RAYMOND JAMES

COMPARISON OF PRIOR TAX LAW WITH THE TAX CUTS AND JOBS ACT

After making its way through Congress and seeing numerous last-minute tweaks, the tax reform bill was approved by Congress and then signed by President Trump on December 22, 2017. The new tax rates and countless other provisions generally took effect on January 1, 2018. The charts beginning on the following page, aimed at individuals and businesses, provide insight into changes made and provisions left intact. They provide brief explanations of past tax law and the Tax Cuts and Jobs Act of 2017, as well as insight from Raymond James thought leaders.

The following charts illustrate the difference in the 2018 income tax brackets for the various filing statuses under the new tax laws versus what it would have been without these tax law changes:

SINGLE FILER (SF)

<table>
<tr><th>2018 Taxable Income</th><th>New</th><th>Old</th></tr>
<tr><td>$0 - $9,525</td><td>10%</td><td>10%</td></tr>
<tr><td>$9,525 - $38,700</td><td>12%</td><td>15%</td></tr>
<tr><td>$38,700 - $82,500</td><td>22%</td><td rowspan="2">25%</td></tr>
<tr><td>$82,500 - $93,700</td><td rowspan="2">24%</td></tr>
<tr><td>$93,700 - $157,500</td><td rowspan="2">28%</td></tr>
<tr><td>$157,500 - $195,450</td><td rowspan="2">32%</td></tr>
<tr><td>$195,450 - $200,000</td><td rowspan="2">33%</td></tr>
<tr><td>$200,000 - $424,950</td><td rowspan="3">35%</td></tr>
<tr><td>$424,950 - $426,700</td><td>35%</td></tr>
<tr><td>$426,700 - $500,000</td><td rowspan="2">39.6%</td></tr>
<tr><td>$500,000+</td><td>37%</td></tr>
</table>

MARRIED FILING JOINT (MFJ)

<table>
<tr><th>2018 Taxable Income</th><th>New</th><th>Old</th></tr>
<tr><td>$0 - $19,050</td><td>10%</td><td>10%</td></tr>
<tr><td>$19,050 - $77,400</td><td>12%</td><td>15%</td></tr>
<tr><td>$77,400 - $156,150</td><td rowspan="2">22%</td><td>25%</td></tr>
<tr><td>$156,150 - $165,000</td><td rowspan="2">28%</td></tr>
<tr><td>$165,000 - $237,950</td><td rowspan="2">24%</td></tr>
<tr><td>$237,950 - $315,000</td><td rowspan="3">33%</td></tr>
<tr><td>$315,000 - $400,000</td><td>32%</td></tr>
<tr><td>$400,000 - $424,950</td><td rowspan="3">35%</td></tr>
<tr><td>$424,950 - $480,050</td><td>35%</td></tr>
<tr><td>$480,050 - $600,000</td><td rowspan="2">39.6%</td></tr>
<tr><td>$600,000+</td><td>37%</td></tr>
</table>

HEAD OF HOUSEHOLD (HOH)

<table>
<tr><th>2018 Taxable Income</th><th>New</th><th>Old</th></tr>
<tr><td>$0 - $13,600</td><td>10%</td><td>10%</td></tr>
<tr><td>$13,600 - $51,800</td><td>12%</td><td>15%</td></tr>
<tr><td>$51,800 - $82,500</td><td>22%</td><td rowspan="2">25%</td></tr>
<tr><td>$82,500 - $133,850</td><td rowspan="2">24%</td></tr>
<tr><td>$133,850 - $157,500</td><td rowspan="3">28%</td></tr>
<tr><td>$157,500 - $200,000</td><td>32%</td></tr>
<tr><td>$200,000 - $216,700</td><td rowspan="4">35%</td></tr>
<tr><td>$216,700 - $424,950</td><td>33%</td></tr>
<tr><td>$424,950 - $453,350</td><td>35%</td></tr>
<tr><td>$453,350 - $500,000</td><td rowspan="2">39.6%</td></tr>
<tr><td>$500,000+</td><td>37%</td></tr>
</table>

MARRIED FILING SEPARATE (MFS)

<table>
<tr><th>2018 Taxable Income</th><th>New</th><th>Old</th></tr>
<tr><td>$0 - $9,525</td><td>10%</td><td>10%</td></tr>
<tr><td>$9,525 - $38,700</td><td>12%</td><td>15%</td></tr>
<tr><td>$38,700 - $78,075</td><td rowspan="2">22%</td><td>25%</td></tr>
<tr><td>$78,075 - $82,500</td><td rowspan="2">28%</td></tr>
<tr><td>$82,500 - $118,975</td><td rowspan="2">24%</td></tr>
<tr><td>$118,975 - $157,500</td><td rowspan="3">33%</td></tr>
<tr><td>$157,500 - $200,000</td><td>32%</td></tr>
<tr><td>$200,000 - $212,475</td><td rowspan="3">35%</td></tr>
<tr><td>$212,475 - $240,035</td><td>35%</td></tr>
<tr><td>$240,025 - $300,000</td><td rowspan="2">39.6%</td></tr>
<tr><td>$300,000</td><td>37%</td></tr>
</table>

