

LAW OFFICE OF TERRANCE A. KLINE

**COUNSELOR AND ATTORNEY-AT-LAW
PRACTICE LIMITED TO WILLS, TRUSTS AND ESTATES
ADMITTED IN PENNSYLVANIA, NEW JERSEY AND FLORIDA**

**200 E. STATE STREET
SUITE 306
P.O. BOX A
MEDIA, PENNSYLVANIA 19063
TELEPHONE: 610-566-3330
FAX: 610-566-3360
EMAIL: TAKLINE@TAKLINELAW.COM
WWW.TAKLINELAW.COM**

Notice of Federal Tax Changes

On December 22, 2017, the President signed into law the so-called Tax Cuts and Jobs Act of 2017 which amends the Internal Revenue Code. A summary of the new law is attached.

The impact of the new tax law on federal income taxes must be evaluated on a case-by-case basis. For individual taxpayers, the new act is not a blanket tax cut – some individual taxpayers will pay less, and some will pay more. Most of the benefits of the new tax act will be enjoyed by businesses.

With respect to federal estate, gift and generation-skipping transfer taxes, the new tax act increases the exemption from \$5,490,000 to about \$11,200,000 per person, effective January 1, 2018. A married couple can exempt \$22,400,000 from federal death taxes. The increased exemption amount expires on December 31, 2025; thereafter, the exemption reverts to \$5,000,000 per person adjusted for inflation. As in current law, assets in excess of the exemption will be taxed at the rate of 40%.

These tax law changes will not affect the Wills and Trusts of most of our clients, with one important exception: Any Will or Trust which divides an estate into two separate shares based on a formula should be reviewed immediately to be sure that assets are distributed correctly.

Regardless of the tax issues, all estate planning documents (Wills, Trusts, financial and healthcare powers of attorney) should be reviewed periodically to ensure that they reflect your wishes. It is also important to review your individual assets to make certain that title to your assets is coordinated with your Will and estate plan so that they are distributed according to your wishes.

If you have any questions about these federal tax changes or your estate planning documents, please email or telephone to our office to arrange an estate planning review.

Terrance A. Kline*
Media, Pennsylvania
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*Terry Kline is an attorney based in Media, Pennsylvania. His law practice is limited to Wills, Trusts and Estates for clients who live in Pennsylvania, New Jersey and Florida. Terry writes and lectures on estate and charitable planning topics. He is the co-editor of *Estate Planning in Pennsylvania* published by the Pennsylvania Bar Institute. He is a member of the steering committee of the Pennsylvania Estate Law Institute. Terry is a Fellow of the American College of Trust and Estate Counsel and a member of other professional groups that advance the study of estate and charitable planning. Please see our website www.taklinelaw.com for more detailed information about our law practice.

Please note that the material in this Notice and the attached Summary provides general information and should not be construed to offer legal advice or legal opinions on specific facts. For specific legal advice, please contact our office. Nothing in this Notice is intended to be used, or may be used, to avoid any penalty under federal tax laws. Please contact us with any changes to your contact information.

Summary of Significant Tax Changes Affecting Individual Taxpayers
Resulting from the Tax Cuts and Jobs Act of 2017

- Tax brackets have been adjusted. The highest tax bracket has been reduced from 39.6% to 37%.
- Standard deductions have been increased to \$12,000 per taxpayer (or \$24,000 for married filers). Personal exemptions have been suspended.
- The child tax credit increases to \$2,000 per child under the age of 17, with \$1,400 being refundable.
- The deduction for state and local taxes, including property, income and sales taxes, is limited to a total of \$10,000 regardless of filing status, married or single.
- All miscellaneous deductions subject to the 2% floor will no longer be allowed, such as deductions for tax preparation and investment expenses.
- An itemized deduction will be allowed for interest payments on mortgages for primary and secondary residences, limited to mortgages of \$750,000 or less, unless the taxpayer entered into a binding agreement prior to December 15, 2017 and closes prior to April 1, 2018, in which case a \$1 million mortgage limit will apply. Interest on home equity loans is no longer deductible.
- 529 plans may now be used for tuition at elementary and secondary public, private and religious schools, limited to \$10,000 annually.*
- Cash gifts to public charities may be deducted up to 60% of AGI (an increase from 50% under prior law). Because most taxpayers will no longer itemize deductions, the deduction for charitable gifts effectively will be lost for many taxpayers.
- Capital gains rates remain unchanged.
- The floor on the medical expense deduction has been reduced from 10% to 7.5% for tax years 2017 and 2018.
- The individual mandate for health insurance is repealed effective January 1, 2019.
- The exemption amount and phase-out thresholds are increased for the individual alternative minimum tax.
- Alimony payments will not be deductible under divorce or separation agreements entered into or modified after December 31, 2018, nor will alimony payments to an ex-spouse be treated as income.
- The individual exemption from federal estate, gift and generation-skipping taxes is doubled to approximately \$11.2 million per person or \$22.4 million per married couple.
- The gift tax annual exclusion increases to \$15,000 starting in 2018.

NB: *Unless indicated by an asterisk, the aforesaid tax changes sunset on December 31, 2025 and revert to the law in effect in 2017 with certain adjustments.*