

Presentation  
to  
TI Alumni Group  
Taxation Update  
The Tax Cuts and Jobs Act of 2017  
P. L. 115-97  
Enacted December 22, 2017  
  
Thursday, July 12, 2018

*Presented by*  
Rick Scauzillo, CPA CGMA  
The Scauzillo Firm, PLLC

## Changes in Tax Regulations

# THE TAX CUTS AND JOBS ACT

- ✓ Text of the TCJA 2018 – 185 pages
- ✓ Conference Committee Report > **650** pages
- ✓ Internal Revenue Code – approximately **4,132** pages
- ✓ IRC Regulations, covering the TCJA, have not written and published yet
- ✓ The word “**beer**” appears over **65** times in the Act itself and the joint explanation statement from the conference committee! *Forbes*
- ✓ As many as 30 million of the 44 million Americans who currently itemize might go with the standard deduction. *USA Today*

“When it comes to taxes, there are two types of people. There are those that get it done early, also known as psychopaths, and then the rest of us.” – *Jimmy Kimmel*



### HISTORY OF TAX CHANGES

- Rarely remains unchanged
  - 1954 Code
  - 1986 Code
  - 2018 Code ?
- Law frequently modified within a short period
  - During 2000-2009 changes made every year
- TCJA phase out of provisions
  - Individual changes phase out and revert to old law 1/1/2026
  - C corporation changes seemingly permanent

## IRS PHONE SCAM

- TIGTA, Criminal Investigation arm of IRS, IRS auditor per se
- See attached scam alert from TIGTA (<https://www.treasury.gov/TIGTA>)
- Masked to suggest the calls are US based---they are masked IP phone numbers and originate from overseas
- Voice is generally a recording (synthesized voice) or foreign
- Do **NOT** give the caller any information—**just hang up**

## TCJA IS NOT SIMPLIFICATION



- Wish this chart was true, but it isn't. The length depends on the size of the type. The Tax Cuts and Jobs Act of 2017 was approximately 185 pages of very tiny print. Professionals use services published by a number of companies and the number of pages in a readable font can seem quite long.

### *TCJA Continued*

- The IRC published by CCH is approximately 4,132 pages long.
- The IRC regulations are approximately the same length.
- No solid number on how the size of the IRC and Regs

### **NOT COVERING ESTATE AND GIFT TAX RULES, ESTATE PLANNING**

- The lifetime estate and gift tax exemption has essentially doubled — from \$5.49 million per person to an estimated \$11.2 million
- Adjusted annually for inflation in future years.
- Double those figures for married couples filing jointly; they now have a household lifetime estate and gift tax exemption of \$22.4 million.
- Donation of qualified plan RMD is an option to reduce estates
- Annual gift exclusion up to \$15,000 per person per year in 2018
- Gifts exclude amounts paid for medical care and education when paid directly to the provider (school, doctor, hospital, etc.)
- FLPs relative any longer? Probably not.
- ***Update your wills.*** You don't want to die in Texas without a valid will.

### **BIGGEST INDIVIDUAL CHANGES**

- Tax brackets
- Marriage penalty effectively eliminated
- Increase in standard deduction
- Elimination of personal exemptions
- SALT limitation
- Child tax credit
- Pass-through entity deduction (**not what you think it is**)

### **COMPARATIVE INDIVIDUAL TAX TABLES 2017-2018**

- Slightly lower marginal percentage rates
- Single rates cap at 37% (over \$500,000) versus 39.6% (over \$418,400)
- MFJ rates cap at 37% (over \$600,000) versus 39.6% (over \$470,700)

*(Following Page)*

Income Tax Table										
2017						2018				
Income Brackets <sup>1</sup>			Tax			Income Brackets			Tax	
12,700			0	10%		24,000			0	10%
31,350			1,865	15%		43,050			1,905	12%
88,600			10,453	25%		101,400			8,907	22%
165,800			29,753	28%		189,000			28,179	24%
246,050			52,223	33.0%		339,000			64,179	32%
429,400			112,728	35.0%		424,000			91,379	35%
483,400			131,628	39.6%		624,000			161,379	37%
Joint						Single				
Income	Tax 2017	Rate	Tax 2018	Rate	Cut	Tax 2017	Rate	Tax 2018	Rate	Cut
13,000	30	0.2%	0	0.0%	30	665	5.1%	100	0.8%	565
21,000	830	4.0%	0	0.0%	830	1,731	8.2%	900	4.3%	831
34,000	2,263	6.7%	1,000	2.9%	1,263	3,681	10.8%	2,450	7.2%	1,232
55,000	5,413	9.8%	3,339	6.1%	2,074	7,901	14.4%	5,400	9.8%	2,502
89,000	10,553	11.9%	7,419	8.3%	3,134	16,584	18.6%	12,880	14.5%	3,705
144,000	24,303	16.9%	18,279	12.7%	6,024	33,033	22.9%	25,970	18.0%	7,064
233,000	48,569	20.8%	38,739	16.6%	9,830	62,769	26.9%	53,040	22.8%	9,730
377,000	95,436	25.3%	76,339	20.2%	19,097	119,393	31.7%	104,740	27.8%	14,653
610,000	181,762	29.8%	156,479	25.7%	25,283	211,661	34.7%	190,950	31.3%	20,711
987,000	331,054	33.5%	295,689	30.0%	35,365	360,953	36.6%	330,440	33.5%	30,513
1,597,000	572,614	35.9%	521,389	32.6%	51,225	602,513	37.7%	556,140	34.8%	46,373
2,584,000	963,466	37.3%	886,579	34.3%	76,887	993,365	38.4%	921,330	35.7%	72,035
4,181,000	1,595,878	38.2%	1,477,469	35.3%	118,409	1,625,777	38.9%	1,512,220	36.2%	113,557
6,765,000	2,619,142	38.7%	2,433,549	36.0%	185,593	2,649,041	39.2%	2,468,300	36.5%	180,741
10,946,000	4,274,818	39.1%	3,980,519	36.4%	294,299	4,304,717	39.3%	4,015,270	36.7%	289,447

## SCHEDULE A DEDUCTIONS

- Largely remain unchanged
- Medical expense floor reduced to 7.5% of AGI down from 10%
- Qualified original mortgage debt interest deductible on mortgage loan up to \$750,000 (down from \$1,000,000)
  - Applies to mortgage loans taken out after 12/15/2017
  - HELOC interest is no longer deductible
- Contribution rules virtually unchanged
  - Maximum current year donations limited to 60% of AGI (up from 50%)
  - Gifts of appreciated property (capital gain property) remain unchanged, limited to 30% of AGI (stock gifts to charity for example)
  - Donations made to a college in exchange for the right to purchase athletic tickets will no longer be deductible
- Miscellaneous itemized deductions repealed (**all of them**)
  - Casualty and theft losses
  - Unreimbursed employee expenses, Form 2106
  - Tax preparation fees
  - Investment advisory fees
  - Work related expenses, including home office deduction
  - Other miscellaneous deductions subject to the 2% AGI floor

- Moving expenses
  - Alimony not deductible
- Gambling losses
  - Still deductible under new law, to the extent of winnings
  - Winnings reported on W-2G
  - Must be able to document losses to deduct against winnings
  - Get a player's card at whatever casino you visit to document activity

