KANAWHA
CAPITAL MANAGEMENT

First Quarter 2018

This Quarter's Highlights

- The Tax Cuts and Jobs Act
- 2018 Important Financial Information

Kanawha Currents

New Provisions to Consider Under the Tax Cuts and Jobs Act

The *Tax Cuts and Jobs Act* was signed into law on December 22, 2017. Taxpayers should consult with their tax professionals to determine how the changes will affect their personal situations. Included below are brief descriptions of some of the many new provisions contained in the recent legislation.

- Taxpayers will continue to have their ordinary taxable income fall into seven tax brackets *but* the rates and ranges have been adjusted (see schedules on back page). An exception applies to Estates and Trusts, which will now be subject to four brackets instead of five.
- Long-term capital gains and qualified dividends will continue to be taxed at the 0%, 15%, and 20% rates; however, they will no longer be tied to the upper bound of select income brackets. For 2018, the lowest 0% rate will be applied to long-term capital gains and qualified dividend income that falls below $38,600 for individuals and $77,200 for married couples. The highest 20% rate will be triggered for income above $425,800 for individuals and $479,000 for marrieds.
- The Alternative Minimum Tax (AMT) for personal taxpayers has not been repealed; however, AMT exposure should be reduced under the new law. The AMT exemption amount will increase from $55,400 for individuals and $86,200 for married couples to $70,300 and $109,400, respectively. Additionally, the income ranges for the AMT exemption phaseout have been increased.
- The "Kiddie Tax" will continue to impact those children with unearned income who are under the age of 19 as well as students who are under age 24. Under the new law, children with net unearned income subject to the "Kiddie Tax" will be taxed according to the Trust & Estate income brackets and rates.

- The standard deduction has increased to $12,000 for individuals and married filing separately, $18,000 for head of household, and $24,000 for married couples. Those who are older than age 64, blind, or disabled can add $1,300 to their standard deduction ($1,600 if unmarried).
- The personal exemption has been suspended.
- A $10,000 cap was instituted on state and local tax deductions. This $10,000 limit is a total amount for state *and* local taxes (not $10,000 each) and applies to both singles and married couples ($5,000 for married filing separately).
- The so called Pease limit, which phased out itemized deductions for high income earners, has been repealed.
- The rules governing the deductibility of charitable contributions as an itemized deduction largely remain in place. However, the Adjusted Gross Income (AGI) limit for the charitable contribution deduction has been increased to 60% for certain cash donations (up from 50% of AGI). The limit of 30% of AGI remains in place for the fair market value of long-term capital gain property gifted to most public charities. Notably, the true economic cost of a taxpayer's charitable contributions should be reexamined under the new tax laws. Given the higher standard deduction and cap on state and local taxes, some individuals may consider "bunching" various deductions into certain years where their itemized deductions will exceed their standard deduction.
- A new, lower debt cap of $750,000 on mortgage interest deductibility. This will only apply to new loans as existing home mortgages will maintain their interest deductibility on principal amounts up to the prior $1,000,000 cap. Importantly, the interest on home equity loans may only be deductible if the proceeds are used for "acquisition indebtedness" (to buy, build, or substantially improve the taxpayer's home that secures the loan) and the total indebtedness does not exceed the debt cap. Therefore, under the new tax law, the interest on home equity loans will not be deductible if the proceeds are not used to substantially improve the home (e.g. if the loan proceeds are used to buy a car or pay off credit card debt).
- Miscellaneous itemized deductions that were subject to the 2% of AGI threshold have been repealed under the new law. These include investment advisory fees, tax preparation expenses, and unreimbursed employee expenses, among others. This obviates the need to pay IRA advisory fees from a taxable account.
- The hurdle for the medical expense deduction has been lowered from 10% to 7.5% of AGI. Unlike many of the new provisions, this has been made retroactive to January 1, 2017.
- The child tax credit has been expanded to $2,000 per qualifying child, up from $1,000. More importantly, the income phaseout has increased significantly from a current AGI threshold of $75,000 for individuals and $110,000 for married couples, up to $200,000 for individuals and $400,000 for marrieds. A qualifying child must be age 16 or younger at the end of the calendar year. An additional $500 credit has also been included for certain dependents other than qualifying children.

- Owners of Section 529 plans will be able to use tax-free distributions to fund education expenses for elementary and secondary education up to $10,000 per child per year. Prior to the new law, qualifying expenses for 529 plans only included those associated with post-secondary education.
- Traditional IRA owners will continue to be able to convert all or a portion of their accounts to Roth IRAs (and pay any income taxes due). Roth conversions will still be allowed under the new law; however, individuals will no longer be able to "undo" those conversions prior to the taxpayer's tax filing deadline. The so called Roth *Recharacterization* has been repealed for conversions that occur in 2018 and beyond.
- A new Qualified Business Income deduction of 20% may apply for certain pass-through entities (sole proprietors, partnerships, LLCs, and S corporations). Note that for businesses within particular service industries, this deduction will be phased out when pass-through income exceeds specific thresholds.
- The lifetime exemption amount for estate and gift tax purposes has doubled from $5.6 million to $11.2 million per person, or $22.4 million for married couples with portability. The cost-basis step up to fair market value at date of death remains in place.
- Alimony payments under divorce instruments executed after December 31, 2018 will not be considered taxable income to the payee spouse and will not be deductible by the payor spouse.

Note many of these new provisions are due to expire after December 31, 2025.

What did not change?

