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The Tax Cut and Jobs Act passed the House of Representatives and the Senate on December 20, 2017 and was signed by President Trump into law on December 22, 2017. Over the following days our office tried to analyze the Tax Act and highlight major areas it would affect our clients and actions that our clients could take with only one week left in the 2017 calendar year. The following are the emails we sent out.

EMAIL #1 ---December 22, 2017

The Tax Cut and Jobs Act passed on December 20, 2017 by Congress and signed into law by the President on December 22, 2017 is around 800 pages. It is thick and there are lots of changes to the **tax law for tax years 2018 and beyond**. While there have been tax law changes almost every year for the past few decades including the sweeping Affordable Care Act, this one has the most tax implications since the Tax Reform Act of 1986, over 31 years ago. In 1986 popular television shows were *Alf* and *LA Law* and a cell phone weighed about five pounds and was unable show you video clips of cats running into walls. Today, television probably isn't much better but at least you can read this exciting newsletter on your phone.

We will email you several times over the next week with the items that affect most taxpayers and will have the greatest impact on you. Our recap is not meant to be an exhaustive detailed discussion of the Act, but give you an overall understanding of how it may impact you. As always, please feel free to contact us by email (demartini@demartinitax.com) or phone with any specific questions about your tax situation. While we would rather be taking some time off during this time of year (and we will a little bit), we are here to assist you and will take some time off after January 1st instead.

The format will be simple—a sentence or two describing the tax change or law, brief example(s) of the tax law change, and then "action items" of things you may want to do by the end of the calendar year.

TAX BRACKETS

Tax Law Change: There are still 7 tax brackets, but the rates are lower and the brackets are wider. For example, under current 2017 law the lowest tax bracket is 10%, not zero, and the 25% tax bracket for taxable income for Single taxpayers is between $37,951 and $91,900 and for Married Filing Joint taxpayers it is between $75,901 and $153,100. Head of Household brackets are somewhere in between the Single and Married Filing Jointly brackets, but due to space we have not listed them.

Single—Taxable Income Is…

Over	But not over	Pay	Plus % on excess	Of the amount over
$0	$9,525	$0.00	10%	$0
$9,525	$38,700	$952.50	12%	$9,525
$38,700	$82,500	$4,453.50	22%	$38,700
$82,500	$157,500	$14,089.50	24%	$82,500
$157,500	$200,000	$32,089.50	32%	$157,500
$200,000	$500,000	$45,689.50	35%	$200,000
$500,000 and	over	$150,689.50	37%	$500,000

Married Filing Jointly—Taxable Income Is…

Over	But not over	Pay	Plus % on excess	Of the amount over
$0	$19,050	$0.00	10%	$0
$19,050	$77,400	$1,905.00	12%	$19,050
$77,400	$165,000	$8,907.00	22%	$77,400
$165,000	$315,000	$28,179.00	24%	$165,000
$315,000	$400,000	$64,179.00	32%	$315,000
$400,000	$600,000	$91,379.00	35%	$400,000
$600,000 and	over	$161,379.00	37%	$600,000

Example: Derek and Ashlee have **taxable income** of $200,000. In 2017 that would mean a total federal tax of $42,885. In 2018 if they had **taxable income** of $200,000, their total federal tax would be $36,579, a reduction of $6,306. But, as you will note in our additional notes, what gets you to taxable income changes, so they may or may not get all of that tax savings.

Action Item: If possible, even at this late date, push income such as bonuses, billings, receivables (if cash basis taxpayer), etc. into tax year 2018 and accelerate deductions into 2017. This takes advantage of the lower tax brackets in future years on the income side and gets deductions to offset the higher tax brackets of 2017. This may be difficult for many who earn wages and for many business owners since the end of the year is so close.

STATE AND LOCAL TAX DEDUCTIONS

Tax Law Change: The deduction for State and Local taxes has been limited. In the past, if you itemized (**if you take the Standard Deduction this probably won't affect you**), you deducted state and local income tax (SALT) such as State income taxes paid, CA SDI withheld from your paycheck, real property taxes paid and a few other items such as DMV fees to register your vehicles, boats, etc. since they are based on the value of the item and are thus a property tax. For 2018 and beyond, the SALT deduction is limited to $10,000 in the aggregate.

