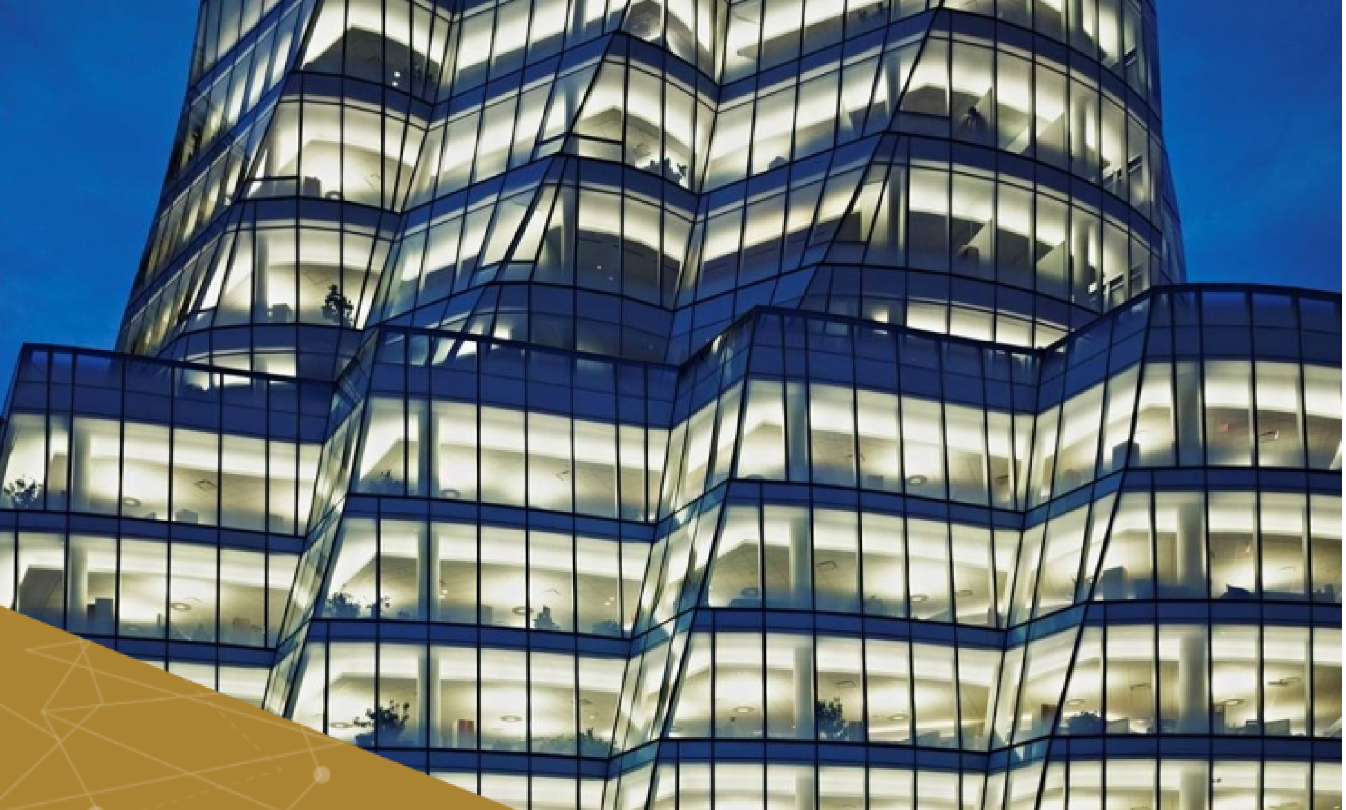

Presented by:

John T. Welsh

BNY Mellon Wealth Management

Wealth Strategist

Tax Cuts and Jobs Act
What Do I Need to Know?

February 13, 2018

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WEALTH MANAGEMENT

Summary

Permanent Law v. Temporary Law

PROVISION SUNSET DATES

Effective date for many Tax Cuts and Jobs Act provisions

January 1, 2018

December 31, 2025 Expiration:

- Individual income tax rate reductions and deduction limitations
- Pass-through business income deduction
- Estate, gift, GST exclusion/exemption increases

No Expiration:

- Corporate income tax provisions
- 3-year holding period on carried interest

Chained Consumer Price Index (C-CPI-U)

SLOWER RATE OF INFLATION

Method used to calculate inflation adjustments changed

Use the "chained consumer price index" (C-CPI-U) instead of the regular consumer price index (CPI-U)

Affects income tax brackets and other inflation adjustments, including the federal estate and gift tax exclusion amount

Result: Chained CPI tends to increase more slowly than the regular CPI

Source: IRC § § 1, 11002

Tax Cuts and Jobs Act[1]

HIGHLIGHTS COMPARED TO PRIOR LAW

Tax Item	Prior Law	Tax Cuts and Jobs Act[1,2]
Corporate Tax Rate	Top rate of 35%	Top rate of 21%[3]
Partnership & Other Pass-Through Entities	Taxed at individual rates	Taxed at individual rates but allowed a 20% deduction[4]
Individual Ordinary Income Tax Rate	7 brackets: 10%-39.6%	7 brackets: 10%-37%[5]
Long-Term Capital Gains & Qualified Dividends	3 brackets: 0%/15%/20% (+ 3.8% NIIT)	Unchanged[6]
Taxable Interest Income & Short-Term Capital Gains	Taxed as ordinary income	Unchanged[6]
Carried Interest	Taxed at capital gains rates	Unchanged but must hold investment for more than 3 years[7]
AMT	Imposes minimum tax	Corporate AMT repealed[8] Individual AMT remains[8]
Standard Deduction	Single: $6,500 (2018) Joint: $13,000 (2018)	Single: $12,000 (2018)[9] Joint: $24,000 (2018)[9]
Itemized Deductions	Various	Eliminate all deductions except for mortgage interest, state & local taxes, medical expenses, investment interest expense and charitable contributions[10]
Estate / Gift / GST Tax	Top rate: 40% Exemption: $5,600,000 (2018)	Top rate: 40% Exemption: $11,200,000 (2018)[11]

[1] Source: https://www.congress.gov/115/bills/hr1/BILLS-115hr1eas2.pdf. The official name of the bill was changed prior to the final vote but is known as the "Tax Cuts and Jobs Act."
[2] Corporate tax rate is permanent, but most provisions related to pass-through income, individuals and estates sunset at the end of 2025.
[3] IRC § § 11, 13001
[4] IRC § § 1, 199A, 11001
[5] IRC § § 1, 11001
[6] IRC § § 1, 1222, 11001
[7] IRC § § 83, 1061
[8] IRC § § 55, 12001, 12003
[9] IRC § § 63, 11021
[10] IRC § § 11027 (medical expenses), 11023 (charitable contributions), 11042 (SALT), 11043 (mortgage interest).
[11] IRC § 2001, 11061

Tax Cuts and Jobs Act[1]

TOP CHANGES

Corporate	• 21% tax rate & permanent • Automatic expensing • Interest deduction limitation
International	• Repatriation • Territorial system • Base Erosion Anti-abuse Tax (BEAT)
Pass-Through	• 20% qualified business income deduction • Decoupled from individual • Higher than corporate rate
Individual	• Lower rates • Fewer itemized deductions • Higher standard deduction
Estate	• Doubling of exemption • Temporary – clawback?

