Texas Capital Bank®
Private Wealth Advisors

The Tax Cut and Jobs Act: What it Means for You

By Ben Carter, Executive Vice President and Head of Statewide Planning and Trust

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "Tax Bill"). The Tax Bill represents the most significant tax legislation for our country in more than thirty years. Policy-makers hope that the Tax Bill will lead to greater economic growth, higher wages and more employment.

The Tax Bill makes extensive changes in the taxation of businesses and individuals starting in 2018. Generally, the changes made for businesses are permanent. In contrast, the changes applicable to individual taxpayers are scheduled to "sunset" in 2025, meaning that the law would revert back to the pre-Tax Bill provisions.

The summary below highlights some of the key changes for businesses and individuals under the Tax Bill. Individuals should consult with their tax and legal advisors to understand how the Tax Bill might impact their individual situations. We look forward to partnering with our clients and their tax advisors on these important issues.

Business Tax Reform

1. **Lower Corporate Tax Rate:** The top corporate income tax rate drops to 21%, a significant reduction from the current top rate of 35%. Note that the corporate income tax applies to those corporations that are taxed as "C corporations" for federal income tax purposes.

2. **Corporate AMT:** The Tax Bill repeals the corporate alternative minimum tax ("AMT").

3. **Deduction for Certain Pass-Through Income:** Many private businesses are not structured as C corporations, so the change in the corporate tax rate doesn't directly impact them. However, the Tax Bill also provides tax relief for certain owners of businesses structured as pass-through entities, such as partnerships, LLCs, S corporations and sole proprietorships. These business owners may deduct up to 20% of qualified business income, subject to a wage limitation for taxable income over certain levels ($315,000 for married filers; $157,500 for single filers). The application of this deduction is subject to additional limitations in the case of "service income." As the above makes clear, the details of this potentially valuable deduction are complicated and subject to a variety of limitations.

4. **Reduction/Elimination of Many Deductions:** In exchange for lower tax rates, the Tax Bill eliminates or, in some cases, reduces many itemized deductions for businesses.

5. **Full Expensing:** In an effort to stimulate business investment, businesses generally may fully expense capital investments made during the next five years.

6. **Interest Deductions:** For the next four years, the interest deduction for businesses is limited to 30% of their EBITDA, with this limitation not applicable to businesses with gross receipts of $25,000,000 or less.

7. **Territorial Tax System:** The Tax Bill transitions our business taxation from a worldwide system to a territorial system, meaning that businesses generally would only be taxed on income earned within a country's borders. This approach is more consistent with the tax regimes of most other industrialized countries.

8. **Net Operating Losses (NOLs):** A deduction for net operating losses is now limited to 80% of taxable income but can be carried forward indefinitely. NOL carrybacks are generally eliminated.

9. **Non-Corporate Business Losses:** Taxpayers are now limited in the amount of non-corporate business losses that they can claim (for 2018, $500,000 for joint filers and $250,000 for singles, with excess losses added to the taxpayer's NOLs).

Individual Tax Reform

1. **Reduction of Individual Rates:** The Tax Bill retains a stair-stepped tax rate structure with seven tax brackets, with a top rate of 37% for income over $600,000 for a married couple filing jointly and $500,000 for a single taxpayer or head of household.

2. **Increased Standard Deduction, Elimination of Personal Exemptions and Reduction/Elimination of Many Itemized Deductions:** The standard deduction jumps to $24,000 for a married couple filing jointly, $18,000 for a head of household and $12,000 for a single taxpayer. The Tax Bill eliminates personal exemptions. Many itemized deductions are eliminated or, in some cases, reduced.

3. **Increased Child Tax Credit:** The child tax credit increases to $2,000 per child (up from $1,000 per child) with the credit refundable up to $1,400. Note that the availability of the credit begins to phase out for married couples filing jointly at $400,000 of adjusted gross income and $200,000 of adjusted gross income for everyone else.

4. **Repeal of Pease Limitation:** The Tax Bill repeals the Pease Limitation, thus eliminating the reduction of many itemized deductions (including charitable deductions) for taxpayers with income over certain threshold amounts.

5. **Individual Alternative Minimum Tax (AMT):** The Tax Bill maintains the individual AMT but increases both the exemption amount (for 2018, $109,400 for joint filers and $70,300 for singles) and the exemption phase-out thresholds (for 2018, $1,000,000 for joint filers and $500,000 for singles).

6. **Changes to Mortgage Interest Deduction:** The Tax Bill allows a mortgage interest deduction for up to $750,000 of debt, except that for debt incurred before December 15, 2017, interest is deductible up to $1,000,000 of debt. Interest on home equity loans is no longer deductible.

7. **Changes to State and Local Tax Deduction:** The Tax Bill caps the allowable deduction for state and local taxes to $10,000.

8. **Charitable Deduction:** The Tax Bill increases the maximum percentage of a taxpayer's contribution base allowable for a deduction for cash gifts to public charities from 50% to 60%. It also eliminates the partial deduction that was available for payments made in exchange for college athletic seating privileges.

9. **Casualty/Theft Losses:** The Tax Bill limits the deduction for casualty and theft losses to only those losses attributable to a presidentially-declared disaster.

The Tax Cut and Jobs Act: What it Means for You

10. **Treatment of Alimony:** The Tax Bill alters the tax treatment of alimony payments so that alimony payments are not taxable to the recipient or deductible by the payor.

11. **Holding Period for Carried Interests:** The Tax Bill extends to three years the holding period for the sale of a carried interest to receive long-term capital gains treatment.

12. **529 Plans:** The Tax Bill expands the use of 529 plan funds so that to $10,000 per student can be expended annually from a 529 for enrollment in private or religious primary and secondary schools.

13. **Estate, Gift and Generation-Skipping Transfer (GST) Taxes:** The Tax Bill retains the estate, gift and generation-skipping transfer taxes. However, it doubles the maximum estate and gift tax exemption to $11,180,000 per taxpayer (effectively $22,360,000 between a married couple) and doubles the maximum GST exemption to $11,180,000 as well.

14. **Affordable Care Act (ACA) Individual Mandate:** The Tax Bill effectively repeals the individual mandate under the Affordable Care Act to maintain health insurance or pay a penalty.

ABOUT TEXAS CAPITAL BANK

Texas Capital Bank, N.A. is a business and private wealth bank focused on understanding our clients' needs and working alongside them to meet their individual financial goals. Headquartered in Texas, we work with clients throughout the state and across the country. Texas Capital Bank is a wholly owned subsidiary of Texas Capital Bancshares, Inc. (NASDAQ®: TCBI) and is consistently recognized as one of the Best Banks in America by Forbes.

2000 McKinney Ave., Suite 1800, Dallas, TX 75201 214.210.3092