This does not affect the deduction of property taxes or other state taxes for business, rentals, and other activities. It only affects personal deductions on Schedule A of the Form 1040.

Example: Jack and Jill earn about $200,000 per year and their total state income taxes are $11,000, which are withheld through their paychecks. They also pay $7000 per year in property taxes on their home and an additional $300 in DMV fees to register their two older cars which they use to drive up the hill to fetch water. In 2017 they can deduct $18,300 on Schedule A, Line 9. For 2018, their SALT deduction is limited to $10,000. When Jack heard this he fell down and almost broke his crown.

Reality check—Jack and Jill may not have fully benefited from the $18,300 of deductions in the past as Alternative Minimum Tax may have disallowed some or all of the SALT deduction.

Action Item: A few things to contemplate before the end of the year.

1) Pay the property tax payment that is due in the early part of 2018 before the end of 2017. This allows the deduction on the 2017 tax return and avoids the deduction being lost in 2018 with the $10,000 cap. Even if AMT reduces the tax benefit, many will still benefit as they can deduct property taxes on the State Tax Return.
2) Pay State estimated tax payments that are due January 15, 2018 by December 31, 2017. Paying the Federal estimates early has no impact on this item and can still be paid by January 15th.
3) If you anticipate having a State income tax balance due for the 2017 tax year, estimate how much you think you will owe and pay it by December 31, 2017. This will not help if you are in AMT for 2017. **Note: The Tax Act specifically prohibits prepaying 2018 State income taxes and getting a Federal tax benefit on the 2017 Form 1040.**

EMAIL #2 ---December 24, 2017

STANDARD DEDUCTION, PERSONAL EXEMPTIONS AND CHILD TAX CREDIT

Tax Law Change (#1): Similar to past years, taxpayers can reduce their taxable income by either itemizing deductions on Schedule A (such as state and local taxes, property taxes, charity, home mortgage interest, etc.) or take the Standard Deduction, whichever is greater. The new tax law significantly raises the Standard Deduction for taxpayers who file as

Single to	$12,000 (was $6,350 in 2017)
Married Filing Joint to	$24,000 (was $12,700 in 2017)
Head of Household to	$18,000 (was $9,350 in 2017)

Tax Law Change (#2): The personal exemption is eliminated (it was $4,050 per person in 2017).

Tax Law Change (#3): The Child Tax Credit (CTC) for each eligible child is increased to $2000 (was $1000 in 2017). The CTC may even be refundable up to $1,400 per child depending on low income levels. Similar to past years, as income rises, the CTC phases out.

Example #1: Mike and Carol Brady are married and take the Standard Deduction. In 2017 they can exclude up to $20,800 from taxable income by taking the Standard Deduction and two Exemptions ($12,700 plus 2 x $4,050). In 2018, they can take only the Standard Deduction of $24,000 as Exemptions were eliminated. Thus, they will avoid paying tax on $3,200 ($24,000 less $20,800) under the new tax law. If their combined annual W-2 income was $110,000 a year, their overall tax would decrease by $2,978 under the new plan due to lower tax rates and a larger overall Standard Deduction.

Example #2: Mike and Carol Brady have a "bunch" of kids, six in all. In addition, they have a housekeeper named Alice that handles all the minor repairs around the house, solves all problems adolescent teenagers may encounter, can cook three meals a day for nine people and she still manages to have some spare time to date the local butcher, Sam. But I digress as the last sentence has absolutely nothing to do with current tax legislation.

In 2017, Mike and Carol were able to exclude up to $44,470 from income ($12,700 plus 8 x $4,050). But, for 2018, they can only exclude $24,000 as personal exemptions were eliminated. Their taxable income just increased by $20,470. If their combined annual W-2 income was $110,000 a year, their overall tax would increase by $2,199 under the new plan. But.....