[1] The official name of the bill was changed prior to the final vote but is known as the “Tax Cuts and Jobs Act.”

Corporate

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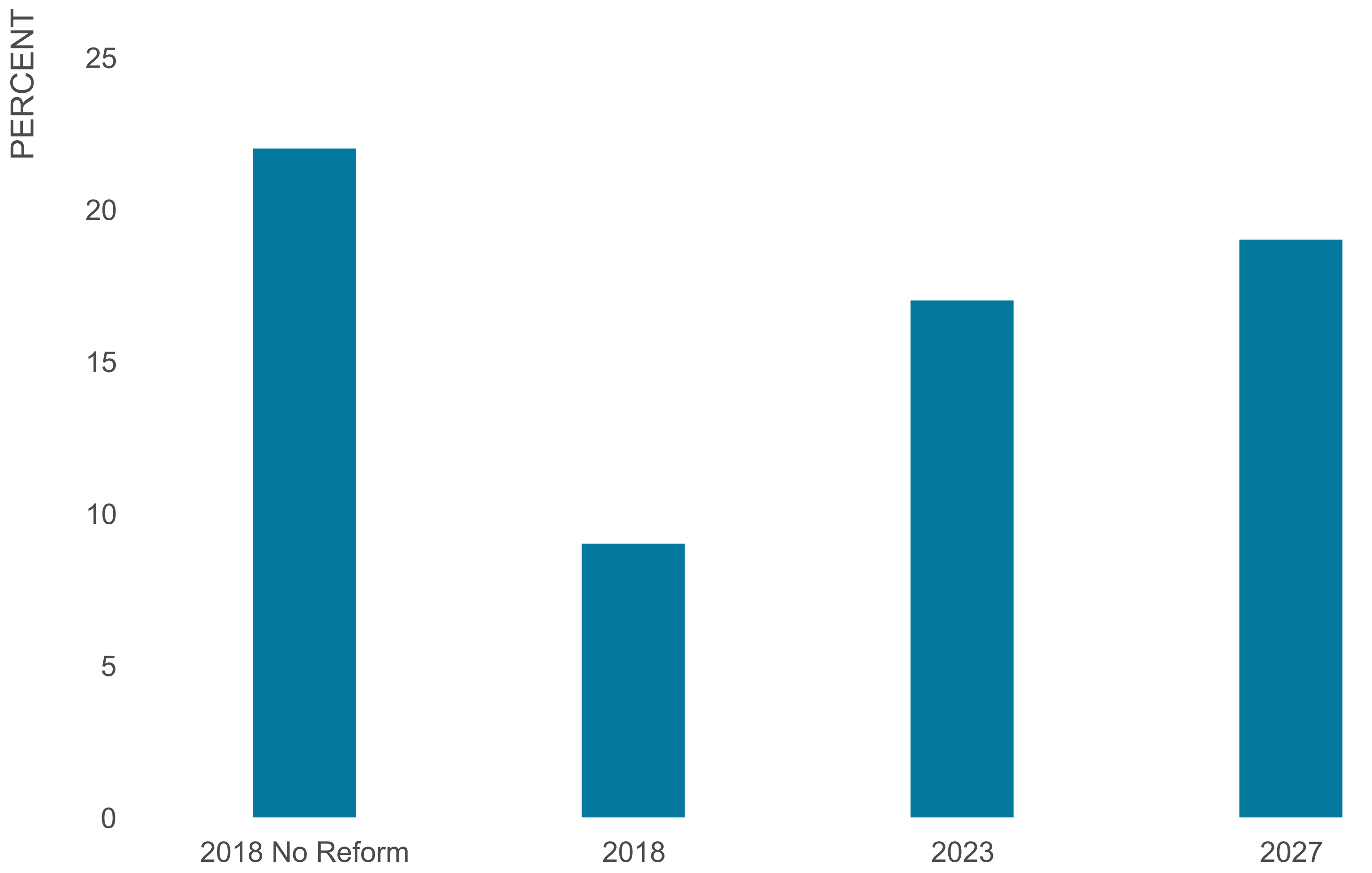
The Benefits of the Tax Bill are Front-Loaded

EXPECTED AVG EFFECTIVE TAX RATE FOR THE US CORPORATE SECTOR



Source: Penn Wharton Budget Model.

Elimination of Business Entertainment Expenses

RETENTION OF DEDUCTION FOR BUSINESS-RELATED MEALS

Prior Law

- Taxpayers can generally deduct 50% of expenses for business-related meals and entertainment
- Meals provided to an employee for the convenience of the employer on the employer's business premises are 100% deductible by the employer and tax-free to the recipient employee

New Law

- For amounts paid or incurred after Dec. 31, 2017, deductions for business-related entertainment expenses are completely disallowed
- Deduction for 50% of meal expenses associated with operating a business is generally retained

Source: IRC § 13304

1031 Like-Kind Exchanges

EXCHANGE PROPERTY FOR SIMILAR PROPERTY ON TAX-DEFERRED BASIS

Sell Owned Property

Buy New Like -Kind Property

Defer Tax

Real Estate — **Yes, still eligible**

Personal Property (art, cars, airplanes, etc..) — **No, not eligible**

Source: IRC § § 1031, 13303

Pass-Thru

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Income From Pass Through Entities

DEDUCTION FOR QUALIFIED BUSINESS INCOME

Deduction equals ***LESSER*** of:

1. Qualified Business Income x 20% or
2. Net Income x 20%

OR if taxable income exceeds the "**Phase-Out**":

3. The ***GREATER*** **of:**
   - W-2 wages x 50%
   - W-2 wages x 25% + 2.5% of property's unadjusted basis

Phase-Out:

