

Memorandum

To: 2018 -2019 Tax Developments File
From: Honigman Miller Schwartz and Cohn LLP
Re: Tax Rate and Certain Other Tax Reform Changes
Date: February 20, 2019

This outline summarizes certain key tax rate changes and other provisions of the 2017 Tax Cuts and Jobs Act.

I. Summary of Significant Tax Rate Changes to Individuals

	2017	2018 and Future Years¹
Income Tax <i>(For 2017, this rate applies when adjusted gross income exceeds \$418,400 for single filers and \$470,700 for joint filers. For 2018, this rate applies when adjusted gross income exceeds \$500,000 for single filers and \$600,000 for joint filers.)</i>	39.6%	37.0%
Long-Term Capital Gain <i>(For 2017, this rate applies when adjusted gross income exceeds \$418,400 for single filers and \$470,700 for joint filers. For 2018, this rate applies when adjusted gross income exceeds \$425,801 for single filers and \$479,001 for joint filers.)</i>	20.0%	20.0%
Qualified Dividend <i>(For 2017, this rate applies when adjusted gross income exceeds \$418,400 for single filers and \$470,700 for joint filers. For 2018, this rate applies when adjusted gross income exceeds \$425,801 for single filers and \$479,001 for joint filers.)</i>	20.0%	20.0%
Social Security <i>(For 2017, capped at wages up to \$127,200. For 2018, capped at wages up to \$128,400)</i>	12.4%	12.4%

¹ Note that the new Income Tax rates are set to expire after 2025.

Medicare on Wages <i>(The Medicare portion is 2.9% on all earnings with an additional 0.9% applied where wages exceed \$200,000 for singles and \$250,000 for joint filers)</i>	3.8%	3.8%
Medicare on Net Investment Income <i>(Applies to net investment income only where adjusted gross income exceeds \$200,000 for singles and \$250,000 for joint filers)</i>	3.8%	3.8%

II. Summary of Certain Other Tax Reform Changes Applicable for tax years after 2017 and before 2026

- **Section 199A Deduction.** Individuals can deduct 20% of “qualified business income” from a pass-through entity such as a partnership, S corporation or sole proprietorship. Qualified business income does not include investment-related income, deductions, or loss. Additionally, the qualified business income deduction gets limited in certain situations.
 - If you are single and earn more than \$157,500 or you are married and earn more than \$315,000, then you cannot deduct more than the greater of either (a) 50% of the qualified business’s W-2 wages or (b) the sum of 25% of the wages plus 2.5% of the depreciable property.
 - If you are single and earn more than \$157,500 or you are married and earn more than \$315,000, then certain “specific service trades and businesses” including medicine, law, accounting, actuarial science, financial services, consulting and certain trades or businesses that rely on the “reputation or skill of one or more employees” do not qualify for the Section 199A deduction.
 - You cannot deduct more than 20% of your taxable income after subtracting your net capital gains but before deducting the Section 199A deduction.
- **Miscellaneous Itemized Deductions.** Miscellaneous itemized deductions that previously were subject to a 2% adjusted gross income floor are disallowed. Such deductions include investment expenses and tax return preparation expenses.
- **State and Local Taxes.** Individuals can only deduct up to \$10,000 of property taxes and either income or sales taxes.