......there is some good news. For each child under the age of 17 at the end of the year they may be able to get a child tax credit of up $2,000 (it was $1,000 per child in 2017). Since five of the children were age 16 or younger, they get an additional $5,000 in child tax credits and save $2,801 ($5,000 less $2,199) overall in taxes. Similar to the past law, the Child Tax Credit phases out as income rises above certain thresholds depending on filing status and the number of qualifying children.

Action Item: If for 2017 your itemized deductions exceed the Standard Deduction (see above in parenthesis) but are less than the new Standard Deduction amounts for 2018 (see above), you might consider

1) Paying the property tax payment that is due in the early part of 2018 before the end of 2017.
2) Paying State estimated tax payments that are due January 15, 2018 by December 31, 2017.
3) Make charitable contributions normally given in 2018 by December 31, 2017.

Example: Tom and Mary have a small mortgage, low property taxes and usually donate $200 per month to charity. Their itemized deductions are usually around $18,000 which was greater than the Standard Deduction of $12,700 in 2017. But, for 2018, the Standard Deduction of $24,000 will exceed their anticipated itemized deductions. So, instead of donating $200 per month in 2018, Tom and Mary donate $2,400 (the amount they would have given in 2018) by December 31, 2017 to their favorite charity and pay the property taxes that are due in the early part of 2018. This way they are guaranteed a tax deduction for both items in 2017.

EMAIL #3 ---December 26, 2017

MEDICAL EXPENSES

Tax law Change: For **2017 and 2018 only**, medical expenses that exceed 7.5% of Adjusted Gross Income (AGI, the number at the bottom of page 1 of the Form 1040) are deductible as an itemized deduction on Schedule A. As in previous years (2016 and prior), for tax years 2019 and beyond, only the medical expenses that exceed 10% of AGI will be deductible as an itemized deduction.

Example #1: Humpty Dumpty earns around $180,000 every year. He usually spends around $4,000 for out of pocket, non-reimbursed, after-tax medical. Therefore, he usually doesn't deduct medical on Schedule A as he can only deduct medical for the **amount that exceeds** $13,500 ($180,000 x 7.5%).

In October of 2018, Humpty was "egged" on by a few guys at work to climb a tall wall and sit on it. Humpty gave into peer pressure and climbed the wall but as he was trying to get down he had a great fall and landed, well, let's just say, not sunny side up. Over the next several months Humpty has shell grafts, yolk transplants and saw the best coddling expert money could buy. The total of his out of pocket, non-reimbursed, after tax costs came to $16,000.

If Humpty paid half of the $16,000 in late 2018 and the other half in early 2019 he would get zero tax benefits since $12,000 (his usual $4,000 plus $8,000) does not exceed $13,500, or 7.5% of his AGI. Knowing this, Humpty "scrambled" to pay all $16,000 of medical due to his accident by December 31, 2018 thus adding $6,500 ($16,000 plus the usual $4,000 less $13,500 [7.5% of AGI]) to his itemized deductions. It was a good thing Humpty had a "nest egg" of cash to pay for the expenses.

Action Item: Since it seems medical expenses keep rising, please take advantage of

1) Pre-tax Flexible Spending Accounts (FSAs) offered by your employer
2) Other pre-tax medical plans offered by your employer
3) HSAs (Health Savings Accounts) if your insurance policy is HSA compatible (ask your insurance company if you are not sure) and
4) If you still have substantial medical (often due to dental, braces for the kids, vision, Lasik surgery, etc.) and itemize on Schedule A, consider bundling your medical expenses into one calendar year such that the amount will exceed the threshold (7.5% in 2017 and 2018, 10% for years 2019 and beyond). Medical expenses are consider paid when a check is post-marked or if paid by credit or debit card, the date the charge is drafted.