- Single: $157,000-207,000+
- MFJ: $315,000-415,000+

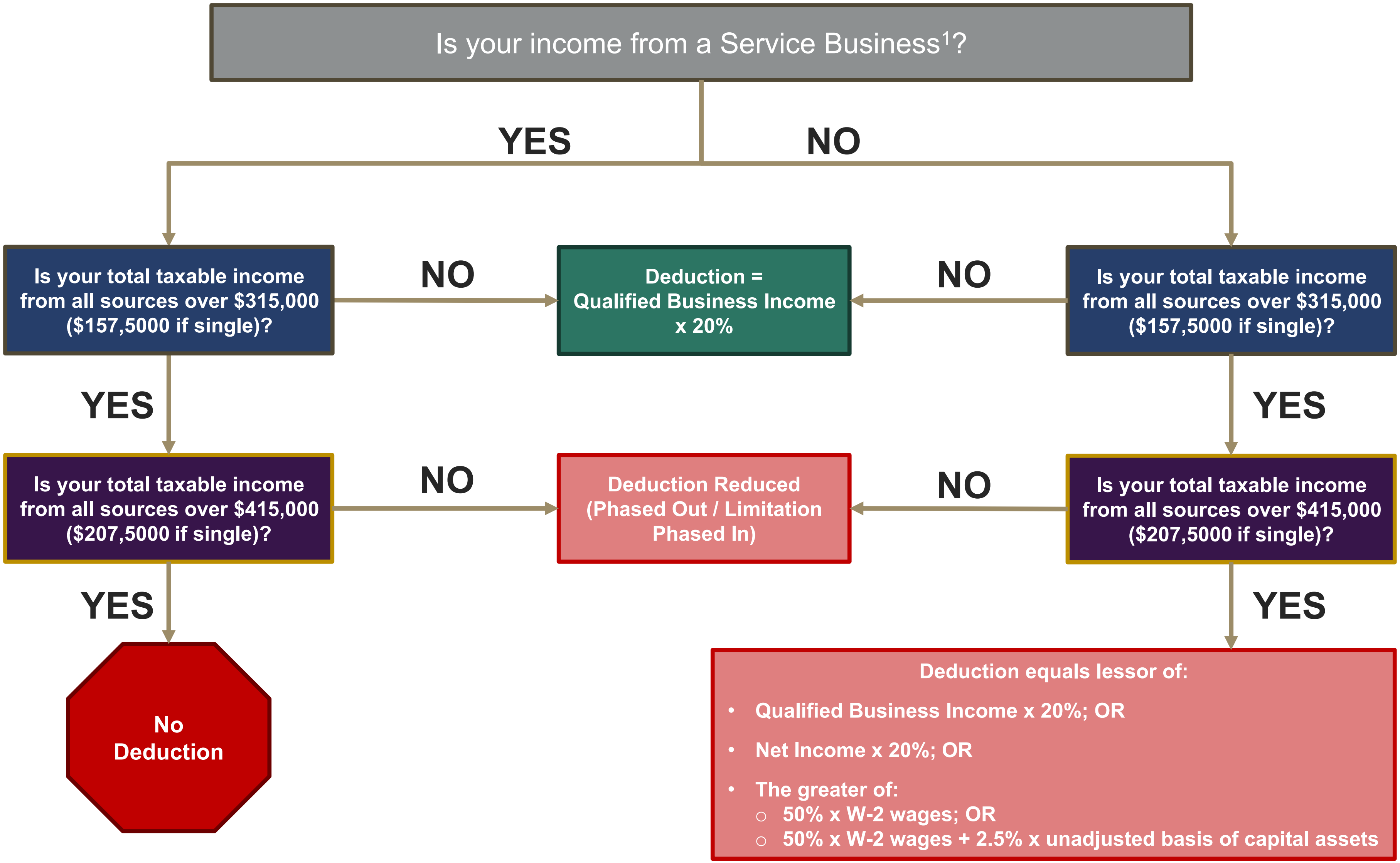
EXCEPT, specified services business owners can't take any deduction after Phase-Out

IT'S THE OPPOSITE OF "SIMPLIFICATION"

Source: IRC § § 1101

Do You Get a Deduction for Your Pass-Thru Income?

DEDUCTION FOR QUALIFIED BUSINESS INCOME



[1] per §§ 1202(e)(3)(A), 475(c)(2), or 475(e)(2)

QBI Deduction

EXAMPLE

Fred and Margie are partners in a Barracks Real Estate LLP, $600, 000 of Pass-Through income. $75,000 of earnings, itemized deductions of $50,000 ($10,000 of state income and real estate tax). Barracks has $100,000 of wages and $3 million in assets.

Net Pass-Thru Income	**$600,000**
Earnings (not pass-thru)	**$ 75,000**
AGI	**$675,000**
Itemized Deductions	**(50,000)**
Taxable income	**$625,000**
QBI — Deduction	**$100,000**

QBI deduction = Lesser of:

(1) 20% net pass-thru income: $120,000
(2) 20% of taxable income: $125,000 or
(3) Greater of:

- **50% of wages: $50,000 or**
- **$25% of W-2 ($25,000) + 2.5% of unadjusted cost basis ($75,000): $100,000**

QBI Deduction

EXAMPLE

Example Of Wage Limit	
QBI	$800,000
Deduction 20%	($160,000)
Wages W-2	$250,000
50%	($125,000)
QBI	$800,000
199A	$125,000
Taxable Bus Income	$675,000
Tax 37%	$249,750
Effective rate	31.2%

Individual

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Tax Cuts and Jobs Act[1]

INDIVIDUAL ORDINARY INCOME TAX TABLES – NEW VERSUS OLD

TAX CUTS AND JOBS ACT[1, 2, 3]				
Rate	**Single (no children)**	**Head of Household**	**Married Filing Separately**	**Married Filing Jointly**
10%	$0 - $9,525	$0 - $13,600	$0 - $9,525	$0 - $19,050
12%	$9,525 - $38,700	$13,600 - $51,800	$9,525 - $38,700	$19,050 - $77,400
22%	$38,700 - $82,500	$51,800 - $82,500	$38,700 - $82,500	$77,400 - $165,000
24%	$82,500 - $157,500	$82,500 - $157,500	$82,500 - $157,500	$165,000 - $315,000
32%	$157,500 - $200,000	$157,500 - $200,000	$157,500 - $200,000	$315,000 - $400,000
35%	$200,000 - $500,000	$200,000 - $500,000	$200,000 - $300,000	$400,000 - $600,000
37%	$500,000+	$500,000+	$300,000+	$600,000+

[1] The official name of the bill was changed prior to the final vote but is known as the “Tax Cuts and Jobs Act.”
[2] Tax brackets listed here are scheduled to sunset at the end of 2025 and revert back to current law in 2026.
[3] IRC § § 1, 11001

