charitable contribution deduction for gifts of cash to public charities, limiting the deduction to 60% of adjusted gross income (AGI). A provision now allows for a deduction for income earned through pass-through entities. This provision gives individuals the ability to deduct up to 20% of qualified business income from sole proprietorships, partnerships, LLCs, and S corporations. This results in an effective top tax rate of 29.6%.

The standard deduction is currently $12,200 for individuals and $24,400 for married couples. The current law limits itemized deductions, which can have a profound effect on those living in high income-taxed and high property-taxed states. These limitations include reducing the ability to deduct state and local income, sales, and property taxes; more specifically, individuals

	Current Law for 2019
Ordinary Income Rates	Seven brackets: top rate of 37% for income above $510,300 (single); $510,300 (head of household); $612,350 (married); $306,175 (married filing separate); indexed for inflation after 2018; reverts to old law after 2025
Standard Deduction	$12,200 (single and all other taxpayers); $18,350 (head of household); $24,400 (married); indexed for inflation after 2018; reverts to old law after 2025
Itemized Deductions	Limits combined deductions for state and local income, sales, and property tax to $10,000; reverts to old law after 2025
Mortgage Interest Deduction	Limits home mortgage interest deduction for new purchases from 2018–2025 to $750,000 of debt for first and second residences; repeals deduction for home equity interest
Estate, Gift, and GST Tax and exemption	Retains tax rate; increases exemption to approximately $11,400,000, reverts to old law after 2025
Charitable Deduction	Charitable contributions of cash gifts to public charities are deductible up to 60% of adjusted gross income; reverts to old law after 2025
Section 529 Plans	Permits additional yearly distribution of $10,000 for elementary and secondary schools

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can deduct only up to $10,000 for state and local taxes on their federal tax returns. This is especially important for those high-net-worth individuals who live in states where state and local income and property taxes are some of the highest in the country. Further, the current law does not allow the ability to claim separate $4,050 personal exemptions—one for the taxpayer, the taxpayer's spouse, and each dependent.

For mortgages obtained after December 31, 2017,
the deduction for the interest paid on new mortgages on principal and secondary residences remains; the maximum deductible amount is $750,000. The current law does not allow the ability to deduct interest from home equity loans.

529 Plan distributions

Parents who take advantage of 529 savings plans to pay for their children's college expenses have the flexibility to take an additional yearly $10,000 plan distribution and use the funds to cover the cost of private elementary and secondary schools.

Wilmington Trust understands that any changes to the tax code can be complex and difficult to comprehend. We are here to help you understand how the current law may affect you and what planning strategies may be used to meet your personal goals.