TRUST & ESTATES

<table>
<tr><th>2018 Taxable Income</th><th>New</th><th>Old</th></tr>
<tr><td>$0 - $2,550</td><td>10%</td><td rowspan="2">15%</td></tr>
<tr><td>$2,550 - $2,600</td><td rowspan="3">24%</td></tr>
<tr><td>$2,600 - $6,100</td><td>25%</td></tr>
<tr><td>$6,100 - $9,150</td><td rowspan="2">28%</td></tr>
<tr><td>$9,150 - $9,300</td><td rowspan="2">35%</td></tr>
<tr><td>$9,300 - $12,500</td><td rowspan="2">33%</td></tr>
<tr><td>$12,500 - $12,700</td><td rowspan="2">37%</td></tr>
<tr><td>$12,700+</td><td>40%</td></tr>
</table>

LTCG-QUAL. DIV. TAX RATE

<table>
<tr><th rowspan="2">LTCG/ Qual. Div. Tax Rate</th><th colspan="2">Long Term Capital Gain/ Qualified Divident Income</th></tr>
<tr><th>MFJ</th><th>SF</th></tr>
<tr><td>0%</td><td>$0 - $77,200</td><td>$0 - $38,600</td></tr>
<tr><td>15%</td><td>$77,200 - $479,000</td><td>$38,600 - $425,800</td></tr>
<tr><td>20%</td><td>$479,000+</td><td>$425,800+</td></tr>
</table>

INCOME TAXATION FOR INDIVIDUALS

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Ordinary Income: Ordinary income was taxed at seven marginal brackets (10%, 15%, 25%, 28%, 33%, 35% and 39.6%). Top rate applied to income over $466,950 MFJ $415,050 SF.	Maintains 7 tax brackets, indexed for inflation, but with a new 37% top rate, although rates are changed to 10%, 12%, 22%, 24%, 32%, 35% and 37%. The 37% bracket begins at $600,000 MFJ and $500,000 SF (see tax brackets on page 1 for more detail). Expires in 2026, and then the rates and brackets revert to prior law.	The reductions in the personal income tax rates, as are most other individual income tax law changes, are temporary and will expire in 2026, absent future legislative action.
Kiddie Tax: The unearned income of a child (under age 18 or a full-time student age 19-23) in excess of $2,100 was taxed at the parent's highest marginal tax rate, rather than the child's marginal tax rate.	Applies ordinary and capital gains rates for trusts & estates to a child's net unearned income, while the child's earned income is taxed on the individual tax brackets for single filer (see single filer tax bracket on page 1). However, the definition of "child" for tax purposes has not changed. Expires in 2026.	The new law generally simplifies the manner in which the kiddie tax is calculated. The highly-compressed tax brackets for trusts and estates are now used to calculate tax on a child's unearned income, while earned income is now taxed under the brackets for single individuals.
Long-Term Capital Gain and Qualified Dividend Income: Maximum rate for both was 20% for taxpayers in top bracket and 15% for those in lower brackets. Taxpayers in bottom two brackets paid 0%. Nonqualified dividends were taxed at ordinary rates.	Retains the same three rates previously in effect for net long term capital gains and qualified dividends (0%, 15% and 20%) although the rates no longer map perfectly by tax bracket as they did (see tax brackets on page 1).	Qualified dividends are generally dividends from unhedged shares in U.S. corporations and certain qualified foreign corporation held for at least a specified minimum period of time. Nonqualified dividends are taxed at ordinary rates.
Specific Identification of Securities Sold or Donated to Charity: Investors could have selected which portion of a securities holding to sell (e.g., higher basis) thus minimizing taxes on gains or give to charity (e.g., lower basis) and maximizing extent to which gain escapes income taxation. Investors could avoid paying capital gains tax on appreciated securities given to charity but still deduct the full value.	The Senate version included a provision which would have required investors selling, or giving to charity, part of a holding where securities were acquired at different prices to assume shares are disposed on a "first-in, first-out," or FIFO, basis (although it would not have applied to investors in mutual funds and dividend reinvestment plans who use the average cost method to determine gain). This provision was eliminated during conference and not included in the final tax bill.	Since this provision was removed from the bill, investors are still able to analyze investments bought over time and determine the most appropriate tax lot to use for cost basis purposes on securities sales (or donations), which preserves an important planning tool for investors.
Standard Deduction: In lieu of itemizing, can deduct $13,000 MFJ, $6,500 SF, and $9,550 HOH. Head of Household (HOH) refers to a SF with a child.	Consolidates standard deduction and personal exemption into larger (almost doubled) standard deduction, now inflation-adjusted: $24,000 MFJ, $18,000 HOH and $12,000 SF. Expires in 2026.	Eliminating/limiting most itemized deductions and doubling the standard deduction could impact charitable giving as fewer individuals could benefit from taking the charitable deduction. Of course, this should simplify recordkeeping for many individuals. However, taxpayers who claim the standard deduction after 2017 may not get any tax benefit from charitable donations.