PRIOR LAW				
Rate	**Single (no children)**	**Head of Household**	**Married Filing Separately**	**Married Filing Jointly**
10%	$0 - $9,525	$0 - $13,600	$0 - $9,525	$0 - $19,050
15%	$9,525 - $38,700	$13,600 - $51,850	$9,525 - $38,700	$19,050 - $77,400
25%	$38,700 - $93,700	$51,850 - $133,850	$38,700 - $78,075	$77,400 - $156,150
28%	$93,700 - $195,450	$133,850 - $216,700	$78,075 - $118,975	$156,150 - $237,950
33%	$195,450 - $424,950	$216,700 - $424,950	$118,975 - $212,475	$237,950 - $424,950
35%	$424,950 - $426,700	$424,950 - $453,350	$212,475 - $240,025	$424,950 - $480,050
39.6%	$426,700+	$453,350+	$240,025+	$480,050+

Comparison of Married Filing Jointly Rates

SIDE-BY-SIDE COMPARISON

Income Range	Prior Law	New Law
$1 - $19,050	10%	10%
$19,051 - $77,400	15%	12%
$77,401 - $156,150	25%	22%
$156,151 – $165,000	28%	22%
$165,000 - $237,950	28%	24%
$237,951 - $315,000	33%	24%
$315,001 - $400,000	33%	32%
$400,001 - $424,950	33%	35%
$424,951 - $480,050	35%	35%
$480,051 - $600,000	39.6%	35%
Over $600,000	39.6%	37%

Source: IRC § § 1, 11001

Changes in Certain Deductions

MANY DEDUCTIONS WILL BE LIMITED OR REPEALED

Deduction	2018
SALT Deduction (§ 164, § 11042)	Limited to $10,000 (married filing jointly and single)
Mortgage Interest Deduction (§ 163, § 11043)	Limited to interest on up to $750,000 of acquisition indebtedness (pre-12/15/2017 debt grandfathered in); Repeals deduction for home equity indebtedness
Charitable Contributions (§ 170, § 11023)	Percentage limit increased from 50% to 60% (for cash)
Medical Expenses (§ 213, § 11027)	Expanded for two years by setting the deduction threshold to 7.5% of AGI for all taxpayers (down from 10%)
Job Expenses & Miscellaneous Deductions (§ 67, § 11045)	All deductions subject to the 2% floor repealed; Many above-the-line deductions retained
Alimony Paid (§ 71, § 11051)	Repealed for any divorce or separate instrument executed **after 12/31/18**
Personal Exemptions (§ 151, § 11041)	Repealed
Pease Limitation (§ 68, § 11046)	Repealed

Job Expenses & Miscellaneous Itemized Deductions

ELIMINATED

2017 Miscellaneous Itemized:

- Tax Prep Fees, Investment Management Fees and other expenses
- Used to be deductible to the extent that they exceed 2% of your adjusted gross income
- Not allowed for AMT purposes

2018 Miscellaneous Itemized:

- No longer deductible

 Source: IRC § 11045

Individual Income Tax Impact – State Comparison

2017

	New Jersey Res.	California Res.	Texas Res.	New Jersey Res.
Wages	$1,500,000	$ 800,000	$ 800,000	$250,000
Interest	$ 500,000	$ 200,000	$ 200,000	$ 50,000
Total Income	**$2,000,000**	**$1,000,000**	**$1,000,000**	**$300,000**
Charitable Contributions	$ 200,000	$ 100,000	$ 100,000	$ 30,000
State/Property Taxes	$ 341,461	$ 168,794	$ 90,000	$ 39,431
3% AGI Floor	($50,586)	($20,586)	($20,586)	$ 0
Personal Exemption	$ 0	$ 0	$ 0	$ 8,100
Total Deductions	$ 490,875	$ 248,208	$ 169,414	$ 77,531
Taxable Income	$1,509,125	$ 751,792	$ 830,586	$222,469
Tax	$ 542,844	$ 242,940	$ 274,143	$ 57,630
AMT	0	$ 5,304	$ 0	$ 6,645
NIIT	$ 28,716	$ 11,951	$ 12,550	$ 1,809
Total Federal Tax	$ 571,560	$ 260,195	$ 286,693	$ 57,630
State Income Tax	$ 161,461	$ 78,794	$ 0	$ 14,431
Total Tax	$ 733,021	$ 338,989	$ 286,693	$ 72,061
Effective Rate	36.7%	33.9%	28.7%	24.0%

Individual Income Tax Impact – State Comparison

2018

	New Jersey Res.	California Res.	Texas Res.	New Jersey Res.
Wages	$1,500,000	$ 800,000	$ 800,000	$250,000
Interest	$ 500,000	$ 200,000	$ 200,000	$ 50,000
Total Income	**$2,000,000**	**$1,000,000**	**$1,000,000**	**$300,000**
Charitable Contributions	$ 200,000	$ 100,000	$ 100,000	$ 30,000
State/Property Taxes(Limited)	$ 10,000	$ 10,000	$ 10,000	$ 10,000
3% AGI Floor (Suspended)	$ 0	$ 0	$ 0	$ 0
Personal Exemption (Suspended)	$ 0	$ 0	$ 0	$ 0
Total Deductions	$ 20,000	$ 10,000	$ 110,000	$ 40,000
Taxable Income	$1,790,000	$ 890,000	$ 890,000	$260,000
Tax	$ 601,679	$ 268,679	$ 268,679	$ 50,979
AMT	$ 0	$ 0	$ 0	$ 0
NIIT	$ 30,155	$ 12,474	$ 12,474	$ 1,837
Total Federal Tax	$ 631,834	$ 281,153	$ 281,153	$ 52,816
State Income Tax	$ 161,461	$ 78,794	$ 0	$ 14,431
Total Tax	$ 793,295	$ 359,947	$ 281,153	$ 67,247
Effective rate	39.7%	36.0%	28.1%	22.4%

Individual Income Tax Impact – State Comparison

2017 V. 2018

	New Jersey Res.	California Res.	Texas Res.	New Jersey Res.
Total Income	**$2,000,000**	**$1,000,000**	**$1,000,000**	**$300,000**
Total Tax - 2017	$733,021	$338,989	$286,693	$ 72,061
Total Tax - 2018	$793,295	$359,947	$281,153	$ 67,247
Increase/(Decrease)	$ 60,274	$ 20,958	($5,540)	($4,814)
Effective Rate - 2017	36.7%	33.9%	28.7%	24.0%
Effective Rate - 2018	39.7%	36.0%	28.1%	22.4%
Increase/(Decrease)	2.0%	2.1%	(0.6%)	(1.6%)

