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PLDO Tax and Estate Lawyer Gene M. Carlino Releases “Top 10” Significant Changes to the IRS Tax Code with the Historic Tax Reform Bill

Rhode Island – December 22, 2017 - Pannone Lopes Devereaux & O'Gara LLC ([PLDO](#)) Partner Gene M. Carlino, a prominent tax and estate attorney, has released a comprehensive “Top 10” list of the most significant changes to the IRS Tax Code for consumers to be aware of under the landmark “Tax Cuts and Jobs Act.” The list is below and can be accessed online at [here](#).

1. Lower Individual Income Tax Rates and Child Care Tax Credit

a. Starting in 2018, income tax rates are dropping on average 3% across the board from 39.6% to 37% for the highest earners and from 15% to 12% for those at the lowest earnings level. Tax bracket break points have been raised as well so that it will now take more income under the new law to jump up in brackets. One aspect of the bracket adjustments should be noted, however. Under current law the brackets are automatically adjusted upwards slightly each year by an established economic measure to account for inflation. Under the new law, the standard used to make this upward adjustment has changed from the Consumer Price Index to something called the Chained Consumer Price Index. This is a slower moving index which will result in smaller bracket increases over time as incomes rise making it easier to jump to the next higher bracket sooner than would otherwise have occurred if the current standard is used.

b. The exemption allowed for children has been eliminated and replaced with a larger child tax credit of up to \$2,000 per child. The credit can also result in a refund of up to \$1,400. Apparently, this provision was central to gaining support from Senator Mark Rubio, without which the entire legislation appeared doomed.

Both the individual rates and the child care tax credit sunsets in 2025, so absent further Congressional action legislation they will be automatically repealed after 2025.

2. Standard and Itemized Deductions

a. \$10,000 Limit on State and Local Tax Deductions: Starting in 2018, those who itemize will now only be able to deduct up to \$10,000 in property tax and state income and sales tax. Reducing itemization in the bill's proponents' view will simplify the tax filing process.

b. Expansion of Medical Expense Deduction: Under the new law the floor for deductible medical expenses is lowered to 7.5% of adjusted gross income from its current level of 10%. Individuals with large out of pocket medical expenses will be able to more easily deduct those expenses This provision only applies for 2018 and 2019. For tax year 2020 it reverts to its 2017 level of 10%.

c. Larger Standard Deduction: The standard deduction has been increased to \$12,000 for single taxpayers and \$24,000 for married taxpayers. This provision also sunsets after 2025. The increased standard deduction along with the child care tax credit is intended to offset the loss of the dependent child exemption and encourage fewer people to itemize, which Republicans posit will make the tax return preparation process easier.

3. \$750,000 Limit on Mortgage Interest Deductions

Starting in 2018, interest on new mortgages on a first and second home is only deductible on the first \$750,000 borrowed. This provision will not affect existing mortgages. Under current law the principal limitation is \$1,000,000. This provision will also sunset after 2025.

4. Lower Corporate Tax Rates and Expensing

The top corporate rate has dropped from 35% to 21%. Interestingly, this provision is not subject to the sunset provisions, and therefore will not require Congressional action to be maintained. In fact, it is just the opposite in that it can only be changed with express Congressional action.

5: Repatriation Incentives

Perhaps among the most hotly debated parts of the new legislation are provisions intended to encourage U.S. corporations to repatriate earnings from foreign subsidiaries. Currently the US corporate tax system taxes U.S. resident multi-national corporations on world-wide income. Dividend distributions from those subsidiaries to the U.S. parent are presently taxed at the U.S. corporate rate. The new law abandons the worldwide tax system for a new territorial regime. In principle, the new system only taxes corporate income earned in the U.S. It does this by allowing an exemption for dividends from foreign subsidiaries. The act imposes a new onetime transition tax on accumulated overseas profits. The onetime tax rate ranges between 15.5% and 8% percent.

Those who disfavor this provision argue it will encourage over-seas expansion where labor costs are lower if profits can then be repatriated without tax cost. Proponents conversely argue it will encourage U.S. corporations to withdraw that capital and use it in the U.S. to expand operations and increase jobs

domestically. Proponents also argue the U.S. will become a more effective competitor for international companies in selecting a country in which to establish a business.

6. AMT Reform

The corporate alternative minimum tax under the new bill has been repealed. The corporate minimum tax is intended to ensure that all corporate taxpayers pay some measure of income tax. Taxable income is calculated removing certain so-called preference items such as certain deductions and credits. A tax is then imposed on the newly determined alternative minimum taxable income.

Individual alternative minimum tax was not repealed under the new bill, however the level of income above which it is applied has been relaxed. Under current law, a single filer can exempt \$54,300 and a married filing joint filer \$84,500 as married filing joint. The new bill increases those exemptions to \$70,300 and \$109,400. Also, under current law if a single filer made more than \$120,700 or a married joint filer more than \$160,900 they lose the benefit of the exemption amount and the alternative minimum tax is applied to their entire income. The new bill increases those phase out levels to \$500,000 and \$1,000,000.

7. Charitable Deduction Expanded

Under current law charitable contribution deductions are limited to a maximum of 50% of adjusted gross income with the balance able to be carried forward for five years. Under the new bill this limit has been increased to 60%. For a large donor approaching end of life, this additional carrot of being able to use more of the deduction, combined with the estate tax effects of charitable giving, may be enough to incentivize that donor to go forward with a large charitable contribution that he or she might otherwise not make.

8. Individual Health Insurance Mandate Repealed

Under the Obama Administration Affordable Care Act, all individuals must purchase health insurance or pay penalty in the form of a tax. This provision is known as the individual mandate. Under the new bill the individual mandate is repealed starting in 2019.

9. Estate Tax Not Repealed But Exemption Doubled

Under the new bill the estate tax which currently applies to an individual with an estate over \$5.6 million remains in effect. However, the exemption has been increased to \$11.2 million or \$22.4 million for a married couple.

10. 20% Pass Through Entity Deduction

Under the new bill, small business owners have been given relief. Those that operate under S corporation, sole proprietorship or partnership form, so-called flow through entities, do not pay tax at the entity level; rather income from the operations of the entity flows through and is reported on the owner's personal income tax return. The new bill provides an exclusion from income for 20% of the

amount of the entity's income otherwise reportable on the owner's return. The deduction is limited for individuals in service industries such as doctors, lawyers and accountants. Once income reaches \$315,000, the deduction begins to phase out.

For more information, contact PLDO Partner [Gene M. Carlino](#) at 401-824-5100 or gcarlino@pldolaw.com. Attorney Carlino has more than 25 years of experience in all areas of estate and tax planning, including advising and advocating for clients in matters involving federal and state taxation and representing individuals before the IRS in contested assessments. For information about PLDO, visit www.pldolaw.com and follow us on LinkedIn, Twitter and Facebook.

About Pannone Lopes Devereaux & O’Gara LLC

Pannone Lopes Devereaux & O’Gara (“PLDO”) attorneys are highly skilled with a proven track record of achievement representing clients in respect to complex matters. The founders of PLDO were formerly partners in an international law firm and they are all trained in multiple disciplines. The primary areas of practice for the firm include business law, special masterships, government relations and legislative strategies, civil litigation, real estate development, commercial lending, municipal law, nonprofit law, health care, white collar defense, estate planning, probate administration and trust litigation. The core values of respect, integrity, quality service and responsiveness are stressed each day at PLDO and the firm is committed to supporting the community in a meaningful way. The firm is headquartered at 1301 Atwood Avenue in Johnston, RI with offices in Massachusetts and Florida. For more information, visit www.pldolaw.com.