## AFFORDABLE CARE ACT (OBAMACARE)

- Individual mandate repealed beginning in 2019
- Individual mandate penalty in play for 2018 (line 61)
- Penalty no longer applicable beginning in **2019** (expect this to be retroactive to 2018)
- Greater of \$695 per adult or 2.5% x household income

## PASS THROUGH ENTITY DEDUCTION

- It is **NOT** 20% of your pass-through income
- Very complex formula or set of formulas
- 20% of your **qualified** business income (QBI)
- QBI poorly defined
- Consensus is this deduction is difficult to impossible for anyone to compute manually (CPAs were advised to let their software provider compute it)
- Formula examples

Specified Service	Filing Status	Taxable Income	Formula	QBI Example	Example Scenario	Example Calculation	Deduction *
Yes	MFJ	Less Than \$315,000	20% * QBI	\$250,000	\$313,000 in Taxable Income	$250,000 * 20\%$	\$50,000
Yes	MFJ	Between \$315k-\$415k	$[1 - ((\text{Taxable Income} - \$315,000) / 100,000)] * (\text{Greater of } 50\% \text{ of W2 Wages or } 25\% \text{ of W2 Wages} + 2.5\% \text{ of the unadjusted basis of property})$	\$345,000	\$345,000 in Taxable Income With Business That Has \$75,000 of W2 Wages and No Property	$[1 - ((\$345,000 - \$315,000) / \$100,000)] * \$37,500$	\$26,250
Yes	MFJ	\$415k or Above	None: specified service trades or businesses do not qualify for the pass through deduction at \$415k or Above				
No	MFJ	\$415k or Above	Greater of 50% of W2 Wages or 25% of W2 Wages + 2.5% of the unadjusted basis of property	\$350,000	\$450,000 Taxable Income With Business That Has \$100,000 of W2 Wages and \$25,000 of Unadjusted Property	Greater of: $(50\% * \$100,000)$ and $[(25\% * \$100,000) + (2.5\% * 25,000)]$	\$50,000
No	MFJ	Less Than \$315,000	20% * QBI	\$250,000	\$313,000 in Taxable Income	$250,000 * 20\%$	\$50,000
No	MFJ	Between \$315k-\$415k	$[(20\% * \text{QBI}) - ((20\% * \text{QBI}) - (\text{Greater of } 50\% \text{ of W2 Wages or } 25\% \text{ of W2 Wages} + 2.5\% \text{ of the unadjusted basis of property})) * ((\text{taxable income} - \$315,000) / 100,000)]$	\$350,000	\$350,000 Taxable Income With a Business That Has \$90,000 of W2 Wages and \$10,000 of Unadjusted Property	$[(20\% * 350,000) - ((20\% * 350,000) - (\text{Greater of } 50\% \text{ of W2 Wages or } 25\% \text{ of W2 Wages} + 2.5\% \text{ of the unadjusted basis of property})) * ((\text{Taxable Income} - \text{Threshold}) / 100,000)]$	\$61,250

\* Subject to being no more than 20% of taxable income

## EDUCATION CREDITS/DEDUCTIONS

- Rules remain unchanged
- 529 plan expense rules have been liberalized, available for education other than college (private primary school, tutoring, etc.)

## ALTERNATIVE MINIMUM TAX (AMT)

- AMT is a parallel tax computation
- Tax burden equals the higher of AMT tax or regular tax
- Preference items now eliminated in the AMT taxable income computation
- Virtually repealed for most people
- Changes in The Calculation of The Alternative Minimum Tax (AMT)

*The TCJA's higher AMT income exemption amounts, and the much higher income point where the phaseout starts, make it much less likely that ISOs will trigger the AMT.*

The income spread at incentive stock options (ISOs) exercise usually triggers the AMT, which warrants complex tax planning. While the AMT or how it applies to ISOs is not repealed, below are the new numbers in the AMT calculation (to be adjusted annually for inflation).

- The 2018 AMT income exemption amount rises to \$70,300 (from \$54,300) for single filers and to \$109,400 (from \$84,500) for married joint filers.
- The income where this AMT income exemption starts to phase out in 2018 is substantially adjusted upward to begin at \$500,000 for individuals (from \$120,700) and \$1,000,000 (from \$160,900) for married couples.

These higher AMT income exemption amounts, and the much higher income point where the phaseout starts, make it much less likely that ISOs will trigger the AMT. With fewer employees at risk of triggering the AMT by exercising ISOs and holding the shares, companies may start to grant ISOs more frequently, given their potential tax advantages for plan participants.

What pays in part for this change in the AMT calculation is the \$10,000 cap on the deduction for state and local income taxes and real-estate property taxes on tax returns. Given the odd way in which the AMT is calculated, those deductions may have triggered or added to your AMT in the past. Strangely enough, given that new cap, a taxpayer who has been paying the AMT may see less tax savings than they might otherwise expect to get from the AMT change.

**Alert:** When you are deciding whether to exercise ISOs and hold the shares, you still want to determine whether the difference between your long-term capital gains rate and your short-term capital gains rate (same as your income tax rate) justifies the risk of holding shares for a qualifying disposition. That you don't have to pay the pesky AMT should not, on its own, be the determining factor in your ISO strategy.



## DRAFT FORM 1040 & SCHEDULES 2018

The Form 1040 has been *simplified* for 2018.

- Example provided in materials
- Like size of 1040A used in early 1970s
- There are *six new schedules*. For many people, the new 1040 will indeed make filing taxes simpler. However, for Americans with somewhat complicated tax situations, this may not be the case.
- In addition to the familiar schedules many taxpayers must use, such as Schedule A for itemized deductions and Schedule C for self-employment income, there are *at least six* brand-new schedules taxpayers may need to use.
- The new schedules are designated by numbers instead of letters, and here's a quick overview of what the new schedules are for:
  - **Schedule 1** is for taxpayers with additional sources of income (not from a W-2) or adjustments to income, such as IRA contributions, student loan interest, and health savings account contributions.
  - **Schedule 2** is a form for people with some other forms of taxes, such as on a child's unearned income.
  - **Schedule 3** is for nonrefundable tax credits
  - **Schedule 4** is where taxpayers will add up certain taxes, such as self-employment tax, uncollected Social Security and Medicare taxes, and others.
  - **Schedule 5** is to add up tax payments, such as estimated tax payments or amounts paid with an extension.
  - **Schedule 6** is where you can appoint a third-party designee to discuss your tax return with the IRS on your behalf.

The 1040 itself has gotten physically smaller, the lines and information removed has been transferred to supporting schedules (1 – 6), and it may or may not be as simple as the IRS believes it will be.

Schedule A, B, C, D, E, SE, 8949 and most other forms remain essentially *unchanged*.