- The 3.8% Medicare surtax on net investment income remains pegged to the non-indexed $200,000 AGI for individuals and $250,000 AGI for married couples.
- The Charitable IRA Rollover remains in place under the new law. IRA owners age 70½ and older will continue to be allowed to make gifts up to $100,000 directly from their IRA to qualified charities and count these gifts towards their required minimum distribution. The donation is not claimed as a charitable deduction but the IRA distribution does not count as taxable income as it would otherwise be treated. This ensures 100% of the charitable contribution is made pre-tax.

This is intended to be for informational purposes only and should not be interpreted as tax advice. This information does not factor in all important rules, changes, and considerations under the new legislation. Please consult your tax professional for specific tax advice about your personal situation.

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2018 Important Financial Information

2018 Tax Rate Schedule	
Taxable Income	Marginal Rate
Single	
$0 to $9,525	10%
$9,526 to $38,700	12%
$38,701 to $82,500	22%
$82,501 to $157,500	24%
$157,501 to $200,000	32%
$200,001 to $500,000	35%
$500,001 +	37%
Married Filing Jointly & Surviving Spouse	
$0 to $19,050	10%
$19,051 to $77,400	12%
$77,401 to $165,000	22%
$165,001 to $315,000	24%
$315,001 to $400,000	32%
$400,001 to $600,000	35%
$600,001 +	37%
Head of Household	
$0 to $13,600	10%
$13,601 to $51,800	12%
$51,801 to $82,500	22%
$82,501 to $157,500	24%
$157,501 to $200,000	32%
$200,001 + $500,000	35%
$500,001 +	37%
Married Filing Separately	
$0 to $9,525	10%
$9,526 to $38,700	12%
$38,701 to $82,500	22%
$82,501 to $157,500	24%
$157,501 to $200,000	32%
$200,001 to $300,000	35%
$300,001 +	37%
Estates and Trusts	
$0 to $2,550	10%
$2,551 to $9,150	24%
$9,151 to $12,500	35%
$12,501 +	37%

Capital Gains Tax Rates			
Short-Term Capital Gains (held 1 year or less)			Same as ordinary income
Long-Term Capital Gains (held > 1 year) and Qualified Dividends			
Single	Married Filing Jointly	Head of Household	Rate
Up to $38,600	Up to 77,200	Up to $51,700	0%
$38,601 to $425,800	$77,201 to $479,000	$51,701 to $452,400	15%
$425,801 +	$479,001 +	$452,401 +	20%
Unrecaptured gains on Section 1250 property			25%
Collectibles			28%

Income Tax Deductions and Exemptions	
Standard Deduction	
Single	$12,000
Married filing jointly	$24,000
Head of household	$18,000
Over age 65 or blind additional standard deduction	
Married or surviving spouse	$1,300
Single or not a surviving spouse	$1,600
Personal Exemption	None

Retirement Plan Contribution Limits	
401(k), 403(b), 457 plans elective deferrals	$18,500
Catch-up contributions for 50 and older	$6,000
Defined contribution plans	$55,000
Defined benefit plans	$220,000
SIMPLE plans elective deferrals	$12,500
Catch-up contributions for 50 and older	$3,000
Traditional and Roth IRA	$5,500
Catch-up contributions for 50 and older	$1,000
Traditional IRA deductibility for active participants	Phaseout Limits:
Single	$63,000 to $73,000
Joint	$101,000 to $121,000
Spousal IRA if one spouse is covered by a plan	$189,000 to $199,000
Married filing separately	$0 to $10,000
Roth IRA income phaseout	
Single and Head of Household	$120,000 to $135,000
Joint	$189,000 to $199,000
Married filing separately	$0 to $10,000

Estate and Gift Tax	
Annual gift tax exlusion	$15,000
Estate and gift tax exclusion	$11,200,000
Maximum estate tax rate	40%

Health Savings Account (HSA) Contribution Limits = $3,450 for Self Only, $6,850 for Family

Catch-up contributions of $1,000 for age 55 and older

Medicare Surtaxes
0.9% on wages that exceed $200,000 (Single) or $250,000 (Married FJ)
3.8% on net investment income that falls above MAGI of $200,000 (Single) or $250,000 (Married FJ)

Medicare	
Part A Hospitalization	
First 60 days inpatient deductible	$1,340 for each benefit period
Days 61 - 90	$335 per day, for each benefit period
Days 91 +	$670 per day, up to 60 days over lifetime, then full amount per day

Part B Premium: Those participants who enroll in Medicare Part B for the first time in 2018, whose MAGI from 2016 exceeded certain thresholds, or who don't get Social Security benefits may be subject to the premiums below.

MAGI Single (for *2016*)	MAGI Joint (for *2016*)	Part B Monthly Premium	Part D *Addition* to Plan Premium
$85,000 or less	$170,000 or less	$134.00	$0
$85,001 to $107,000	$170,001 to $214,000	$187.50	$13.00
$107,001 to $133,500	$214,001 to $267,000	$267.90	$33.60
$133,501 to $160,000	$267,001 to $320,000	$348.30	$54.20
$160,001 +	$320,001 +	$428.60	$74.80
Part B Deductible	$183		
Coinsurance	20% of Medicare-approved amount for most services		

Source: irs.gov, congress.gov H.R.1, IR-2017-177, Centers for Medicare & Medicaid Services.
The data contained on this sheet is for informational purposes only and should not be interpreted as tax or investment advice.
Consult your tax professional for specific advice about your personal situation.