

IT'S YOUR LIFE

Opportunities after the new "Tax Cuts and Jobs Act"

The "Tax Cuts and Jobs Act," which was passed by Congress in December, 2017, made significant changes to individual, business and estate taxes, and became effective as of January 1, 2018. While the business related provisions are considered permanent, the individual and estate tax provisions only remain in effect until December 31, 2025, when they are subject to a "sunset" and will revert back to 2017 law.

Here are a few of the major changes that could impact you and your business in the coming year:

Individual Taxes

There are still seven tax brackets, but the rates have changed to 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

The standard deduction increased to \$12,000 for Single taxpayers, \$18,000 for Head of Household and \$24,000 for Married Filing Jointly.

Personal exemptions are eliminated.

Itemized deductions for state and local taxes and mortgage interest are limited; the deduction for miscellaneous itemized deductions (subject to the 2% of AGI) is eliminated.

Taxpayers who receive pass-through business income from sole proprietorships, partnerships, S corps and LLCs electing to be taxed as a partnership or S corp may receive a 20% deduction, which essentially reduces the top marginal rate to 29.6%. Owners of certain types of pass-through service businesses are subject to income limitations and may not be eligible for the deduction.

Estate Taxes

The estate and gift tax exclusion amount is increased from \$5 million to \$10 million per person. Indexed for inflation, this amount is \$11.2 million per person in 2018 (\$22.4 million per married couple).

The annual gift tax exclusion increased from \$14,000 to \$15,000.

Business Taxes

The corporate tax rate is reduced to a flat 21%.

The corporate Alternative Minimum tax (AMT) is repealed.

The amount that can be expensed in the current year under Code §179 (rather than depreciated over time) increased to \$1 million.

Deductions for business-related entertainment expenses and employee transportation fringe benefits are eliminated.

These changes bring a wide range of both questions and opportunities for business owners. "Is my business better off being a pass through entity (like an S corp or LLC) or a C corp?" "Do the potential tax savings to my business this year support an increase in wages for my employees?" "Are there increased opportunities for implementing employee retention strategies (like a Private Bonus or Split Dollar plan)?" Talk to your attorney and/or CPA for information about how the Tax Act might impact you and your business based on your individual situation.

This article is for general information and risk prevention recommendations only and should not be considered legal, coverage, financial, tax, or medical advice. The information may be subject to regulations and restrictions in your state. There is no guarantee following these recommendations will help reduce or eliminate losses. The information is accurate as of its publication date and is subject to change. Qualified counsel should be sought regarding questions specific to your circumstances. All rights reserved.

It's Our Business to Protect Yours
FEDERATED
INSURANCE

Federated Mutual Insurance Company • Federated Service Insurance Company*
Federated Life Insurance Company • Federated Reserve Insurance Company* • Granite Re, Inc.*
federatedinsurance.com | *Not licensed in all states. © 2018 Federated Mutual Insurance Company