INCOME TAXATION FOR INDIVIDUALS, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Personal Exemption: $4,150 per person, phased out for higher income taxpayers.	Eliminated (although consolidated into Standard Deduction as noted above). Expires in 2026.	The repeal of the personal exemption and increase in the standard deduction could result in some tax savings for some taxpayers.
Itemized Deductions: Taxpayers can claim the greater of the standard deduction or total itemized deductions, such as medical expenses, state and local income and property taxes, mortgage and investment interest expense, and charitable contributions.	Eliminates all itemized deductions except medical expenses*, mortgage interest*, state & local taxes* and charitable contributions. Expires in 2026.	While about 30% of taxpayers currently itemize deductions, the number is expected to drop significantly due to the increased standard deduction.
Phase out of Itemized Deductions (Pease Limitation): Higher income taxpayers lost a portion of itemized deductions in an amount equal to the lesser of 3% of the excess of adjusted gross income (AGI) over an applicable threshold ($320,000 MFJ and $266,700 SF) or 80% of itemized deductions.	Repealed through 2025, but will be reinstated on January 1, 2026.	While the Pease limitation did not cap the amount of itemized deductions that were claimed, it did gradually reduce the amount that were deductible based on the extent AGI exceeded a threshold.
Itemized Deductions: Medical Expenses Itemizers could have deducted qualifying medical expenses to the extent they exceeded 10% of AGI, or 7.5% if age 65 or older.	Retains deduction with the AGI floor reduced to 7.5% for 2017 and 2018 and returning to current 10% limit thereafter (except for taxpayers age 65 or older for whom the 7.5% floor will remain in place).	Medical expense deductions are retained with the floor percentage temporarily reduced for two years. So, the change will make it easier to deduct these expenses for 2017 and 2018. This is one of the few changes that impacted 2017.
Itemized Deductions: Mortgage Interest Itemizers could have deducted interest expense for up to two homes on qualified mortgage debt up to $1 million plus an additional $100,000 of home equity debt.	Retains interest deduction on up to $1 million of mortgage debt for homes acquired before 12/15/17 but limits the deduction for new purchases to mortgage debt of $750,000. This deduction is still allowed for up to two homes. However, the deduction for interest on home equity debt is eliminated except when used to buy, build or substantially improve the taxpayer's home that secures the loan (Internal Revenue Service Bulletin 2018-32). Expires in 2026.	Pre-12/16/17 mortgages are grandfathered and new purchase money mortgages are grandfathered if the purchase contract is dated before 12/16/17 and other conditions are met. This provision could affect homebuyers with larger mortgages, such as the West and East coasts.
Itemized Deductions: State and Local Taxes (SALT) Itemizers could have deducted state & local income taxes or sales tax, as well as state & local real & personal property taxes, in the year paid.	The itemized deduction for state and local taxes is capped at $10,000 per year. While this includes state income or state sales tax plus property taxes, any property or sales taxes paid in connection with a business (e.g., sole proprietorship, rental property or farm) remain fully deductible against business income. However, foreign real estate taxes are no longer deductible.	The Act closed a loophole eliminating the benefit of prepaying 2018 state & local income taxes to get a full deduction in 2017, ahead of the $10,000 cap next year. However, this should not prevent a 2017 deduction for the balance of 2017 state income taxes or 2018 state property taxes paid before yearend. Likewise, this should not prevent accelerating the deduction of property taxes for future years.

INCOME TAXATION FOR INDIVIDUALS, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Itemized Deductions: Cash Charitable Donations Annual deduction for cash donations to public charities was limited to 50% of AGI.	Increases AGI percentage limitation for cash contributions to public charities to 60% from current 50%. Expires in 2026.	The 5-year carryover of unused deductions and the 30% AGI limitation for contributions of appreciated capital gain property remain unchanged.
Itemized Deductions: Charitable Donations Securing College Athletic Event Seating Rights Charitable contributions that secured college athletic event seating rights were only deductible to the extent of 80%.	Fully repeals the deduction. This provision is permanent.	It will be interesting to see whether this provision will have a chilling effect on ticket sales to college athletic events.
Itemized Deductions: Casualty and Theft Losses Personal casualty and theft losses were deductible to the extent they exceeded 10% of AGI.	The casualty loss deduction, which is subject to a 10% floor, is also eliminated, except for losses from federally-declared disasters. The personal theft loss is repealed entirely. Expires in 2026.	Beginning in 2018, casualty losses are deductible only if the loss is attributable to a presidentially-declared disaster, and then only deductible to the extent the loss exceeds 10% of AGI.
Itemized Deductions: Miscellaneous 2% Deductions Other deductions such as unreimbursed employee business expenses, home office expenses, licensing/regulatory fees, professional dues, investment advisory fees, trustee fees (including fees paid for an IRA), tax preparation fees and safe deposit box fees were deductible to the extent they exceed 2% of AGI.	Eliminates all miscellaneous itemized deductions subject to the 2% AGI floor. Expires in 2026.	While the elimination of all these deductions may appear shocking on its face, the fact is many taxpayers never realized any actual benefit from these deductions since the total deductions didn't exceed the 2% AGI limit in most situations.
"Above-the-Line" Deductions: Above-the line deductions (which affect AGI) were available whether or not one itemized (which do not effect AGI). Examples included moving expenses, alimony, student loan interest and teacher out-of-pocket expenses for school supplies.	Eliminates most above-the-line deductions, such as most moving expenses (effective 2018) and alimony (effective 2019). Other above-the-line deductions, such as student loan interest and teacher expenses (up to $250), remain in place. Expires in 2026.	The alimony deduction is eliminated after 2018, and likewise, alimony is no longer taxable to the recipient spouse. These changes apply to divorce/separation agreements executed after 2018 and earlier agreements, which are modified after 2018 and expressly state the new law applies. The tax treatment of child support is not changed. In addition, the moving expense deduction is repealed except for military personnel.