EMAIL #4 ---December 26, 2017

MISCELLANEOUS ITEMIZED DEDUCTIONS SUBJECT TO THE 2% FLOOR

Tax Law Change: The tax law suspends, which means no longer allows a deduction for, all miscellaneous itemized deductions subject to the 2% floor under current (2017 and prior years) law. This would include employee business expenses, union dues, investment expenses, tax preparation fees, attorney fees paid in a lawsuit settlement (except for civil right issues or for physical pain and suffering) and other 2% expenses.

Example #1: Bob the Builder works for a construction contractor and receives a W-2 since he is an employee. Bob purchases his own tools, work books, and pays quite a bit for union dues. The sum total of all those items adds up to $3,000 a year. Bob and his spouse have an Adjusted Gross Income (AGI is the number at the bottom of page 1 of Form 1040) of $90,000. Thus in the past Bob has deducted $1,200 ($3,000 less 2% of AGI of $1,800) as an itemized deduction on Schedule A. **For tax years 2018 and beyond he cannot deduct these expenses.**

Example #2: John is a sales agent for a large moving company and is given a W-2 each year since he is an employee. He earns around $125,000 per year. As a condition of his employment, his employer requires that he drive his own car to sales bids in his large territory area, have a smart phone and belong to the National Association of Movers and Shakers. John's employer has a policy of not reimbursing employees for these necessary costs. For tax year 2017 John can deduct the amount of employee business expenses that exceed 2% of his AGI, or $2500 (2% of $125,000) as an itemized deduction on Schedule A. **For tax years 2018 and beyond he cannot deduct these expenses.**

John spends $1200 per year for the smart phone, takes $13,375 in mileage deductions (25,000 miles x 53.5c/mi for 2017) and $175 for his professional membership dues. His total 2017 annual expenses are $14,750. He deducts $12,250 (the amount that exceeds 2% of his AGI) as an itemized deduction on Schedule A for 2017, **but not for 2018 and beyond.**

Example #3: Mrs. Buffett is a 70-year-old retired professor and has a small pension and a $3 million investment portfolio. Her pension income plus the income from her portfolio total $225,000 per year. Her itemized deductions subject to the 2% floor would have to exceed $4,500 (2% of $225,000) to be added to her itemized deductions.

Mrs. Buffett pays $30,000 in advisory fees each year plus $1000 in subscriptions to the Wall Street Journal and the Business Daily Journal. In addition to those costs she pays around $1500 for a safety deposit box, excellent tax preparation services, and in annual dues to the Retired College Professors Association of America. In the past she has deducted over $28,000 ($30,000 plus $1000 plus $1500 less the 2% floor of $4500) as itemized deductions on Schedule A. **For 2018 and beyond, no deductions.**

Reality check: Bob, John and Mrs. Buffett may not have fully benefited from the deductions in the past as Alternative Minimum Tax may have reduced some of the tax benefits.

Action Item: There is not a lot Bob, John and Mrs. Buffett can do except pay by December 31, 2017 as many 2018 expenses as possible. Mrs. Buffett may want to prepay her 2018 advisory fees and investment publications in 2017. In addition, as employees, Bob and John may want to buy tools and supplies they may use or need in 2018 by December 31, 2017. Employees may want to negotiate with their employer about reimbursement policies. Smaller employers may choose to forgo raises and instead pay tax-free reimbursements to their employees. By having an accountable reimbursement plan, the employer can deduct the expense while not creating taxable income to the employee for those accountable reimbursements.

EMAIL #5 ---December 27, 2017

HOME MORTGAGE INTEREST DEDUCTION

Tax Law Change #1: The new limits for home mortgage interest deductions mainly affect **new purchases**. Most current mortgages on your main and second home will be deductible in the same manner and in the same limits as before.