## TAX CREDITS

- Child tax credit increased to \$2,000 per qualifying child
- Phases out when child turns 17
- New partial \$500 credit available for dependents not qualifying children
- \$1,400 is refundable if the credit exceeds your federal income tax liability
- Phase-out thresholds increased to \$200,000 and \$400,000 for single and married taxpayers respectively
- Foreign tax credit essentially unchanged



## IRS AUDIT RISK

- Income reported on 1099, W-2 – **limited to no risk**
- Schedule C losses – **higher risk**
- Schedule D losses – **limited to no risk**
- Schedule E losses – **higher risk**
- Higher incidence of CP2000 matching system (omitted income)
- IRS has limited staff and resources
- Higher experience of IRS processing errors and required follow up
- Use TPA (Taxpayer Advocate Office) when needed

## IRS CP2000 SYSTEM

- Introduced 1977
- Matches third party reported income and deductions to tax returns filed
- May or *may not* be correct
- Do **NOT** ignore the notice
- If you need more info then request a wage and income transcript from the IRS

## QUESTIONS AND ANSWERS

### SUPPLEMENTAL INFORMATION

- Vitae for Frank R. Scauzillo, Jr.
- IRS TIGTA News Release on Phone Scam
- Tax Reform Impact Summary (real taxpayers from 2017 with 2018 computations using the same information)
  - Retired (Oil & Gas Investor), Small Pension
  - Two Wage Earners, Not Retired
  - Retired Couple, Significant Investment Income
  - High Net Worth Individual, Currently Working
- IRS 2018 Proposed Tax Forms (Form 1040, Schedules 1 – 6)
- Tax Tables & Tax Information for 2018 (prepared by Morgan Stanley)
- Significant Dates in U. S. Tax History (look at the 2000s)

## **FRANK R. SCAUZILLO, JR.**

Certified Public Accountant

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### **OBJECTIVE**

To assist small business clients with their accounting and tax compliance needs, business planning and to help them maximize profits by improving the operational efficiencies (maximize utilization of all available resources, communicating accurate financial information, promoting teamwork in a leadership capacity while maintaining integrity and ethics at the personal and corporate levels).

### **EDUCATION**

B.B.A., Southern Methodist University  
Dallas, Texas  
May 1974

### **WORK EXPERIENCE**

- Focus today is tax compliance services, business planning and contract controller services.
- Managed local accounting practice with over 600 clients and a staff of 4 professionals. Annual fees approximating \$450K with a strong mix of accounting, auditing, income tax and business planning services.
- Coordinated the in-house accounting effort for a local web based long-distance company, working with Ernst & Young, LLP as the client point person, such efforts resulting in a successful \$35.7 million IPO.
- Managed accounting, taxation and consulting practice for past 13 years as sole practitioner. Previously managed \$1.0 million audit practice.
- Responsible for inventory accounting process and developing accountability policies and procedures for a computer integration and services company resulting in an average monthly inventory variance of less than 0.5% (average inventory \$1.0 million).
- Responsible for all internal and external financial activities of the company, including maintenance of ledgers and preparation of financial statements, including coordination and supervision of supporting staff.
- Developed comprehensive business plan for software development enterprise, including evaluation of income tax aspects of the decision process.

### **THE SCAUZILLO FIRM, PLLC, CPA, McKinney, Texas (1974 – Present)**

Owner of local CPA practice providing accounting/financial reporting, tax and consulting services to start-up, entrepreneurial and medium sized business in the professional services, manufacturing, retail, commercial/residential construction, and real estate development industries. Initially hired by Kassel, Weinberg & Company, a local certified public accounting firm, in 1974. Was named audit partner in 1983, and the firm subsequently merged with Mann Judd Landau ("MJL"), a New York based national firm (MJL later merged into BDO Seidman). In 1989 I started my individual practice to better serve my clients.

**VAUGHAN/CAUDLE ASSOCIATES, INC.**, Dallas, Texas (1993 – 1997)

Served as controller and chief operating office for computer integration and software development firm. The firm was a \$10.0 million computer integration operation specializing in local and wide area networks. Responsibilities included management of all internal and external financial activities of the company, maintenance of ledgers and preparation of financial statements, including coordination and supervision of supporting staff, developing accounting and processes in the areas of inventory control, the revenue cycle and cost and expense cycle, preparation of all federal and state income tax returns, and supervising the staff preparation of all payroll, sales and miscellaneous tax returns. Also primary contact with the company's financial institutions, and negotiated all loan facilities.

#### **CONSULTING ENGAGEMENTS**

- **U S Preventive Medicine, Inc.**, McKinney, TX/Jacksonville, FL (2005-2011) Served as chief financial officer and chief accounting officer of emerging health and preventive care company using a technology platform, member of Board of Directors (2005-2011) and a member of the management team which successfully raised in excess of \$80M in private equity.
- **The Main Office Management Co., LP**, Dallas, Texas (2002 - 2003) Managed the back office operation and accounting staff of a private equity investment company with over 100 ownership and management entities, participation as a member of the team to develop comprehensive operating plan for current year for \$25.0 million enterprise, served on IT and IS committee, and served as one of two coordinators for the audit of the management company's financial records in connection with the acquisition of the firm by Lehman Brothers.
- **Stratton Communications Services, Inc.**, Richardson, Texas (1997 – 1998) Contract consulting engagement as a part of its interim management team, and to assist with the organization of the computer integration division.

#### **OUTSIDE ACTIVITIES**

- Member, American Institute of Certified Public Accountants
- Member, Texas Society of Certified Public Accountants
- Member, Dallas Chapter of Texas Society of CPAs
- Former Director & Treasurer, St. Luke's Episcopal Church, Dallas, Texas
- Director & Financial Officer, The SMU Lambda Chi Educational Foundation and SMU Lambda Chi Alpha Foundation, Mentor for Lambda Chi Alpha Fraternity at S. M. U.
- Former Director & Treasurer, Lambda Chi Alpha Properties, Inc., Indianapolis, Indiana
- Rotary International, McKinney Rotary Club

#### **PERSONAL**

Married with two grown children

#### **INTERESTS**

Exercise and fitness activities, golf, snow skiing, reading and traveling



# IRS IMPERSONATION SCAM

## WARNING:

### WHAT?

Individuals impersonating Internal Revenue Service (IRS) employees are making unsolicited threatening telephone calls to taxpayers. They use the threat of arrest to obtain money from victims by falsely representing that the victims owe back taxes or other fees. The perpetrators demand that the victims send them money via iTunes cards, other prepaid debit cards, money orders, or wire transfers from their banks.

### WHO?

The perpetrators are individuals who falsely claim to be IRS employees and tell intended victims they owe taxes and must pay using an iTunes card, other pre-paid debit card, money order, or wire transfer. Some of them are in the United States; however, there is a strong international component to this crime as well.

### WHEN/WHERE?

Since October 2013, TIGTA has received reports of these fraudulent calls in every State in the country. The perpetrators are calling with multiple caller IDs from around the world. The top five States with the most losses are: (1) California – more than \$10 million; (2) New York – more than \$4 million; (3) Texas – more than \$4 million; (4) Illinois – more than \$3 million; and (5) Florida – more than \$2 million.<sup>1</sup>

### WHAT TO DO?

...

**First, hang up! Do not engage with these callers.**

If you owe Federal taxes, or think you might owe taxes, hang up and call the IRS at 800-829-1040. IRS workers can help you with your payment questions.

If you do not owe taxes, fill out the “IRS Impersonation scam” form on TIGTA’s website, [www.tigta.gov](http://www.tigta.gov) or call TIGTA at **800-366-4484**. You can also file a complaint with the Federal Trade Commission at [www.FTC.gov](http://www.FTC.gov). Add “IRS Telephone Scam” to the comments in your complaint.

### ABOUT US

The Treasury Inspector General for Tax Administration (TIGTA) was established in 1999, as an independent agency that provides oversight of the IRS, and reports directly to the Treasury Secretary. We audit, investigate and inspect the IRS and the Federal tax system in order to ensure that the IRS is accountable for the trillions of dollars in revenue that it collects each year. We protect the integrity of the system and save taxpayers millions of dollars each year. For every dollar invested in TIGTA, taxpayers receive \$168<sup>2</sup> in savings.