INCOME TAXATION FOR INDIVIDUALS, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Alternative Minimum Tax (AMT): AMT is a separate income tax created to ensure high income taxpayers don't avoid paying any income tax as a result of deductions, losses and tax credits. It's generally calculated at a 28% rate and is only owed to the extent AMT exceeds regular federal income tax.	Retains the AMT but increases the exemption amounts ($109,400 MFJ and $70,300 SF) and raises the exemption phaseout threshold to $1 million MFJ and $500,000 SF. Both exemption and phase-out thresholds are indexed for inflation. Expires in 2026.	While the complex alternative minimum tax for individuals remains, it has been restructured in a way that is likely to impact far fewer individuals due to the increased exemptions and phase-outs.
Net Investment Income Tax (aka the Medicare Surtax): Net investment income was generally unearned income from sources in which an individual is not actively involved. The excess of this income over certain thresholds was taxed at 3.8%; thresholds: $250,000 MFJ and $200,000 SF.	No changes.	Interestingly, the 3.8% Medicare surtax on investment income remains in place even though the penalty for failing to maintain minimum essential health care coverage is eliminated after 2018.
Medicare Surtax on Earned Income: This additional 0.9% medicare tax on earned income exceeding a certain threshold ($250,000 MFJ and $200,000 SF) increased the employee's share from 1.45% to 2.35% but the employer's share remains at 1.45%.	No changes.	The 0.9% Medicare surtax on earned income above certain thresholds also remains in place.
Exclusion of Gain From Sale of Principal Residence: Could exclude capital gain up to $500,000 MFJ or $250,000 SF from sale of home as long as owned and resided in home for at least two of the last five years.	No changes.	Initially, the House and Senate versions of the bill would have restricted use of the exclusion to one sale every five years, instead of every two years, but the provison was subsequently dropped before the bill was finaled.
Child Tax Credit: Generally provided a nonrefundable tax credit up to $1,000 per child under age 17. The credit began to phase out at modified AGI (MAGI) of $110,000 MFJ and $75,000 SF. The credit is at least partially refundable to qualified taxpayers who earned more than $3,000 and were in the 10% bracket.	Increases child tax credit to $2,000 (per child under 17) with first $1,400 (inflation-adjusted) refundable, and all dependents ineligible for child tax credit are eligible for a new $500 nonrefundable temporary credit for certain non-child dependents. Both credits phase-out beginning at $400,000 MFJ and $200,000 SF. Expires in 2026.	In addition to doubling and otherwise improving the child tax credit, the act creates a new $500 tax credit for non-child dependents. The other dependent tax credit applies to several people adults support such as children over age 17, elderly parents, or disabled adult children. A Social Security number is required for each dependent.
Electric Car Tax Credit: Individuals could claim a credit up to $7,500, but the credit generally began to phase out after a manufacturer sells 200,000 vehicles.	No changes.	Although the House bill eliminated this credit, the final legislation is based on the Senate version which retained the credit.

INCOME TAXATION FOR INDIVIDUALS, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Individual Mandate of the Affordable Care Act (ACA): The Affordable Care Act of 2010 mandated individuals to acquire health insurance coverage which meets certain requirements. Individuals who didn't purchase health insurance and were not otherwise exempt paid a penalty equal to the greater of $695 or 2.5% of income.	Effectively repeals the individual mandate by reducing the penalty to $0, beginning in 2019. This provision is permanent. However, insurance policies that are currently available through the health care exchange programs will continue to be available.	By reducing the penalty to $0, beginning on January 1, 2019, this provision of the act effectively repeals the mandate.
Indexing for Inflation: Individual income tax provisions were indexed to the traditional, or normal, CPI (Consumer Price Index) measure of inflation.	Individual income tax provisions are now indexed to the chained CPI measure of inflation. This provision is permanent.	Since chained CPI is a slower-growing measure of inflation, deductions, credits and exemptions will be worth less in the future since the inflation-adjusted dollars would grow more slowly. It would also subject more income to higher tax rates in future years than would be the case under the previously-used indexing measure. Thus, this change essentially represents a hidden tax increase over time.
Sunset Provision: Not applicable.	Most individual tax changes automatically expire on January 1, 2026, and then reset to law in effect prior to the Act.	Although most of the individual provisions are only temporary, this indexing change is permanent.

INCOME TAXATION FOR BUSINESSES

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Income Tax Rates for Regular Corporations ("C" corporations): These corporations were not passthrough entities, had a top income tax rate of 35%, pay their own income tax and did not receive preferential tax treatment for long term capital gains and qualified dividends. Dividends paid to shareholders were taxed separately (i.e., double level of tax).	Reduces corporate income tax rate from a top marginal rate of 35% to a flat 21% (beginning in 2018). This provision is permanent.	The top rate of 21% is the lowest federal rate since 1939. This change is permanent, at least until the next time Congress changes the tax rates.