For tax years 2017 and prior, taxpayers can deduct on Schedule A interest on up to $1million of "qualified acquisition indebtedness" (see definition below) combined for their main home and second home. For tax years 2018 and beyond, taxpayers can only deduct on Schedule A home mortgage interest on up to $750,000 of debt on a main home or second home, **unless the existing mortgage(s) is/are grandfathered in.** A mortgage will be considered grandfathered into the $1 million limit if

1) the debt on the principal and/or second home was incurred on or before December 15, 2017 or
2) for **principal residences** only if
    a. there was a binding contract on or before December 15, 2017 to close on the purchase of the principal residence by January 1, 2018 and
    b. the principal residence is actually purchased before April 1
    c. and the debt is incurred on or before April 1, 2018

"Qualified acquisition debt" is money borrowed to acquire, construct, or substantially improve the taxpayer's main or second home. In addition, the mortgage must be secured by the property the funds were used to acquire, construct or substantially improve.

Tax Law Change #2: Home equity debt (debt secured by your home but used for "non-qualified" purposes such as paying off credit cards, college tuition, or for other personal, nonbusiness uses) is no longer deductible. In the past, taxpayers were allowed to deduct interest paid on up to $100,000 of this type of debt (but this interest was never deductible for AMT).

Example #1: Several years ago, in **2015,** tired of living in the forest among the trees and having to swing into town every time they needed a carton of milk, Tarzan and Jane bought a home in the suburbs for $1.5 million. Their down payment was $500,000 and they borrowed the balance of $1 million at 4% from the bank. Since the loan was qualified acquisition indebtedness and acquired before December 15, 2017, they can still deduct almost $40,000 ($1 million x 4%) of interest paid.

Example #2: The same example as #1, but instead of buying the property in 2015 they bought the property in **June of 2018**. They can only deduct $30,000 ($750,000 x 4%) of home mortgage interest on Schedule A.

Example #3: Tarzan and Jane owed over $25,000 to VISA since they always ate out for dinner at the Rainforest Café. They used a Home Equity Line of Credit to pay off the VISA card. For tax years 2017 and prior, they can deduct the interest (but not deductible for AMT) on Schedule A. **For 2018 and beyond, no deduction.** It is not even "grandfathered" in since it is not qualified acquisition debt.

EMAIL #6 ---December 29, 2017

MOVING EXPENSES, ITEMIZED DEDUCTIONS PHASEOUT, THEFT AND CASUALTY LOSS, SEC 529 PLANS, ACA PENALTIES, ROTH IRAs

Tax Law Change #1-Moving expenses incurred in 2018 and beyond are no longer deductible **unless a taxpayer is on active military duty and the move is because of military orders.**

In the past, if the distance from your new job and old home was 50 miles or more from the distance from your old job and old home, your moving expenses were deductible. That law expires December 31, 2017.

Example #1: Gomer lived and worked Memphis, TN. Mr. Pyle then got promoted and moved to corporate headquarters in San Francisco. Since the distance between Memphis and San Francisco is more than 50 miles more than the distance between his old job and old home, for tax years 2017 and prior he would have been able to deduct his unreimbursed moving expenses. **For 2018 and forward, no deduction**.

Example #2 exception: Same as example #1, but General Pyle (yes, he got promoted) moved to San Francisco pursuant to a military order. He can now deduct his moving expenses. When his tax preparer told him of the tax deduction only for active military orders, Gomer Pyle was overheard muttering "Shazam!".

Tax Law Change #2- The phase-out of itemized deductions for higher income taxpayers no longer applies for tax years 2018 and beyond.

For tax years 2017 and prior, if a taxpayer's AGI (Adjusted Gross Income, the number at the bottom of page one of the Form 1040) exceeded $261,500 (Single) or $313,800 (Married Joint), itemized deductions were phased out at a rate of 3%. So, for every $1,000 the AGI exceeded the limits, 3% ($30) of itemized deductions would be disallowed. For 2018 and beyond, no phase-outs at all.

Tax Law Change #3- The deduction for personal, nonbusiness theft losses has been repealed (no longer deductible). In addition, personal, nonbusiness casualty losses are not deductible unless the casualty loss occurs in a Presidentially Declared Federal Disaster Area.

Example #1—Jim Croce had a very valuable bottle collection. One bottle even had time in it. Years later Leroy Brown burglarized Jim's home and stole the entire collection which was never found by the police. Jim had no insurance on the bottle collection, only photographs and memories. For 2017 and prior, Jim could deduct his theft loss on Schedule A. But for 2018 and beyond**, no deduction**.

