TAX REFORM PROPOSAL UNVEILED

By Greg Koch, Koch Insurance Brokers LLC, Koch Financial Group LLC

The much-anticipated Republican proposal for tax reform has been released in the form of the Tax Cuts and Jobs Act, an over-400 page long major rewrite of the Tax Code.

Individual Retirement Accounts

IRA rules are left largely untouched by the Act. Contribution limits and requirements are unchanged, stretch IRAs remain in place, and favorable treatment for Net Unrealized Appreciation remains available as before.

The one significant change is repeal of Roth IRA re-characterizations, making Roth IRA conversions irrevocable, effective in tax years beginning after December 31, 2017. Current law enables one to convert a traditional IRA to a Roth IRA, then afterwards re-characterize it back to a traditional IRA by as late as the extended due date of the return for the year in which the conversion took place, a rare "second chance" in the current tax code. But if this provision of the Act becomes law, this "do over" opportunity will no longer be available. Roth IRA conversions will be final.

Employer Plans

The Act keeps current 401(k) contribution limits in place, the much-discussed reduction of them is not proposed. The bill does include provisions that are friendly to employees by easing the rules on in-service and hardship distributions from qualified plans. An IRA-related provision here helps employees who have plan loans outstanding when they separate from service or their plan terminates. It gives them more time to roll over an outstanding loan balance to an IRA to avoid it being taxed as a distribution, extending the deadline from the normal 60-day period for a rollover until the due date for filing the tax return for that year.

Tax Rate Changes

The single biggest change in the Act is reduction of the top corporate income tax rate to 20 percent from 35 percent. The Act also creates a new 25 percent tax rate on the business income received by owners from "pass through entities" such as partnerships and S corporations. A formula will be applied to separate this income from the wage income of the owner, which will remain taxed at personal rates.

Individuals have their seven current tax brackets reduced to four: 12 percent, 25 percent, 35 percent, and 39.6 percent.

Also, the Alternative Minimum Tax (AMT) is repealed for both individuals and corporations.

(Continued on page 42)

Tax Reform Proposal Unveiled

(Continued from page 41)

Deductions

To pay for its lower tax rates, the Act reduces or eliminates many popular itemized deductions. The medical expense deduction is eliminated, which would also eliminate the current exception to the 10% early distribution penalty for distributions from retirement plans that are used to pay deductible medical expenses.

The deduction for mortgage interest is restricted to interest on $500,000 of borrowing, down from $1 million, and the deduction for state and local income taxes is eliminated. The deduction for personal casualty losses is eliminated as well, except for losses associated with special disaster relief legislation (such as the recent hurricane disaster relief legislation).

Offsetting these cuts, the Act approximately doubles the standard deduction to $12,000 for individuals and $24,000 for married couples, and increases the child tax credit to $1,600 from $1,000. The net result will be a mix of winners and losers, with persons who currently file itemized returns claiming large deductions most likely to lose, and those filing simple returns using the standard deduction most likely to gain.

Estate Tax

The bill doubles the amount exempt from estate tax to $10 million (as of 2011, indexed for inflation), beginning in 2018. After 2023, the estate tax, and the generation skipping tax, would be eliminated completely while maintaining a full step up in basis. The gift tax would remain but with lower rates and an exclusion of $10 million.

Koch Insurance Brokers is a full-service insurance and financial services company that is focused on serving the needs of our client's goals and objectives. We want to give all our clients the best stress free retirement possible. For additional information, please call Greg Koch at 610.370.7268; or email Greg@KochInsBrokers.com.

KOCH FINANCIAL GROUP
Navigating Your Financial Future