<sup>1</sup> Data are from Oct. 2013 to Nov. 1, 2016.

<sup>2</sup> TIGTA, *Overall Performance Report FY 2015* (September 15, 2015)

## JOHN T. &amp; MARY T. WORKERS

THE TAX REFORM IMPACT SUMMARY SHOWS THE IMPACT OF THE TAX CUTS AND JOBS ACT AS IF IT HAD BEEN IN EFFECT THIS TAX YEAR. IT DOES NOT ATTEMPT TO FORECAST NEXT YEAR'S TAX RETURN, OR ACCOUNT FOR EXPIRING PROVISIONS. SPECIFIC LIMITATIONS IN APPLYING THE TAX LAW TO THIS RETURN, IF ANY, ARE NOTED ON CONTINUING PAGES.

	2017 TAX LAW	2018 TAX LAW
<b>INCOME</b>		
TOTAL INCOME.....	192,424	192,424
<b>ADJUSTMENTS TO INCOME</b>		
OTHER ADJUSTMENTS.....	16,528	16,528
TOTAL ADJUSTMENTS.....	16,528	16,528
ADJUSTED GROSS INCOME.....	175,896	175,896
<b>ITEMIZED DEDUCTIONS</b>		
TAXES.....	6,205	6,205
INTEREST.....	3,999	3,999
CONTRIBUTIONS.....	2,828	2,828
TOTAL ITEMIZED DEDUCTIONS.....	13,032	13,032
<b>TAX COMPUTATIONS</b>		
STANDARD DEDUCTION.....	12,700	24,000
LARGER OF ITEMIZED OR STANDARD DEDUCTION.....	13,032	24,000
INCOME PRIOR TO EXEMPTION DEDUCTION.....	162,864	151,896
EXEMPTION DEDUCTION.....	8,100	0
TAXABLE INCOME.....	154,764	151,896
TAX BEFORE CREDITS.....	29,621	24,913
<b>NONREFUNDABLE CREDITS</b>		
TOTAL NONREFUNDABLE CREDITS.....	0	0
TAX AFTER CREDITS.....	29,621	24,913
<b>OTHER TAXES</b>		
OTHER TAXES.....	1,791	1,791
TOTAL TAX.....	31,412	26,704
<b>REFUNDABLE CREDITS</b>		
TOTAL REFUNDABLE CREDITS.....	0	0
TOTAL TAX AFTER REFUNDABLE CREDITS.....	31,412	26,704

Two Wage Earners, Not Retired

## JOHN Q. &amp; MARY T. TAXPAYER

THE TAX REFORM IMPACT SUMMARY SHOWS THE IMPACT OF THE TAX CUTS AND JOBS ACT AS IF IT HAD BEEN IN EFFECT THIS TAX YEAR. IT DOES NOT ATTEMPT TO FORECAST NEXT YEAR'S TAX RETURN, OR ACCOUNT FOR EXPIRING PROVISIONS. SPECIFIC LIMITATIONS IN APPLYING THE TAX LAW TO THIS RETURN, IF ANY, ARE NOTED ON CONTINUING PAGES.

	2017 TAX LAW	2018 TAX LAW
<b>INCOME</b>		
TOTAL INCOME.....	484,864	484,864
<b>ADJUSTMENTS TO INCOME</b>		
TOTAL ADJUSTMENTS.....	0	0
ADJUSTED GROSS INCOME.....	484,864	484,864
<b>ITEMIZED DEDUCTIONS</b>		
TAXES.....	26,347	10,000
INTEREST.....	23,533	23,533
CONTRIBUTIONS.....	21,729	21,729
MISCELLANEOUS (SUBJECT TO 2% OF AGI).....	15,268	0
OTHER MISCELLANEOUS DEDUCTIONS.....	1	1
OVERALL ITEMIZED DEDUCTIONS LIMITATION.....	-5,132	0
TOTAL ITEMIZED DEDUCTIONS.....	81,746	55,263
<b>TAX COMPUTATIONS</b>		
STANDARD DEDUCTION.....	15,200	26,600
LARGER OF ITEMIZED OR STANDARD DEDUCTION.....	81,746	55,263
INCOME PRIOR TO EXEMPTION DEDUCTION.....	403,118	429,601
EXEMPTION DEDUCTION.....	0	0
TAXABLE INCOME.....	403,118	429,601
TAX BEFORE AMT AND EXCESS APTC REPAYMENT.....	101,718	94,686
ALTERNATIVE MINIMUM TAX.....	8,874	0
TAX BEFORE CREDITS.....	110,592	94,686
<b>NONREFUNDABLE CREDITS</b>		
OTHER CREDITS.....	116	116
TOTAL NONREFUNDABLE CREDITS.....	116	116
TAX AFTER CREDITS.....	110,476	94,570
<b>OTHER TAXES</b>		
OTHER TAXES.....	2,518	2,518
TOTAL TAX.....	112,994	97,088
<b>REFUNDABLE CREDITS</b>		
TOTAL REFUNDABLE CREDITS.....	0	0
TOTAL TAX AFTER REFUNDABLE CREDITS.....	112,994	97,088

Example - High Net Worth, Currently Working

## ALFRED T. AND JANE F. DOE

THE TAX REFORM IMPACT SUMMARY SHOWS THE IMPACT OF THE TAX CUTS AND JOBS ACT AS IF IT HAD BEEN IN EFFECT THIS TAX YEAR. IT DOES NOT ATTEMPT TO FORECAST NEXT YEAR'S TAX RETURN, OR ACCOUNT FOR EXPIRING PROVISIONS. SPECIFIC LIMITATIONS IN APPLYING THE TAX LAW TO THIS RETURN, IF ANY, ARE NOTED ON CONTINUING PAGES.

	2017 TAX LAW	2018 TAX LAW
<b>INCOME</b>		
TOTAL INCOME.....	270,289	270,289
<b>ADJUSTMENTS TO INCOME</b>		
TOTAL ADJUSTMENTS.....	0	0
ADJUSTED GROSS INCOME.....	270,289	270,289
<b>ITEMIZED DEDUCTIONS</b>		
TAXES.....	15,594	10,000
INTEREST.....	124	124
CONTRIBUTIONS.....	8,482	8,482
TOTAL ITEMIZED DEDUCTIONS.....	24,200	18,606
<b>TAX COMPUTATIONS</b>		
STANDARD DEDUCTION.....	15,200	26,600
LARGER OF ITEMIZED OR STANDARD DEDUCTION.....	24,200	26,600
INCOME PRIOR TO EXEMPTION DEDUCTION.....	246,089	243,689
EXEMPTION DEDUCTION.....	8,100	0
TAXABLE INCOME.....	237,989	243,689
TAX BEFORE CREDITS.....	40,211	37,959
<b>NONREFUNDABLE CREDITS</b>		
TOTAL NONREFUNDABLE CREDITS.....	0	0
TAX AFTER CREDITS.....	40,211	37,959
<b>OTHER TAXES</b>		
OTHER TAXES.....	771	771
TOTAL TAX.....	40,982	38,730
<b>REFUNDABLE CREDITS</b>		
TOTAL REFUNDABLE CREDITS.....	0	0
TOTAL TAX AFTER REFUNDABLE CREDITS.....	40,982	38,730

Retired Couple, Significant Investment Income



## BARRY B. RETIRED

THE TAX REFORM IMPACT SUMMARY SHOWS THE IMPACT OF THE TAX CUTS AND JOBS ACT AS IF IT HAD BEEN IN EFFECT THIS TAX YEAR. IT DOES NOT ATTEMPT TO FORECAST NEXT YEAR'S TAX RETURN, OR ACCOUNT FOR EXPIRING PROVISIONS. SPECIFIC LIMITATIONS IN APPLYING THE TAX LAW TO THIS RETURN, IF ANY, ARE NOTED ON CONTINUING PAGES.