INCOME TAXATION FOR BUSINESSES, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Income Tax Rates for Passthrough Entities and Sole Proprietorships: Passthrough entities (S corporations, partnerships, LLCs and sole proprietorships) passed their income through to their individual owners, who paid income tax at individual rates, up to a maximum rate of 39.6%. Income, losses, deductions and credits of passthrough entities organized as separate legal entities, e.g., S corporations, partnerships and LLCs, were reported on Schedule K-1, which the individual owner then reports on Form 1040, Schedule E, whereas the income, etc. of sole proprietorships is reported directly on the individual's Form 1040, Schedule C, and taxed at individual rates up to 39.6%.	Individuals (and trusts and estates) may be able to deduct 20% of passthrough income with the balance, including wages, taxed at regular rates up to a new top tax rate of 37%, thus reducing the effective marginal tax rate to no more than 29.6%. Individuals below the income threshold ($315,000 MFJ and $157,500 SF) are eligible for the full deduction. But for those above the threshold, it depends on the type of business: (i) the deduction is phased-out entirely for people in certain "specified service businesses," such as athletics, accounting, investment, legal, medical, consulting and other service practices, but (ii) for other businesses, the deduction is limited to the greater of 50% of wages paid by the business or 25% of wages paid plus 2.5% of the value of the business's "qualified property" (i.e., tangible depreciable property). Expires in 2026.	Individual owners of passthrough service businesses (such as physician practices and accounting, law, financial services and other consulting firms where the primary asset is the reputation or skill or its employees; interestingly not architects and engineers) can only take the 20% deduction when income is less than the threshold. To discourage other high earners from recharacterizing regular wages as passthrough income, the deduction is capped at 50% of wages or 25% of wages plus 2.5% of cost of qualifying property, whichever is greater. Income paid as compensation to owners is not eligible for the deduction. Note the deduction applies to qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income. Trusts and estates are eligible for the deduction. Since this makes no distinction between active and passive business owners, it appears both benefit from this provision. Thus, despite Republican efforts for tax simplification, the passthrough rules remain complex.
Section 179 Expensing: Under Internal Revenue Code §179, small businesses could immediately expense the purchase of certain equipment (but not real property) up to $500,000 rather than depreciate the asset's cost over time.	Increases the amount of short-lived capital investment that small businesses can expense under §179 to $1 million and the phase-out threshold to $2.5 million of capital spending; these amounts are indexed for inflation beginning in 2018. After 2022, the 100% expense rate phases-out ratably over 5 years.	The §179 expense deduction doubles to $1 million with phase-out beginning after $2.5 million of equipment spending, up from $2 million.
"Bonus" Depreciation for New Equipment Purchases: Businesses could immediately write-off a portion (currently 40%) of the cost of qualified property (i.e., certain equipment) in the year purchased. The percentage (which was originally 50% in 2017) would decrease by 10% per year through 2020.	Increases the "first-year" depreciation deduction (or so-called "bonus depreciation") from 40% to 100% for property placed in service after Sept. 27, 2017, and before Jan. 1, 2023, with the deduction phased-down 20% per year from 2023 through 2027.	The new law allows full-expensing for the next five years of short-lived capital investments, rather than requiring them to be depreciated over time, changes the phase out by 20% a year thereafter.

INCOME TAXATION FOR BUSINESSES, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Deduction for Business Interest Expense: Business interest was generally deductible but subject to some limitations. While not limited for corporations, investment interest expense for non-corporate taxpayers was deductible to the extent of net investment income with excess carried forward indefinitely.	Limits a business's net interest expense deduction to 30% of adjusted taxable income, but does not apply to small businesses (those with income less than $25 million). Disallowed interest is carried forward indefinitely. Uses **EBITDA** (earnings before interest, taxes, depreciation and amortization) for four years (2018 through 2021) and then **EBIT** (earnings before interest and taxes) for the next four years (2022 through 2025), after which this provision resets to prior law.	Since EBITDA results in higher income and therefore a more generous cap on the interest that would be deductible, this provision will be more generous for the first four years, and then less generous based on EBIT for the next four years until this provision expires in 2026.
Deduction for Settlements of Sexual Harassment Claims: Expenses related to sexual harassment claims were deductible.	Companies can no longer deduct any settlements, payouts or attorneys fees related to sexual harassment if the payments are subject to non-disclosure agreements.	This amendment from Senator Bob Menendez (D-NJ) which arose from the "Me Too" movement made it into the final bill.
Like-Kind Exchanges: Compliance with specific provisions and time requirements allowed taxpayers to postpone immediate gain recognition from like-kind exchange of real property and certain types of personal property until a subsequent recognition event occurred.	Limits nonrecognition (i.e., deferral) of gain from §1031 like-kind exchanges to only real property that is not held primarily for sale. This provision is permanent.	The law continues to permit tax deferral on proceeds from sale of real property when the proceeds are properly invested in similar property but no longer for personal property.
Passive Activity Losses (PALs): Complicated tax rules generally limited deductible PALs to income from passive activities, with suspended losses carried over to later years.	Not addressed.	The tax act did not change the passive activity loss rules.
Alternative Minimum Tax (AMT): AMT was a separate income tax created to ensure high income businesses did not avoid paying any income tax as a result of deductions, losses and tax credits.	Eliminates the corporate AMT. This provision is permanent.	Although the individual AMT remains, the corporate AMT was permanently eliminated.
Net Operating Losses (NOLs): Individual NOLs could have generally been carried back 2 years and carried forward 20 years.	Limits NOL deduction to 80% of current year taxable income, generally eliminates carrybacks and now allows indefinite carryforward. This provision is permanent.	This provision generally eliminates the use of NOLs to completely eliminate taxable income in the year claimed and prevents the carryback of NOLs to generate an immediate income tax refund.