State and Local Tax Deduction

STATE RANKINGS - % OF TAXPAYERS THAT ITEMIZE

Rank	State	AGI Per Filer	% of Itemizers	Deduction as % of AGI	State Share
1	Maryland	$72,746	45.20%	7.70%	3.20%
2	Connecticut	$93,806	41.20%	8.30%	2.60%
3	New Jersey	$81,344	41.10%	8.70%	5.90%
4	Virginia	$72,151	37.20%	5.50%	3.00%
5	Massachusetts	$85,408	36.80%	6.30%	3.50%
13	Colorado	$70,342	32.60%	4.00%	1.40%
44	New Mexico	$50,743	22.70%	3.10%	0.30%
45	Alaska	$67,212	22.20%	1.50%	0.10%
46	Wyoming	$77,370	21.90%	1.60%	0.10%
47	Tennessee	$54,997	20.00%	1.90%	0.60%
48	North Dakota	$73,499	17.70%	1.60%	0.10%
49	South Dakota	$60,690	17.30%	1.60%	0.10%
50	West Virginia	$50,401	17.10%	3.00%	0.20%

Source: Tax Foundation based on IRS Statistics of Income (2014)

State and Local Tax Deduction

STATE RANKINGS – DEDUCTION AMOUNT AS % OF AGI

Rank	State	AGI Per Filer	% of Itemizers	Deduction as % of AGI	State Share
1	New York	$79,268	34.20%	9.10%	13.30%
2	New Jersey	$81,344	41.10%	8.70%	5.90%
3	Connecticut	$93,806	41.20%	8.30%	2.60%
4	California	$73,938	33.90%	7.90%	19.60%
5	Maryland	$72,746	45.20%	7.70%	3.20%
31	Colorado	$70,342	32.60%	4.00%	1.40%
44	Texas	$67,253	23.00%	2.50%	3.90%
45	Nevada	$58,745	24.60%	2.40%	0.40%
46	Tennessee	$54,997	20.00%	1.90%	0.60%
47	Wyoming	$77,370	21.90%	1.60%	0.10%
48	North Dakota	$73,499	17.70%	1.60%	0.10%
49	South Dakota	$60,690	17.30%	1.60%	0.10%
50	Alaska	$67,212	22.20%	1.50%	0.10%

Source: Tax Foundation based on IRS Statistics of Income (2014)

Standard Deductions and Exemptions

BUNCHING ITEMIZED DEDUCTIONS

Tax benefit gained by implementing simple timing tax-planning strategy:

– Taxpayers with itemized deductions that fall just short of the standard deduction amount

– These itemized deductions do not produce any tax benefit

Rather than deduct the standard deduction every year, time deductions (when possible) and bunch together in one year

Standard Deductions and Exemptions

BUNCHING ITEMIZED DEDUCTIONS

Married couple with following deductions can maximize their available deductions by grouping expenses into the same year.

	2018	2019	2020
State Income Taxes	$15,000	$15,000	$15,000
Property Taxes	$15,000	$15,000	$15,000
Mortgage Interest	$4,000	$4,000	$4,000
Charitable Gifts	$10,000	$10,000	$10,000

Deductions limited to $10,000

If couple does not group expenses they are limited to $24,000 a year

- If couple groups charitable gifts into single year, they can take the following deductions:
  - 2018: $24,000 (standard deduction)
  - 2019: $44,000
  - 2020: $24,000 (standard deduction)

Individual Alternative Minimum Tax (AMT)

NEW EXEMPTION & THRESHOLDS

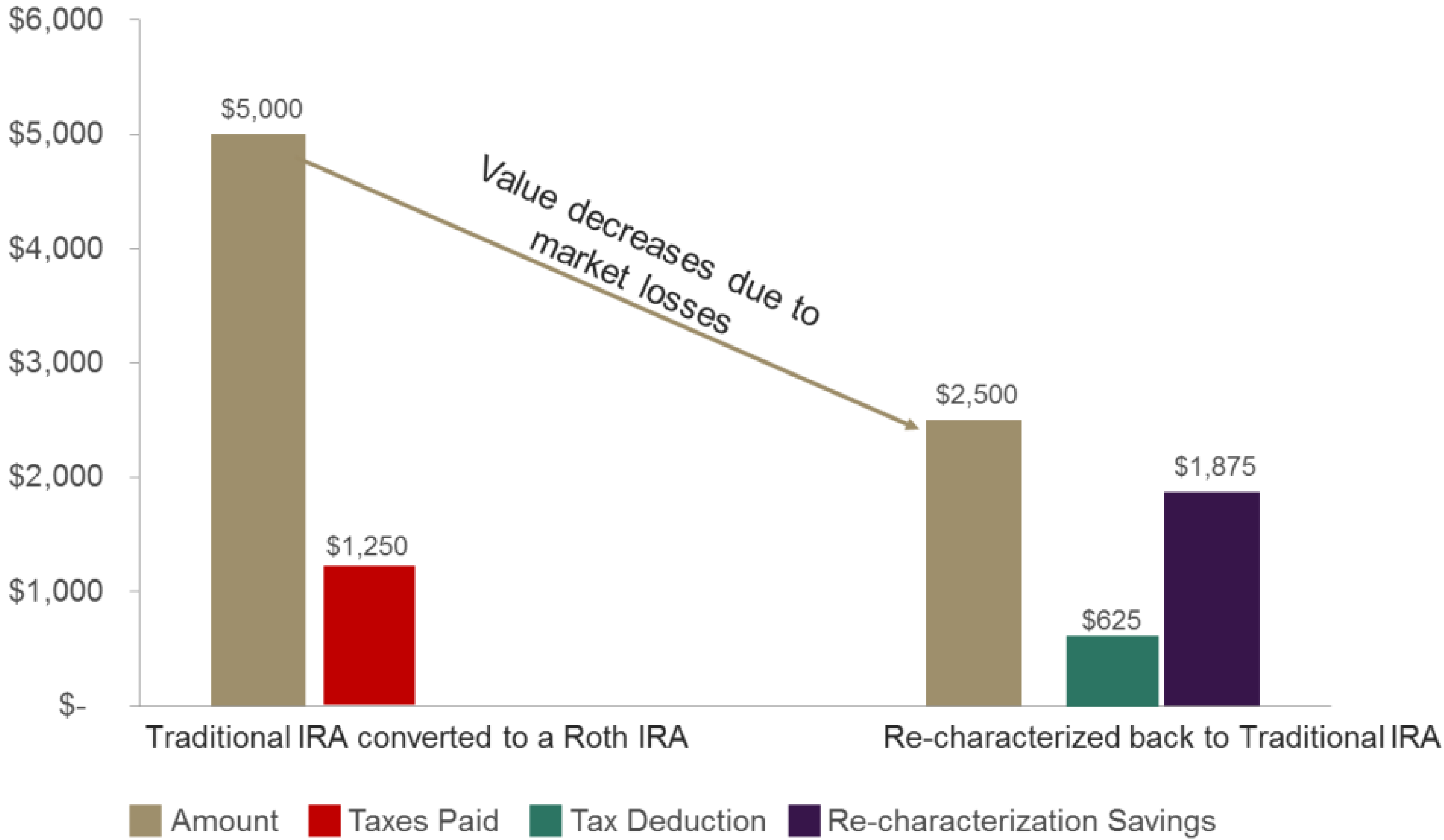
AMT Exemption Amounts		
	2017	**2018**
Single or Head of Household	$54,300	$70,300
Married Filing Jointly	$84,500	$109,400