	2017 TAX LAW	2018 TAX LAW
<b>INCOME</b>		
TOTAL INCOME.....	103,697	103,697
<b>ADJUSTMENTS TO INCOME</b>		
OTHER ADJUSTMENTS.....	3,292	3,292
TOTAL ADJUSTMENTS.....	3,292	3,292
ADJUSTED GROSS INCOME.....	100,405	100,405
<b>ITEMIZED DEDUCTIONS</b>		
TAXES.....	16,534	10,000
CONTRIBUTIONS.....	8,960	8,960
TOTAL ITEMIZED DEDUCTIONS.....	25,494	18,960
<b>TAX COMPUTATIONS</b>		
STANDARD DEDUCTION.....	7,900	13,600
LARGER OF ITEMIZED OR STANDARD DEDUCTION.....	25,494	18,960
INCOME PRIOR TO EXEMPTION DEDUCTION.....	74,911	81,445
EXEMPTION DEDUCTION.....	4,050	0
TAXABLE INCOME.....	70,861	81,445
TAX BEFORE CREDITS.....	13,358	13,793
<b>NONREFUNDABLE CREDITS</b>		
OTHER CREDITS.....	15	15
TOTAL NONREFUNDABLE CREDITS.....	15	15
TAX AFTER CREDITS.....	13,343	13,778
<b>OTHER TAXES</b>		
OTHER TAXES.....	2,084	2,084
TOTAL TAX.....	15,427	15,862
<b>REFUNDABLE CREDITS</b>		
TOTAL REFUNDABLE CREDITS.....	0	0
TOTAL TAX AFTER REFUNDABLE CREDITS.....	15,427	15,862

Retired, Small Pension



## Caution: ***DRAFT—NOT FOR FILING***

This is an early release draft of the 2018 IRS Form 1040, U.S. Individual Income Tax Return, which the IRS is providing for your information, review, and comment. There is a 30-day comment period for this draft form (see below). **Do not file draft forms.** Also, do **not** rely on draft forms, instructions, and publications for filing. We generally do not release drafts of forms until we believe we have incorporated all changes. However, in this case **we anticipate it is likely that this draft will change at least slightly before being released as final.** Whether this draft changes or not, we will post a new draft later this summer with our standard coversheet indicating we do not expect that draft to change. Forms generally are subject to OMB approval before they can be officially released. Early release drafts are at [IRS.gov/DraftForms](https://www.irs.gov/DraftForms), and may remain there even after the final release is posted at [IRS.gov/LatestForms](https://www.irs.gov/LatestForms). All information about forms, instructions, and publications is at [IRS.gov/Forms](https://www.irs.gov/Forms).

Also, note that almost every form and publication also has its own page on IRS.gov. For example, the Form 1040 page is at [IRS.gov/Form1040](https://www.irs.gov/Form1040); a Form W-8BEN-E page is at [IRS.gov/W8BENE](https://www.irs.gov/W8BENE); the Publication 17 page is at [IRS.gov/Pub17](https://www.irs.gov/Pub17); the Form W-4 page is at [IRS.gov/W4](https://www.irs.gov/W4); and the Schedule A (Form 1040) page is at [IRS.gov/ScheduleA](https://www.irs.gov/ScheduleA). If typing in a link instead of clicking on it, be sure to type the link into the address bar of your browser, not in a Search box. Note that these are friendly shortcut links that will automatically redirect to the actual link for the page.

If you wish, you can submit comments about this draft Form 1040 to [WI.1040.Comments@IRS.gov](mailto:WI.1040.Comments@IRS.gov). We cannot respond to all comments due to the high volume we receive. Please note that we may not be able to consider some suggestions until the subsequent revision.

Your first name and initial Last name Your social security number

Standard deduction: ☐ Someone can claim you as a dependent ☐ You were born before January 2, 1954 ☐ You are blind

Spouse or qualifying person's first name and initial (see inst.) Last name Spouse's social security number

Standard deduction: ☐ Someone can claim your spouse as a dependent ☐ Your spouse was born before January 2, 1954  
☐ Your spouse is blind ☐ Your spouse itemizes on a separate return or you are a non-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. ☐ Federal Election Campaign.  
If you want \$3 to go to this fund (see inst.) ☐ You ☐ Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. ☐ Full-year health care coverage (see instructions)

Dependents (see instructions)		(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> Qualifies for (see inst.):
(1) First name	Last name			Child or credit for other dependents
				<input type="checkbox"/>
				<input type="checkbox"/>

**Sign Here** Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately report all income I received during the year. I declare that I am the preparer (other than a paid preparer) based on all information which preparer has any knowledge.  
Your signature Date Your occupation the IRS sent you an Identity Protection PIN, enter it here (see inst.)   
Joint return? See instructions. Keep a copy for your records. ☐ Spouse's signature. If joint return, both must sign. Spouse's occupation the IRS sent you an Identity Protection PIN, enter it here (see inst.)

**Paid Preparers** Print/Type preparer's name Preparer's signature PTIN Check if:  
Firm's name ☐ 3rd Party Designee  
Firm's EIN ☐ Self-employed

**Standard Deduction for —**

- Single or married filing separately, \$12,000
- Married filing jointly or Qualifying widow(er), \$24,000
- Head of household, \$18,000
- If you checked any box under Standard deduction, see instructions.

<b>1</b>	Wages, salaries, tips, etc. Attach Form W-2	<b>1</b>	
<b>2a</b>	Tax-exempt interest	<b>2a</b>	
<b>3a</b>	Qualified dividends	<b>3a</b>	
<b>4a</b>	IRAs, pensions, and annuities	<b>4a</b>	
<b>5a</b>	Social security benefits	<b>5a</b>	
<b>6</b>	Additional income and adjustments to income. Attach Schedule 1	<b>6</b>	
<b>7</b>	Adjusted gross income. Combine lines 1 through 6	<b>7</b>	
<b>8</b>	Enter the standard deduction; otherwise, attach Schedule A	<b>8</b>	
<b>9</b>	Qualified business income deduction (see instructions)	<b>9</b>	
<b>10</b>	Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	<b>10</b>	
<b>11</b>	Tax (see instructions). Attach Schedule 2 if required	<b>11</b>	
<b>12</b>	If your only nonrefundable credit is the child tax credit and/or credit for other dependents, enter the total here; otherwise, attach Schedule 3	<b>12</b>	
<b>13</b>	Subtract line 12 from line 11	<b>13</b>	
<b>14</b>	Other taxes. Attach Schedule 4	<b>14</b>	
<b>15</b>	Total tax. Add lines 13 and 14	<b>15</b>	
<b>16</b>	Federal income tax withheld from Forms W-2 and 1099	<b>16</b>	
<b>17</b>	Refundable credits: <b>a</b> EIC (see inst.) <b>b</b> Sch 8812 <b>c</b> Form 8863 <b>d</b> Other payments or refundable credits from Schedule 5		
<b>18</b>	Add lines 16 and 17 a through d. These are your total payments	<b>18</b>	
<b>19</b>	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you <b>overpaid</b>	<b>19</b>	
<b>20a</b>	Amount of line 19 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>20a</b>	
<b>21</b>	Amount of line 19 you want <b>applied to your 2019 estimated tax</b>	<b>21</b>	
<b>22</b>	<b>Amount you owe.</b> Subtract line 18 from line 15. For details on how to pay, see instructions	<b>22</b>	
<b>23</b>	Estimated tax penalty (see instructions)	<b>23</b>	

**Refund**

Direct deposit?  
See instructions.