INCOME TAXATION FOR BUSINESSES, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Family and Medical Leave Tax Credit: Not applicable.	Generally allows businesses to claim a general business credit equal to 12.5% of wages paid after 2017 and before 2019 to qualifying employees on family and medical leave (FMLA). Since this credit only applies for wages paid during calendar years 2018 and 2019, this provision is only temporary.	All qualifying full-time employees must receive at least two weeks of annual paid family and medical leave, and all qualifying part-time employees must receive a commensurate amount of leave on a pro- rated basis. If employers meet certain additional requirements, the credit can be increased from 12.5% up to a maximum of 25%.
Carried Interests: Equity interests in partnerships awarded as a form of compensation to certain investment managers (such as principals of private equity firms and hedge funds) were taxed at preferential capital gain rates rather than as earned income taxed at ordinary rates.	Transfers of applicable partnership interests held for less than three years are treated as short term capital gain. This provision is permanent.	Hedge fund managers typically charge a 20% fee on profits above a certain hurdle rate, most commonly 8%. Those fees are treated as capital gains rather than ordinary income, meaning that as long as the securities sold have been held for a certain minimum period, they are taxed at a top rate of 20%, rather than at regular rates up to 37%. While the new law doesn't eliminate the "carried interest" loophole, it does require carried interests be held for at least three years in order to receive preferential long term capital gain tax treatment.
Taxation of Future Overseas Income: U.S. companies were subject to tax on all profits, no matter where earned, under the former worldwide system of taxation.	Generally switches from worldwide to a modified territorial system where U.S. companies would only pay tax on profits earned in the U.S. This provision is permanent.	This and other international tax provisions will dramatically change the way the U.S. taxes multinational entities. These reforms are intended to level the playing field and encourage the repatriation of large amounts of cash currently held offshore (see next row).
Taxation of Prior Overseas Income (i.e., Repatriation of Offshore Profits): The U.S. taxed multinational corporations on their global earnings at 35% but allowed them to defer taxes on those foreign earnings until they were brought back to the U.S., or "repatriated." Repatriated offshore profits were then taxed up to 35%	As a result of converting to a territorial system, the new law deems all currently deferred offshore corporate profits as repatriated and imposes on them a one-time repatriation tax at rates of 15.5% for profits held in cash or cash equivalents and 8% for reinvested foreign profits. Companies can make these tax payments in eight annual installments. This provision is permanent.	Although these offshore profits for prior years are now taxed under the new law which should generate significant tax revenue, the corporations can effectively defer the tax payments over an 8-year period.
Sunset Provision: Not applicable.	Most corporate tax reform proposals are permanent.	

RETIREMENT PLANS

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Retirement Accounts: There were annual limits on contributions and deductibility and generally no lifetime limit on contributions. Heirs could generally stretch distributions from inherited IRAs over their life expectancy.	Not addressed.	Generally, this was good news for IRA, 401(k) plan and other retirement plan investors as the tax benefits of these tax-deferred retirement accounts remain despite worries they would be curtailed.
Recharacterization of a Roth IRA Conversion: When individuals converted a traditional IRA to a Roth IRA, paid income tax on the conversion and due to a later decline in the Roth's value or a change in financial circumstances, they could have recharacterized (i.e., reverse or unwind) the conversion by October 15 of the year following the conversion.	Prohibits taxpayers from recharacterizing contributions to traditional IRAs as contributions to Roth IRAs or vice versa and from recharacterizing conversions of traditional IRAs to Roth IRAs. This provision is effective beginning in 2018 and is permanent. However, the new law does allow recharacterization of 2017 Roth conversion by the normal deadline in 2018.	This provision was intended to prevent the use of a recharacterization to unwind a less than favorable Roth conversion in which the value of the account declined from the value at the time of conversion on which income taxes were paid. But if a Roth conversion still makes sense, this change shouldn't dissuade clients from proceeding. The act does not prevent recharacterization of a contribution to a traditional or Roth IRA.
401(k) Plan Loans: Employees who had borrowed money from their 401(k) plan had to re-pay the loan in full within 60 days of terminating employment. If not fully repaid in time, the amount of the unpaid loan was treated as a "deemed distribution" resulting in a taxable distribution, plus the 10% early distribution penalty, if applicable.	Employees who have taken a plan loan now have until the due date for filing their personal income tax return for that year, plus extensions - instead of the previous 60 days - to avoid having the outstanding loan amount treated as a taxable plan distribution. Applies to employees whose plan terminates or who separate from employment while having an outstanding loan after 2017. This provision is permanent.	This provision created a kinder, gentler repayment rule for employer retirement plan loans. This very favorable change gives plan participants more time to repay plan loans when employment ends.

COMPENSATION & BENEFITS

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Qualified Equity Grants: Not applicable.	Creates a new election under §83(i) to defer gain recognition for up to 5 years for employees of non-public companies who are granted stock options or restricted stock units (RSUs) in connection with the performance of services; mechanics are similar to §83(b) election. Requires written plan providing grant to at least 80% of employees. However, this election is not available for certain employees, such as 1% owners, CEO and CFO. This provision is permanent.	This provision generally creates new qualified equity grant rules to allow private company employees to defer income recognition on certain stock options and RSUs. However, this deferral feature may see limited application since the options or RSUs must be granted to at least 80% of employees. The utility of the provision is further limited by the fact that significant owners and certain officers are not eligible to make this election. Further, employees may be reluctant to make this election since it could result in income recognition even if there's no liquidity event.

COMPENSATION & BENEFITS, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Deduction for Excessive Employee Compensation: $1 million annual limit on deduction for compensation for "covered employees" of publicly-traded companies, with exceptions for commissions and performance-based compensation.	$1 million annual limit on deduction for compensation for covered employee of a publicly-traded company is modified. Eliminates exclusions for commissions and performance-based compensation. Expands definition of covered employee to include anyone serving as CEO or CFO at any time during the year, the 3 highest paid employees and anyone who was a covered employee after 2016 remains a covered employee for any compensation paid in the future. This provision is permanent.	As a result of these provisions, the $1 million would become a hard cap on deductible compensation, and it would apply to a larger group of employees. Interestingly, these deduction limitations could still apply to a corporation whose shares are not publicly-traded if that corporation's debt is publicly-traded.
Nonqualified Deferred Compensation (NQDC): NQDC was broadly defined as compensation that is earned or vests in one year but may be payable in a future year. NQDC plans included traditional executive deferred compensation plans and supplemental executive retirement plans (SERPs), as well as many other equity arrangements (including certain RSUs), bonus plans, severance and other employment arrangements. NQDC was generally taxed when actually or constructively received by the employee under §409A. If deferred comp. did not meet the §409A requirements, then it was taxed immediately upon vesting (i.e., when no longer subject to a "substantial risk of forfeiture"), rather than when paid, and was further subject to an additional 20% penalty tax.	Preserves the current tax treatment for NQDC plans.	Earlier versions of the bill included proposed §409B, which generally would have taxed NQDC and other incentive compensation, including stock options, upon vesting rather than payment. This provision would have virtually eliminated the entire point of NQDC programs. For example, by taxing stock options at the date of vesting (rather than exercise/sale of the shares), this would have created "dry income" (where tax is owed but the liquidity needed to pay the tax has not yet been created), rendering stock option programs inferior. The Senate Finance Committee removed this provision from its bill leading to both houses walking away from these highly problematic revisions.