AMT Threshold Amounts (phase out of exemption amounts)		
	2017	**2018**
Single or Head of Household	$120,700	$500,000
Married Filing Jointly	$160,900	$1,000,000

Source: IRC § 12003

Traditional IRA to Roth IRA and Re-Characterized Back

LESS FLEXIBILITY UNDER NEW LAW



Elimination of Deduction for Alimony Payments

CHANGES IMPACT THE STRUCTURING OF DIVORCE SETTLEMENTS

- **Alimony not deductible by payor**
- **Alimony not included in payee's gross income**
- **Section 682 alimony trusts repealed**

- **Provisions effective after December 31, 2018**
- **Agreements executed before January 1, 2019 grandfathered**

Source: IRC § § 71, 11051

529 College Savings Accounts

EXPANDED USE

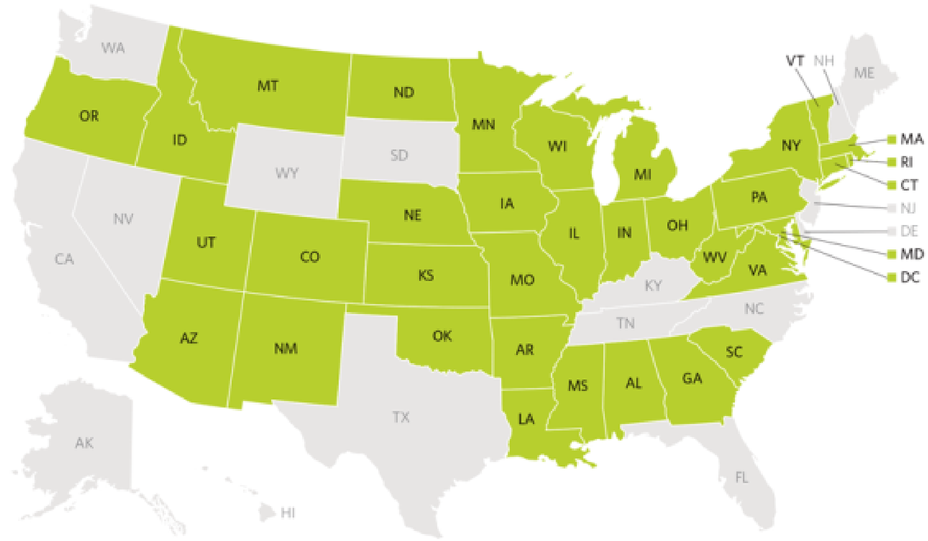
Withdrawals from 529 accounts used to pay for eligible expenses are not subject to federal income tax.

In addition to the federal tax benefits of 529 plans, 34 states offer parallel tax deductions for contributions to the accounts.

New: Distributions of up to $10,000 may be used for “qualified expenses” for elementary and high school

MAP 1

States that Allow State Tax Deductions or Credits for Contributions to 529 College Savings Plans



SOURCE: Vanguard, “529 State Tax Deduction Calculator,” https://vanguard.wealthmsi.com/stdc.php (accessed December 18, 2017).

BG3274 heritage.org

Source: IRC § § 529, 11032

Estate & Gift

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Estate Tax Exemptions

CHANGES AND IMPACTS

Federal Estate Tax Exemption increased to approximately

$11.2 million per person

- Importance of portability decreased

Sunsets after December 31, 2025

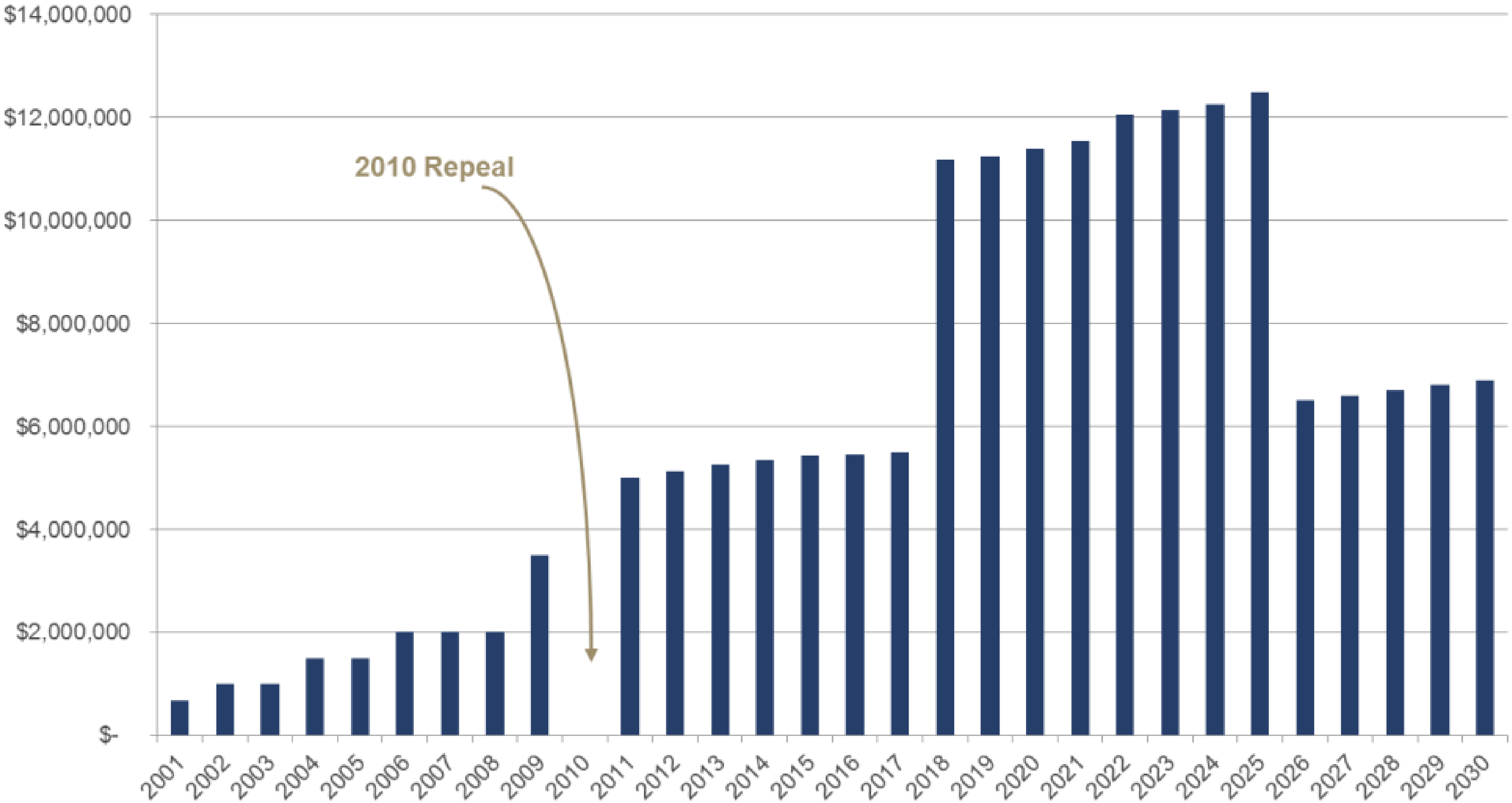
- Claw back potential?
- Gives Treasury authority to issue regulations