Example #2—While over the years he had seen fire and rain, James Taylor never saw earth movement on his home in the hills. One night, a huge mudslide occurred and James had a noninsured casualty loss of $100,000. For tax years 2017 and prior James could deduct a majority of the loss on his tax return. But, for tax years 2018 and beyond, **no deduction.**

Example #3-- Carole King felt the earth move under her feet but didn't have earthquake insurance. But, since her home was in a **Presidentially Declared Federal Disaster Area,** even if the earthquake occurred after 2017, she will be able to deduct her casualty loss on Schedule A.

Action Item: Review your insurance policies (homeowner's, renter's, etc.) to see what is and isn't covered. Then discuss with your insurance agent if any adjustments would be prudent.

Tax Law Change #4—Funds from a Section 529 Plan can grow tax free if used for post-secondary (after high school) education. For tax years 2018 and beyond, up to $10,000 per student can be used each calendar year tuition at a public, private, or religious elementary or secondary (high school) school. Some parts of this law even allow the funds to be used in connection with homeschooling.

Tax Law Change #5—For tax years **2019 and beyond**, the penalty for not having health care coverage (health insurance) is zero. So, while the law still states that health care insurance coverage is required for all US residents, this law is effectively repealed in that the penalty is zero. But, for **tax years 2017 and 2018** the penalties and exceptions to the penalties have not changed.

Tax Law Change #6-- A taxpayer may continue to convert money from a traditional IRA to a Roth IRA and pay the tax on the conversion. However, in the past (tax years 2017 and prior) if a taxpayer wanted to undo all or part of the conversion (perhaps their income unexpectedly rose or the value of the items converted dropped substantially in value) they could "re-characterize" the conversion once. **For tax years 2018 and forward the Roth conversion cannot be undone.**

EMAIL #7---December 30, 2017

This will be the last update of the year about the 2017 Tax Cut and Jobs Act. We have tried to inform you of areas the Tax Act will affect you the most. We admit that some of the illustrations might have been a tad corny, but we hope at the very least it made the new Tax Act interesting. One additional note---most of the items we have discussed are good through tax year 2025. Supposedly, in tax year 2026 all these provisions expire and revert to prior law. But, it is very unlikely that tax law will not either be extended, amended, changed and/or tinkered with between now and then.

Now onto our three least favorite topics...divorce, death and the AMT.

DIVORCE, ESTATE TAXES, AND ALTERNATIVE MINIMUM TAX (AMT)

Tax Law Change #1—For any divorce or separation agreement finalized **after December 31, 2018** (so tax year 2019 or later), alimony or separate maintenance payments are not deductible by the payer and are not taxable to the recipient. Any agreement finalized **on or before December 31, 2018** (including any agreements currently finalized), alimony or separate maintenance payments will still be tax deductible by the payer spouse and taxable to the recipient spouse. Child support and property settlement payments have never been deductible nor taxable and that will remain the same. Agreements originally finalized on or before December 31, 2018 can be amended after December 31, 2018 and may elect in to the new law if both former spouses agree to it.

Example #1—Angelina Jolie and Brad Pitt decide to divorce. Angelina wants to continue making movies and lots of money while Brad simply wants to collect royalty checks and take care of their many children while watching old episodes of the TV sitcom "Friends". In addition to child support, Angelina pays Brad $5000 a month in alimony. If the divorce or separation agreement is **finalized ON OR BEFORE December 31, 2018,** the alimony is deductible to Angelina and taxable to Brad. But, if the divorce or separation agreement is **finalized AFTER December 31, 2018,** it is neither deductible nor taxable.