- 20a** Amount of line 19 you want **refunded to you**. If Form 8888 is attached, check here ☐
- b** Routing number  **c** Type: ☐ Checking ☐ Savings
- d** Account number

**SCHEDULE 1**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Additional Income and Adjustments to Income**

► **Attach to Form 1040.**  
► **Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **01**

Name(s) shown on Form 1040

Your social security number

<b>Additional Income</b>	<b>1-9b</b>	Reserved		<b>1-9b</b>	
	<b>10</b>	Taxable refunds, credits, or offsets of state and local income taxes		<b>10</b>	
	<b>11</b>	Alimony received		<b>11</b>	
	<b>12</b>	Business income or (loss). Attach Schedule C or C-EZ		<b>12</b>	
	<b>13</b>	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>		<b>13</b>	
	<b>14</b>	Other gains or (losses). Attach Form 4797		<b>14</b>	
	<b>15a</b>	Reserved		<b>15b</b>	
	<b>16a</b>	Reserved		<b>16b</b>	
	<b>17</b>	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		<b>17</b>	
	<b>18</b>	Farm income or (loss). Attach Schedule F		<b>18</b>	
	<b>19</b>	Unemployment compensation		<b>19</b>	
	<b>20a</b>	Reserved		<b>20b</b>	
	<b>21</b>	Other income. List type and amount ►		<b>21</b>	
	<b>22</b>	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and on Form 1040, line 6. Otherwise, go to line 23		<b>22</b>	
<b>Adjustments to Income</b>	<b>23</b>	Educator expenses	<b>23</b>		
	<b>24</b>	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	<b>24</b>		
	<b>25</b>	Health savings account deduction. Attach Form 8889	<b>25</b>		
	<b>26</b>	Moving expenses for members of the armed forces. Attach Form 3903	<b>26</b>		
	<b>27</b>	Deductible part of self-employment tax. Attach Schedule SE	<b>27</b>		
	<b>28</b>	Self-employed SEP, SIMPLE, and qualified plans	<b>28</b>		
	<b>29</b>	Self-employed health insurance deduction	<b>29</b>		
	<b>30</b>	Penalty on early withdrawal of savings	<b>30</b>		
	<b>31a</b>	Alimony paid <b>b</b> Recipient's SSN ►	<b>31a</b>		
	<b>32</b>	IRA deduction	<b>32</b>		
	<b>33</b>	Student loan interest deduction	<b>33</b>		
	<b>34</b>	Reserved	<b>34</b>		
	<b>35</b>	Reserved	<b>35</b>		
	<b>36</b>	Add lines 23 through 35	<b>36</b>		
	<b>37</b>	Subtract line 36 from line 22. Enter here and on Form 1040, line 6	<b>37</b>		

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71479F

Schedule 1 (Form 1040) 2018

**SCHEDULE 2**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Tax**

► **Attach to Form 1040.**

► **Go to *www.irs.gov/Form1040* for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **02**

Name(s) shown on Form 1040

Your social security number

<b>Tax</b>	<b>38-43</b>	Reserved . . . . .	<b>38-43</b>		
	<b>44</b>	Tax (see instructions) . . . . .	<b>44</b>		
	<b>a</b>	Tax on child's unearned income. Attach Form(s) 8814 . . . . .	<b>44a</b>		
	<b>b</b>	Tax on lump-sum distributions. Attach Form 4972 . . . . .	<b>44b</b>		
	<b>c</b>	Other taxes. List type and amount . . . . .	<b>44c</b>		
	<b>45</b>	Alternative minimum tax. Attach Form 6251 . . . . .	<b>45</b>		
	<b>46</b>	Excess advance premium tax credit. Attach Form 8962 . . . . .	<b>46</b>		
	<b>47</b>	Add lines 38 through 46. This is your tax. Enter here and on Form 1040, line 11 . . . . .	<b>47</b>		

**For Paperwork Reduction Act Notice, see your tax return instructions.**

Cat. No. 71478U

**Schedule 2 (Form 1040) 2018**

**SCHEDULE 3**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Nonrefundable Credits**

► **Attach to Form 1040.**

► **Go to *www.irs.gov/Form1040* for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **03**

Name(s) shown on Form 1040

Your social security number

<b>Nonrefundable Credits</b>	<b>48</b>	Foreign tax credit. Attach Form 1116 if required . . . . .	<b>48</b>		
	<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441 . . . . .	<b>49</b>		
	<b>50</b>	Education credits from Form 8863, line 19 . . . . .	<b>50</b>		
	<b>51</b>	Retirement savings contributions credit. Attach Form 8880 . . . . .	<b>51</b>		
	<b>52</b>	Child tax credit and credit for other dependents . . . . .	<b>52</b>		
	<b>53</b>	Residential energy credit. Attach Form 5695 . . . . .	<b>53</b>		
	<b>54a</b>	General business credit. Attach Form 3800 . . . . .	<b>54a</b>		
	<b>b</b>	Credit for prior year minimum tax. Attach Form 8801 . . . . .	<b>54b</b>		
<b>c</b>	Other credits (see instructions) . . . . .	<b>54c</b>			
<b>55</b>	Add lines 48 through 54. These are your <b>total nonrefundable credits</b> . Enter here and on Form 1040, line 12 . . . . .	<b>55</b>			

**For Paperwork Reduction Act Notice, see your tax return instructions.**

Cat. No. 71480G

**Schedule 3 (Form 1040) 2018**

DO NOT FILE



**SCHEDULE 4**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Other Taxes**

► **Attach to Form 1040.**

► **Go to [www.irs.gov/Form1040](http://www.irs.gov/Form1040) for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **04**

Name(s) shown on Form 1040

Your social security number

**Other  
Taxes**

- 57** Self-employment tax. Attach Schedule SE . . . . .
- 58a** Social security and Medicare tax on tip income not reported to employer. Attach Form 4137 . . . . .
- b** Uncollected social security and Medicare tax on wages. Attach Form 8919 . . . . .
- 59** Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required . . . . .
- 60a** Household employment taxes. Attach Schedule H . . . . .
- b** Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required . . . . .
- 61** Health care: individual responsibility (see instructions) . . . . .
- 62a** Additional Medicare tax from Form 8959 . . . . .
- b** Net investment income tax from Form 8960 . . . . .
- c** Instructions; enter code(s) ► . . . . .
- 63** Section 965 net tax liability installment from Form 965-A . . . . .
- 64** Add lines 57 through 63. These are your **total other taxes**. Enter here and on Form 1040, line 14 . . . . .