Step-up in basis and automatic long-term holding period retained

Source: IRC § 11061

U.S. Estate Tax Exemption — Past & Projected Over Time

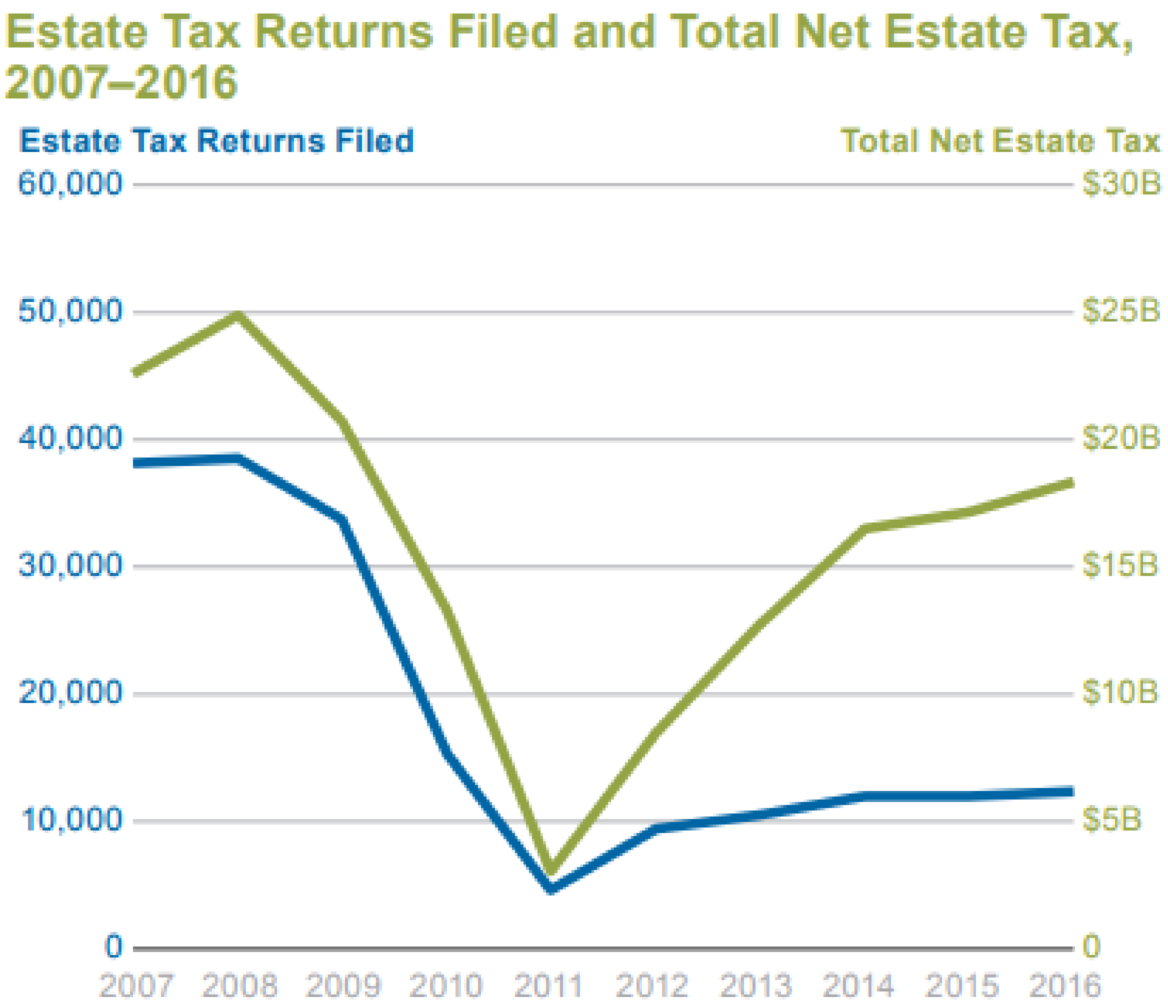
UP THEN DOWN



The chained CPI tends to increase more slowly than the regular CPI, so the exclusion amount will most likely be $11,180,000 in 2018 instead of $11,200,000 (which would be twice the previously announced exclusion amount of $5,600,000 for 2018). The Treasury will probably publish revised inflation adjustments sometime in January or February.

