

New Tax Act

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On December 20, 2017, Congress passed the Tax Cuts and Jobs Act of 2017 (the "Act"). President Trump is expected to sign the Act into law soon. The Act generally will take effect on January 1, 2018 and will make important changes to existing tax laws. We are pleased to provide you with this summary.

Estate, Gift, and Generation-Skipping Tax Exemption. The Act doubles the federal estate, gift, and generation-skipping tax exemptions from \$5,000,000 to \$10,000,000 (\$20,000,000 for a married couple), indexed for inflation occurring after 2011. This increase in the exemption will sunset on December 31, 2025. Contrary to some expectations, the Act does not repeal the estate and generation-skipping taxes now or in the future or eliminate the basis step-up of inherited assets to their fair market value at death. For individuals residing in states with their own estate tax (such as Minnesota), the Act provides no relief, but an increase in lifetime gifts by such individuals could reduce their ultimate state estate tax liability. The annual exclusion amount for gifts is not affected by the Act but will increase from \$14,000 to \$15,000 on January 1.

Income Taxation of Individuals. The Act reduces the top marginal rate for individual taxpayers to 37%, but the threshold of income to which the top rate applies drops to \$600,000 for married taxpayers filing jointly and \$500,000 for single filers. The new individual tax rates will sunset on December 31, 2025. The Act also increases the individual exclusions and phase-out thresholds for the individual alternative minimum tax to \$1,000,000 for couples and \$500,000 for single taxpayers but does not eliminate the alternative minimum tax.

Income Taxation of Trusts and Estates. Under the Act, trusts and estates will enter the top 37% tax bracket starting with income in excess of \$12,500.

Pass-Through Income Deduction. The Act includes a complex set of new rules providing that many pass-through businesses such as S corporations, partnerships and limited liability companies will receive a deduction of 20% of their income for the first

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\$315,000 of joint income or \$157,500 of income for a single filer. More restrictive rules apply to personal service pass-through businesses. This deduction will sunset on December 31, 2025.

State and Local Tax Deduction. State income, property, and sales taxes will be deductible for individual taxpayers only up to an aggregate cap of \$10,000. This cap will sunset on December 31, 2025. The Act prevents a deduction for the prepayment of any state income taxes related to a year beginning after 2017.

Mortgage Interest. For new mortgage loans after December 31, 2017, the deduction for mortgage interest is limited to mortgages not exceeding \$750,000. Mortgage loans prior to January 1, 2018 are not affected and will continue to be subject to a limitation of \$1,000,000 for married couples filing jointly or \$500,000 for single filers.

Home Equity Loans. The Act suspends the interest expense deduction for home equity loans beginning after December 31, 2017. The suspension will lift after December 31, 2025.

Charitable Contribution Deduction. Under current law, an individual may take a deduction for contributions to public charities subject to a limit of 50% of the individual's adjusted gross income. The Act increases this limit from 50% to 60%. Existing limits continue to apply to contributions of marketable securities or other property to public charities and to all contributions to private foundations.

Corporate Income Tax. The Act reduces the corporate tax rate from 35% to 21%. This reduction has no expiration date. Additionally, the corporate alternative minimum tax is repealed.

The Act has practical and significant implications for virtually all taxpayers. Please feel welcome to call your personal attorney at Dorsey & Whitney LLP to discuss the specifics of your situation.

Best regards for a happy holiday season and prosperous new year.

Here is Dorsey's Minneapolis Tax, Trusts & Estates team.