<b>57</b>		
<b>58a</b>		
<b>58b</b>		
<b>59</b>		
<b>60a</b>		
<b>60b</b>		
<b>61</b>		
<b>62a</b>		
<b>62b</b>		
<b>62c</b>		
<b>63</b>		
<b>64</b>		

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71481R

Schedule 4 (Form 1040) 2018

**SCHEDULE 5**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Other Payments and Refundable Credits**

► **Attach to Form 1040.**

► **Go to *www.irs.gov/Form1040* for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **05**

Name(s) shown on Form 1040

Your social security number

<b>Other Payments and Refundable Credits</b>	<b>65</b>	Reserved . . . . .	<b>65</b>		
	<b>66</b>	2018 estimated tax payments and amount applied from 2017 return . . . . .	<b>66</b>		
	<b>67a</b>	Reserved . . . . .	<b>67a</b>		
	<b>b</b>	Reserved . . . . .	<b>67b</b>		
	<b>68-69</b>	Reserved . . . . .	<b>68-69</b>		
	<b>70</b>	Net premium tax credit. Attach Form 8962 . . . . .	<b>70</b>		
	<b>71</b>	Amount paid with request for extension to file (see instructions) . . . . .	<b>71</b>		
	<b>72</b>	Excess social security and tier 1 tax withheld . . . . .	<b>72</b>		
	<b>73</b>	Credit for federal tax on fuels. Attach Form 4136 . . . . .	<b>73</b>		
	<b>74a</b>	Amounts from Form 2439 . . . . .	<b>74a</b>		
	<b>b</b>	Health coverage tax credit. Attach Form 8885 . . . . .	<b>74b</b>		
	<b>c</b>	Reserved . . . . .	<b>74c</b>		
<b>d</b>	Other amounts (see instructions) . . . . .	<b>74d</b>			
<b>75</b>	Add lines 65, 66, 67a, and 68 through 74. These are your total <b>other payments and refundable credits</b> . Enter here and on Form 1040, line 17d . . . . .		<b>75</b>		

For Paperwork Reduction Act Notice, see your tax return instructions.

Cat. No. 71482C

Schedule 5 (Form 1040) 2018

**SCHEDULE 6**  
**(Form 1040)**

Department of the Treasury  
Internal Revenue Service

**Foreign Address and Third Party Designee**

▶ **Attach to Form 1040.**

▶ **Go to *www.irs.gov/Form1040* for instructions and the latest information.**

OMB No. 1545-0074

**2018**  
Attachment  
Sequence No. **05A**

Name(s) shown on Form 1040

Your social security number

**Foreign  
Address**

Foreign country name

Foreign province/county

Foreign postal code

**Third Party  
Designee**

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☐ **No**

Designee's  
name ▶

Phone  
no. ▶

Personal identification number  
(PIN) ▶

**For Paperwork Reduction Act Notice, see your tax return instructions.**

Cat. No. 71483N

**Schedule 6 (Form 1040) 2018**

**June 29, 2018**  
**DO NOT FILE**

## Tax Tables *to Help You* *in Your Investment Decisions*

2018 Edition

### Federal Report, 2018 Edition

#### MARRIED COUPLE FILING JOINT RETURN (MFJ)

If taxable income is:

Over:	But not over:	Your tax is:	Of the amount over:	LTCG & Qual. dividend rates
\$0	\$19,050	\$0.00+10%	\$0	0%
\$19,050	\$77,400	\$1,905.00+12%	\$19,050	0%
\$77,400	\$165,000	\$8,907.00+22%	\$77,400	15%
\$165,000	\$315,000	\$28,179.00+24%	\$165,000	15%
\$315,000	\$400,000	\$64,179.00+32%	\$315,000	15%
\$400,950	\$600,000	\$ 91,379.00+35%	\$400,000	15%
\$600,000	...	\$161,379.00+37%	\$600,000	20%

#### MARRIED FILING SEPARATE (MFS)

If taxable income is:

Over:	But not over:	Your tax is:	Of the amount over:	LTCG & Qual. dividend rates
\$0	\$9,525	\$0.00+10%	\$0	0%
\$9,525	\$38,700	\$952.50+12%	\$9,525	0%
\$38,700	\$82,500	\$4,453.50+22%	\$38,700	15%
\$82,500	\$157,500	\$14,089.50+24%	\$82,500	15%
\$157,500	\$200,000	\$32,089.50+32%	\$157,500	15%
\$200,000	\$300,000	\$45,689.50+35%	\$200,000	15%
\$300,000	...	\$80,689.50+37%	\$300,000	20%

### 3.8% Medicare Surtax on Investment Income

Net investment income may be subject to an additional 3.8% Medicare tax. Tax exempt entities such as charities, traditional IRAs and Roth IRAs will not be subject to the surtax. Net Investment Income includes interest, dividends, capital gains, annuities, royalties and rents, and passive income. It does not include tax-exempt municipal bond interest income or retirement-type income. The threshold is based on modified adjusted gross income (MAGI), not taxable income. The threshold is \$200,000 for Single filers, \$250,000 for Married Filing Jointly filers, \$12,500 for trusts and estates. The 3.8% surcharge is the lesser of the MAGI in excess of the threshold or the amount of net investment income. For example:

	The Smith Family	The Jones Family
Wages	\$200,000	\$260,000
Investment Income	\$51,000	\$1,000
Total MAGI	\$251,000	\$261,000
Lesser of: excess or Investment Income Surtax amount @ 3.8%	\$1,000	\$1,000
	\$38	\$38

#### INDIVIDUAL RETURN

If taxable income is:

Over:	But not over:	Your tax is:	Of the amount over:	LTCG & Qual. dividend rates
\$0	\$9,525	\$0.00+10%	\$0	0%
\$9,525	\$38,700	\$952.50+12%	\$9,525	0%
\$38,700	\$82,500	\$4,453.55+22%	\$38,700	15%
\$82,500	\$157,500	\$14,089.50+24%	\$82,500	15%
\$157,500	\$200,000	\$32,089.50+32%	\$157,500	15%
\$200,000	\$500,000	\$45,689.50+35%	\$200,000	15%
\$500,000	...	\$150,689.50+37%	\$500,000	20%

#### HEAD OF HOUSEHOLD (HH)

If taxable income is:

Over:	But not over:	Your tax is:	Of the amount over:	LTCG & Qual. dividend rates
\$0	\$13,600	\$0.00+10%	\$0	0%
\$13,600	\$51,800	\$1,360.00+12%	\$13,600	0%
\$51,800	\$82,500	\$5,944.00+22%	\$51,800	15%
\$82,500	\$157,500	\$12,698.00+24%	\$82,500	15%
\$157,500	\$200,000	\$30,698.00+32%	\$157,500	15%
\$200,000	\$500,000	\$44,298.00+35%	\$200,000	15%
\$500,000	...	\$149,298.00+37%	\$500,000	20%

### Health Care Mandate

The tax for being uninsured is typically the higher of two amounts, the basic penalty or an income-based levy. For 2018, the basic penalty is \$695 a person (\$347.50 for family members under age 18), with a ceiling of \$2,085. The income-based levy is 2.5% of household income over the filing threshold, the income-based levy cannot exceed the cost of a "bronze level" exchange plan. Note the "Tax Cuts and Jobs Act" (H.R. 1) repealed Health Care Mandate after 2018.