Estate Tax Exemptions

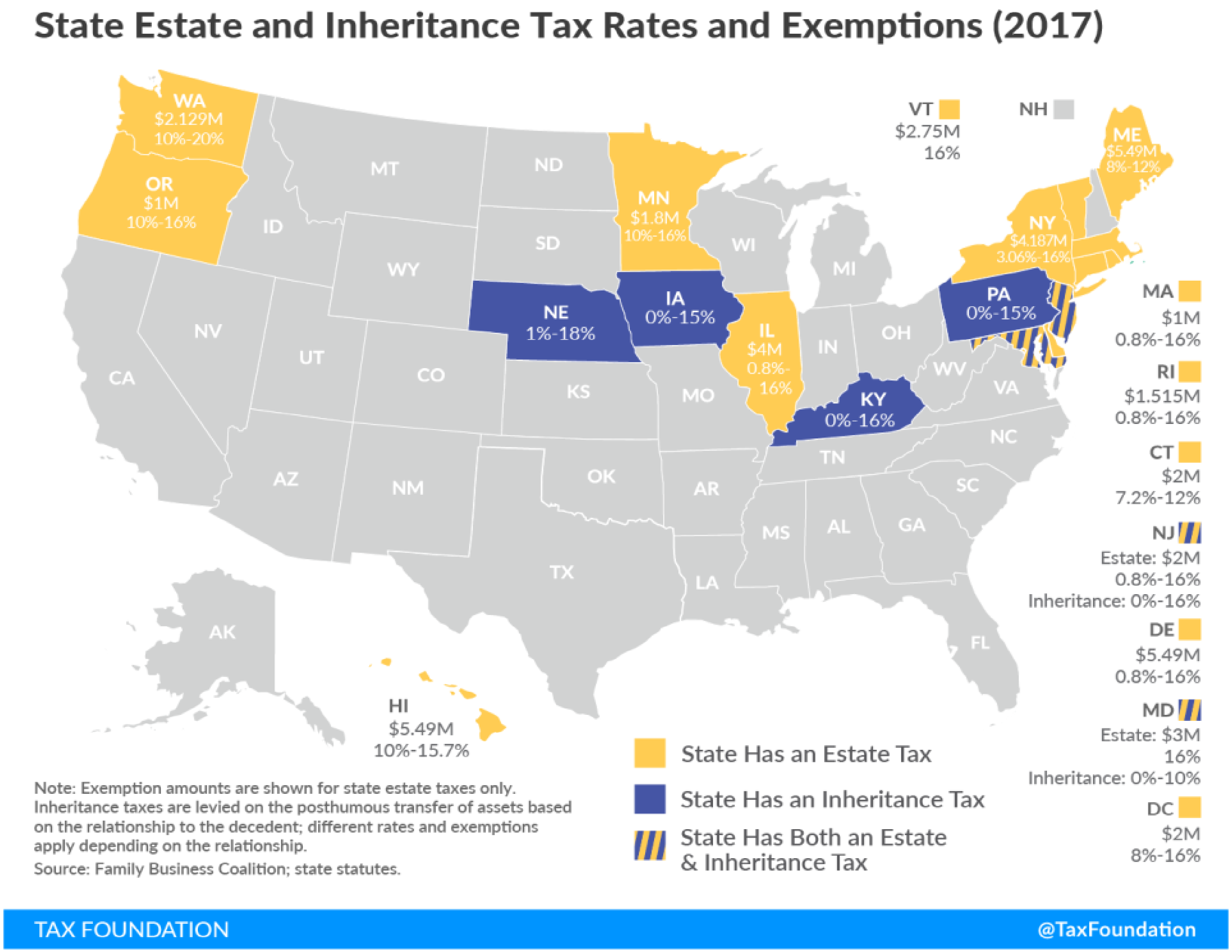
IMPACT



Source: IRS Estate Tax Statistics One Sheet (2016)

Estate Tax Exemptions

IMPACT



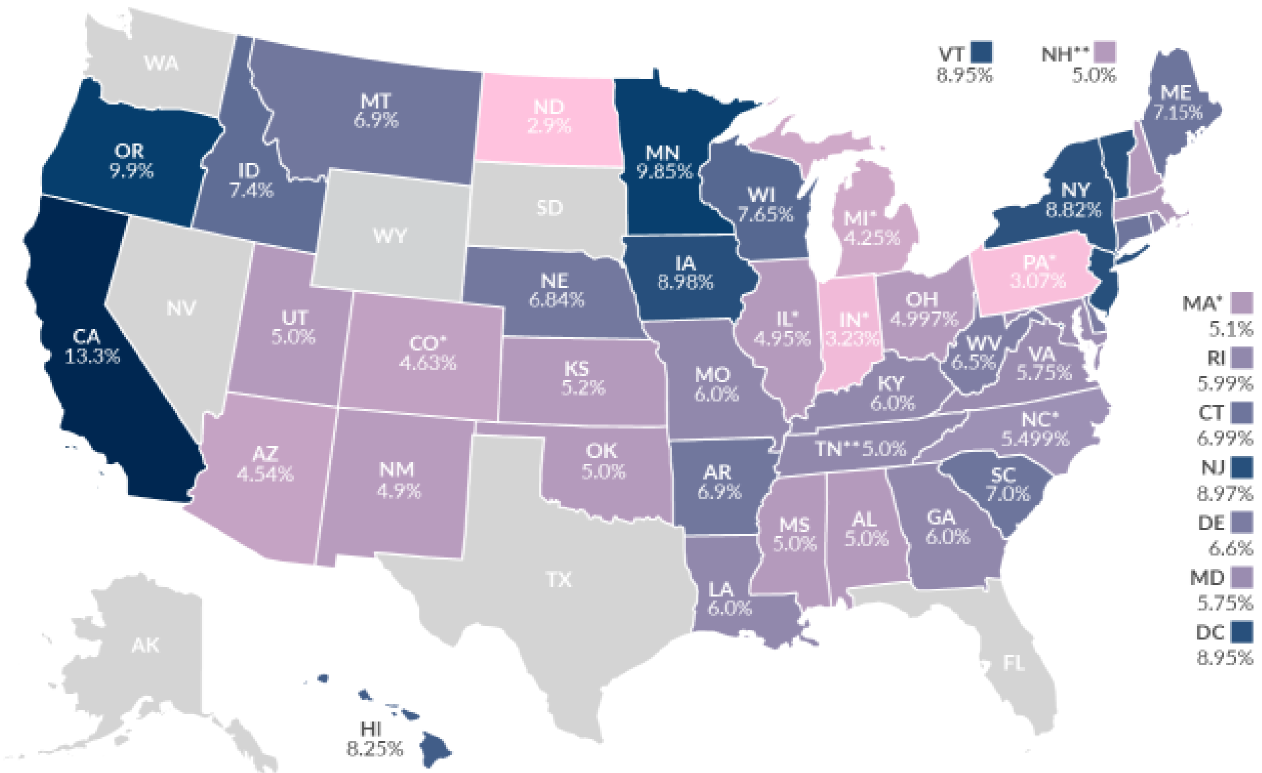
 Source: Tax Foundation

Estate Tax Exemptions

IMPACT

How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates as of July 1, 2017



Note: (*) State has a flat income tax. (**) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.

Top State Marginal Individual Income Tax Rate

Lower — Higher

TAX FOUNDATION @TaxFoundation

 Source: Tax Foundation

Estate Tax

PLANNING UNDER NEW LAW

1. **Spousal Lifetime Access Trust (SLAT)**

2. **Non-Grantor Trusts** (Nevada, Delaware, Wyoming, Alaska?)

3. **Upstream Gifts**

4. **Allocating GST**

5. **Reviewing Formula Clauses**

6. **Portability**

7. **Clawback**

Source: Tax Foundation

Questions?

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Questions?

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