EDUCATION

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
§529 College Savings Plans: No federal income tax deduction for plan contributions although some states allow a state income tax deduction or credit. Plan earnings and distributions were nontaxable as long as distributions are for qualifying higher (post-secondary only) education expenses, e.g., tuition, room & board, equipment, fees, books and supplies.	In addition to higher (post-secondary) education, distributions from 529 plans of up to $10,000/year per student can now be used for tuition at an elementary or secondary public, private or religious school. This provision is permanent.	For the first time, §529 plans can be used for K-12 qualified expenses up to $10,000/year per student (previously, the only tax-advantaged way to save for these expenses was a Coverdell Education Savings Account). This expansion of the utility and appeal of 529 plans makes them even more compelling than before.
Rollover from §529 Plan to an ABLE Account: Not applicable. ***Note: ABLE accounts were created under the Achieving A Better Life Experience (ABLE) Act of 2014, and defined as tax-advantaged savings accounts for individuals who became disabled before age 26, permit annual contributions up to the annual gift tax exclusion (currently $15,000), allow tax-free distributions for certain expenses of the disabled beneficiary but do not disqualify the individual from public support.***	This provision allows a tax-free rollover from a §529 plan to an ABLE account with the same beneficiary or family member, up to the annual gift tax exclusion (currently $15,000), and the rollover counts toward the annual contribution limit. Once the annual gift limit is reached, ABLE beneficiaries can generally contribute their earnings to the account, which also qualify for the saver's tax credit. Expires in 2026.	Now families will have more flexibility in planning for special needs, where it can be particularly challenging to project the level of future needs.
Coverdell ESAs: Could pay for education expenses at elementary, secondary and post-secondary. Annual contributions were not deductible, limited to $2,000 and phased-out depending on income. Plan earnings and distributions were nontaxable provided distributions were for qualified expenses.	Unchanged.	These education saving vehicles remain available despite speculation they would be curtailed. Although they previously covered K-12 expenses (unlike 529s prior to 2018), these plans never quite caught on like 529 plans given the relatively low maximum annual contribution.
American Opportunity Tax Credit: Maximum credit of $2,500 that covered the first four years of undergraduate study, was based on a percentage of tuition and related expenses and phased-out at certain income levels.	Unchanged.	This tax credit was not affected.

EDUCATION, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Lifetime Learning Tax Credit: Maximum credit of $2,000 that covered tuition expenses of undergraduate and graduate study and part-time also, was based on a percentage of expenses and phased-out at certain income levels.	Unchanged.	This tax credit was not affected.
Tuition & Fees Deduction (expired after 2016): Could previously deduct tuition and fees expenses, although subject to income phase-out. Deduction expired after 2016.	Unchanged.	This deduction, which expired for years after 2016, was not extended by the new tax law.
Student Loan Interest Deduction: Could deduct up to $2,500 a year in interest paid on qualified education loans. Deduction was phased-out for higher income taxpayers.	Unchanged.	Although the House bill would have repealed this deduction, the deduction and income limitation for student loan interest expense remains intact.
Tuition Waivers for Graduate Students: Since the law specifically excluded qualified tuition waivers from gross income and wages, graduate students didn't have to pay federal income tax on tuition waivers they get from schools.	Unchanged.	Although repealed under the House bill, the income exclusion of qualified tuition waivers remains intact. These are typically awarded to teaching and research assistants.
Discharges of Student Loans: Federal student loans could be discharged under certain conditions, including full-time employment for a specified time with government or non-profit organizations and in certain teaching positions.	Modifies exclusion from gross income of student loan discharges by including within the exclusion certain discharges on account of death or disability. Expires in 2026.	The new law expanded the situations in which federal student loans can be discharged without adverse income tax consequences.

NON-PROFITS AND TAX-EXEMPT ORGANIZATIONS

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Excise Tax on Endowments of Private Colleges and Universities: Private colleges and universities were treated as public charities rather than private foundations and were not subject to the excise tax on net investment income.	Imposes a new 1.4% excise tax on the net investment income for certain private educational institutions. This provision is permanent.	Educational institutions with less than 500 students and an average endowment of less than $500,000 per student are exempted.