In the above example, if Angelina is in a combined Fed/State tax bracket of 40%, deductible alimony only really costs her $3000 per month ($5000 less $2000 in taxes saved) and if Brad is in a 25% Fed/State tax bracket he really only nets $3750 ($5000 less $1250 in taxes paid). If Brad nets $3750 but Angelina is only out of pocket $3000, who is subsidizing the difference of $750? The government. Not any longer if the finalization is **after December 31, 2018.**

Example #2—Same as example #1 but the agreement is finalized in 2019. Angelina's attorney informs her that the alimony will not be deductible. Knowing this, prior to finalizing the agreement, she negotiates with Brad and they eventually agree on a monthly alimony payment of $3,750 per month. Brad nets $250 less and Angelina is out $750 due to the new tax law.

Action Item: If you find yourself in the middle of a divorce, of the many factors to discuss with your attorney should be the final settlement date and the tax ramifications of that date.

Tax Law Change #2—When a person dies he/she has an estate. The value of the estate is the amount of what they own less what they owe. For US Citizens or Residents, estate tax only occurs if the value of the net estate exceeds certain levels. **For 2017,** only estates that exceeded $5,490,000 had to worry about paying an estate tax. For deaths **after December 31, 2017** (2018 or later), only net estates worth $11,200,000 (yes, $11 million) or more may owe estate taxes. So, a married couple worth less than $22,400,000 may not have to pay estate tax. Portability, the marital deduction, and gift tax rules still apply but with these higher levels.

Action Item: Many married couples who have a net worth less than the estate exclusion amounts may want to review their Revocable Living Trusts that **require** a Bypass trust (often called AB trusts) if the main goal was to eliminate or minimize estate taxes. If the property is held as community property in California, the surviving spouse often gets a full "step-up" in basis. Then, if the surviving spouse dies, the heirs get another "step-up" in basis.

Example #1—Mickey and Minnie Mouse are married and worth a combined $5 million when Mickey died in a tragic accident. Mickey's estate of $2.5 million is well below the estate tax limits, so no estate tax. But, the Mickey and Minnie Family Trust **requires** half of the assets to go into a bypass trust. The trustee of the Mouse Trust splits the assets evenly and half of the assets ($2.5M) are put in a Bypass Trust for the benefit of Minnie and the other half is kept in the Survivor's (Minnie's) Trust. Minnie lives for many years and both Trusts are worth a combined $8 million ($4M in Bypass and $4M in Survivor's) when she dies. The Survivor's Trust gets a "step-up" in basis to $4 million and the assets in that trust can be sold without paying any income tax. But, the Bypass Trust still has a tax basis of $2.5M. Thus, if their children sell all of the assets, they will pay tax on $1.5 million, the appreciation in the Bypass trust ($4Mm less $2.5M). When the kids find out about the tax they will need to pay they said "Rats", which for mice is a very bad word.

Example #2—Same as example #1, but Mickey and Minnie's trust does not require a bypass trust to be funded. After consulting with her attorney, Minnie decides to keep all the assets in her Survivor's Trust and died year later worth $8 million. Her estate is below the estate tax limit, so no estate tax. In addition, the children get a "step-up" in basis on all $8 million and can sell all of the assets and pay no income taxes.

Reality Check: There are several good reasons to still have an AB trust even if estate taxes are not an issue. Some reasons may include providing for children from previous marriages/relationships, ensuring that the surviving spouse doesn't change beneficiaries, limiting future non-tax liabilities and other personal reasons. **Please consult with your legal advisor before making any changes.**

Tax Law Change #3—For tax years 2018 and beyond the new Tax Act reduces the number of taxpayers that will be subject to the Alternative Minimum Tax. This is for two main reasons:

1) For 2018 and beyond the AMT exemption amounts have increased to $109,400 (was $84,500 in 2017) for married couples and $70,300 (was $54,300 in 2017) for single taxpayers and
2) The items that caused AMT for most taxpayers were due to itemized deductions that will now be limited or eliminated such as high state and local income and property taxes (now capped at $10,000) and the deduction of 2% expenses (eliminated).

In addition, AMT will not phase out itemized deductions unless income exceeds $1 million for married and $500,000 for single taxpayers. Tax years 2018 and beyond may be a good time to consider exercising incentive stock option (ISOs) without much fear of AMT.