NON-PROFITS AND TAX-EXEMPT ORGANIZATIONS, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Excise Tax on Exempt Organization Excessive Compensation: Not applicable. ***Note: Existing limits imposed on the deduction by for-profit companies for executive compensation do not affect tax-exempt organizations.***	A new 21% excise tax applies to non-profit employers for compensation in excess of $1 million paid to their top 5 most highly-compensated employees, including those employed by related organizations. This excise tax also applies to certain severance and parachute payments. This provision is permanent.	This aligns the rules for tax-exempt organizations with for-profit companies (note the excise tax rate is equal to the new corporate tax rate) and could possibly result in pay-cuts for highly-compensated executives and employees at non-profit organizations. This could also apply to college and university athletic department staff and coaches. This is similar to the §280G tax penalties on excess parachute payments paid to employees of for-profit corporations.
Calculation of Unrelated Business Taxable Income (UBTI): A tax-exempt organization could net income and losses among all of its unrelated trade or business activities in determining the entity's unrelated business taxable income (UBTI).	A tax-exempt organization with unrelated business taxable income (UBTI) is now required to calculate its UBTI separately based on each unrelated trade or business. This provision is permanent.	This eliminates the ability to net income and losses among unrelated activities thereby reducing a tax-exempt entity's total UBTI. Since UBTI is taxed at corporate income tax rates, a 21% flat rate applies.

TRANSFER TAXES

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Gift Tax: Lifetime gift tax exemption of $5.6 million per person ($11.2 million for married couples), inflation-adjusted, with a top rate of 40%. The unified gift and estate tax exemption could have been used during life and/or at death.	Gift tax is retained but exemption is doubled to $11.2* million per person ($22.4* million for married couples), inflation-adjusted, effective 2018 through 2025, after which it reverts to an inflation-adjusted level of $6.2 million (estimated) in 2026. ***Note: While this chart reflects a rounded figure of $11.2 million per person, the new exemption amount is an estimated $11.18 million per person.***	Although the gift tax is not repealed, the exemption is doubled from 2018 through 2025 and remains indexed for inflation. While this creates tremendous planning opportunities, it appears the question of a "clawback" remains, i.e., whether the IRS can impose estate tax on individuals who availed themselves of the temporarily higher exemptions but then later died when the exemption had been reduced to a lesser amount. Recall clawback was a momentary concern when the exemption was scheduled to decrease from $5 million to $1 million on January 1, 2013.
Portability of Gift and Estate Tax Exemption: Unused exemption of a deceased spouse carried over (or "ported") to the surviving spouse, with some limitations, who may have used it during life or at death.	No changes. Therefore, portability remains intact.	Portability of a deceased spouse's unused exemption amount is still available to a surviving spouse. Thus, married couples with a combined estate of up to $22.4* million who haven't used any exemption will not owe federal estate tax assuming proper planning and timely-made estate tax return elections.

TRANSFER TAXES, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Gift Tax Annual Exclusion: Individuals may gift $15,000 ($30,000 for married couples), inflation-adjusted, per year to any person without using any lifetime gift tax exemption.	No changes.	The annual exclusion was unaffected by the Act and continues to be indexed for inflation. After remaining at $14,000 for the last five years, the exclusion increased to $15,000 for 2018.
Valuation Discounts of Transfers of Interests in Family-Controlled Businesses: In August 2016, the Treasury Dept. issued proposed regulations aimed at effectively eliminating the ability to drastically reduce the value of minority interests in illiquid “family-controlled” entities. In 2017, these regulations were officially withdrawn.	No changes.	Although valuation discounts for family-controlled entities were not addressed, the restrictions and limitations on claiming these discounts are effectively moot since the regulations were officially withdrawn earlier in 2017. So affluent clients can continue to use discounting techniques, which remain highly effective in today’s low-interest rate environment, to further leverage the amounts that are transferred out of their estate to younger generations under the temporarily-doubled lifetime exemption.
Estate Tax: Estate tax exemption of $5.6 million per person ($11.2 million for married couples), inflation-adjusted, with a top rate of 40%. Recall the unified gift and estate tax exemption could have been used during life and/or at death.	Although the estate tax remains in place, exemption is doubled to $11.2* million per person ($22.4* million for married couples), inflation-adjusted, effective 2018 through 2025. In 2026, the exemption reverts to an inflation-adjusted level of $6.2 million (estimated). *The actual exemption is an estimated is $11.18 million per person.	Although the President and House Republicans had initially hoped to repeal the estate tax, this turned out impossible due to budgetary constraints. However, the exemption amount was doubled which effectively removes all but 0.02% of all estates from the reach of the estate tax, at least through 2025.
Basis of Inherited Assets: The mandatory basis adjustment rules for assets passing from a decedent generally required the basis of appreciated (or depreciated) assets be stepped-up (or down), to fair market value (FMV) as of the decedent’s date of death, whether or not the estate was taxable.	No changes. In other words, the basis step-up rules still apply.	Mandatory basis step-up/(down) remains in place for all estates.
Generation-Skipping Transfer (GST) Tax: Generally applied in addition to gift or estate tax to transfers to persons two or more generations below the transferor (i.e., “skip persons”), such as grandchildren. GST tax was imposed at 40% rate with same exemption of $5.6 million per person ($11.2 million for married couples), inflation-adjusted.	Doubles the exemption to $11.2* million per person ($22.4* million for married couples), inflation-adjusted, effective 2018 through 2025, but leaves the GST tax in place. In 2026, the exemption reverts to an inflation-adjusted level of $6.2 million (estimated). *The actual exemption is an estimated is $11.18 million per person.	Although the GST tax is not repealed, the exemption is doubled from 2018 through 2025 and remains indexed for inflation. This creates a tremendous opportunity for planning during this 8-year window period.

TRANSFER TAXES, CONT.

PRIOR TAX LAW (2018)	CURRENT TAX LAW (2018) (TAX CUTS AND JOBS ACT)	COMMENTARY
Sunset Provision: Not applicable.	Most individual tax changes automatically expire in 2026 and then reset to current law.	Although the increased exemption is only temporary, this indexing change is permanent.