### The Alternative Minimum Tax

The alternative minimum tax is a separately figured tax that eliminates many deductions and credits used in computing the regular tax, thus increasing AMT taxable income. The AMT has its own exemption amount and tax rates. A taxpayer will pay the AMT in any tax year that the AMT calculation results in a higher tax than that computed under the regular tax. The 2018 AMT exemptions are \$109,400 for married taxpayers filing joint, \$70,300 for single filers, and \$54,700 for married taxpayers filing separate.

### Same-Sex Married Couples Filing Status

In 2015, a landmark Supreme Court Case, *Obergefell v. Hodges*, same-sex married couples are treated as married for federal tax purposes. Previously, same-sex married couples were only treated as married provided the marriage was recognized in jurisdictions that authorize same-sex marriages. The regulations issued by the IRS strengthen and clarify that same-sex couples can now marry in all States and that all States will recognize these marriages.

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## Retirement Plan Contribution Limits for 2018

Contribution Limits	SIMPLE	401(k), 403(b), 457 Plans	Coverdell Education Savings Account	Simplified Employee Pension (SEP), Profit Sharing or Money Purchase Plan	
Basic Limits	\$12,500	\$18,500	\$2,000	Lesser of 25% **of compensation or \$55,000	
Catch-up Limit (age 50 or older)	\$3,000	\$6,000	N/A		0

\*A higher contribution limit may apply to 457 plan participants in the last three years before retirement.

\*\*For self-employed, the limit is 20% of net earnings after an adjustment for self-employment tax, up to a maximum contribution of \$55,000

### IRA DEDUCTIBILITY LIMITS FOR 2018

Filing Status	Covered by a Retirement Plan?	Modified AGI	IRA Contribution \$5,500	Age 50 \$1,000 Catch-up
Single	Not Covered Covered	No Limit \$63,000 or Less \$63,001 – \$72,999 \$73,000 or Above	Full Deduction Full Deduction Partial Deduction No Deduction	Full Deduction Full Deduction Partial Deduction No Deduction
Married Filing Jointly	Both Not Covered Limits for Spouse Covered by Plan	No Limit \$101,000 or Less \$101,001 – \$120,999 \$121,000 or Above	Full Deduction Full Deduction Partial Deduction No Deduction	Full Deduction Full Deduction Partial Deduction No Deduction
	Limits for Spouse Not Covered by Plan	\$189,000 or Less \$189,001 – \$198,999 \$199,000 or Above	Full Deduction Partial Deduction No Deduction	Full Deduction Partial Deduction No Deduction
Married Filing Separately*	Either spouse	Less Than \$10,000 \$10,000 or More	Partial Deduction No Deduction	Partial Deduction No Deduction

\*If the spouses did not live together at any time during the year, their filing status is considered Single for purposes of IRA deductions.

### ROTH CONTRIBUTION LIMITS FOR 2018

Filing Status	Modified AGI	Roth Contribution \$5,500	Age 50 \$1,000 Catch-up Contribution
Single	Less than \$120,000 \$120,000 – \$134,999 \$135,000 or more	\$5,500 Proportionate Reduction of \$5,500 Cannot contribute	\$1,000 Proportionate Reduction of \$6,500 Cannot contribute
Married Filing Jointly	Less than \$189,000 \$189,000 – \$198,999 \$199,000 or more	\$5,500 Proportionate Reduction of \$5,500 Cannot contribute	\$1,000 Proportionate Reduction of \$6,500 Cannot contribute
Married Filing Separately*	Less than \$10,000 \$10,000 or More	Proportionate Reduction of \$5,500 Cannot contribute	\$1,000 Cannot contribute

\*If the spouses did not live together at any time during the year, their filing status is considered Single for purposes of IRA deductions.

## Exemption and Deductions

Filing Status	Personal Exemption*	Standard Deduction	Additional Standard Deduction	
		Deduction	*65 or Older†	Blind†
Married Filing Jointly	\$0	\$24,000	\$1,300	\$1,300
Single	\$0	\$12,000	\$1,600	\$1,600
Head of Household	\$0	\$18,000	\$1,600	\$1,600
Married Filing Separately	\$0	\$12,000	\$1,300	\$1,300

The "Tax Cuts and Jobs Act" (H.R. 1) repealed personal exemptions and increased the standard deductions for married and single. Individual taxpayers will be required to file a tax return if their gross income for the taxable year is more than the standard deduction. For married taxpayers, they will be required to file a tax return if their gross income, when combined with your spouse's gross income, is more than the standard deduction for a joint return, provided that the taxpayer and their spouse lived in the same home; their spouse does not file a separate tax return; and neither the taxpayer nor their spouse is a dependent of another taxpayer who has income other than earned income in excess of \$500 (indexed for inflation).

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## Reporting and Taxation of Long-Term Capital Gains and Qualified Dividend Income

The cost basis reporting regulations require reporting to the IRS the adjusted cost basis for securities sold and to classify any gain or loss on the sale as long-term or short-term on form 1099-B. The IRS regulations use the term “covered security” to describe a security for which basis reporting is required on form 1099-B. Covered securities include:

- Stocks purchased after 2010,
- Mutual fund and dividend reinvestment plan shares acquired after 2011,
- Less complex fixed income and options, such as puts and calls acquired after 2013,
- More complex fixed income acquired after 2015

Under current law, the maximum tax rate for long-term capital gains and qualified dividends is 20% with certain exceptions for collectibles, unrecaptured section 1250 (depreciation recapture) and section 1202 (gain). The holding period for long-term capital gains and losses is more than one year. The holding period begins on the day after you purchase the property and includes the day you dispose of it.

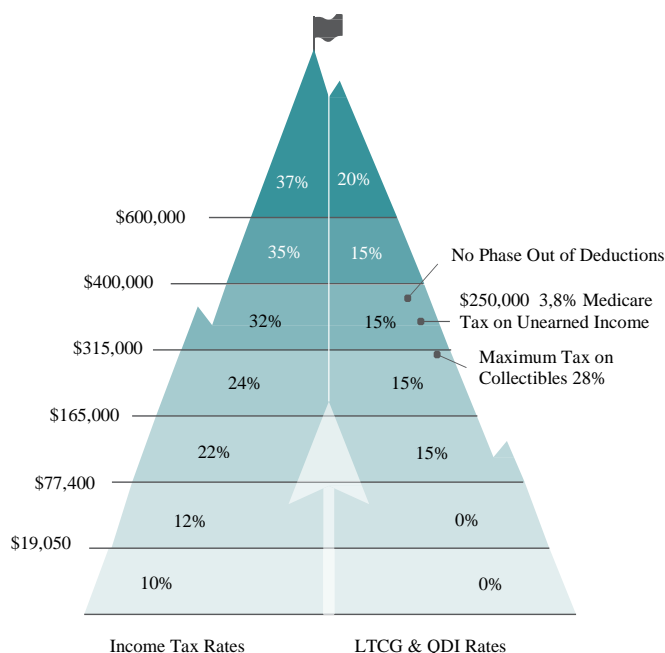
Generally, dividends paid by domestic corporations and certain foreign corporations are qualified. For a dividend to be qualified, the security owners must have held the security for a certain period of time, among other requirements.

Mutual funds, which buy and sell gold for their shareholders, exchange traded funds (such as GLD and IAU) and direct purchase of gold bullion, are considered collectibles subject to the maximum collectible capital gains tax rate of 28%.

### WASH SALE

In general, you have a wash sale if you sell stock at a loss, and buy substantially identical securities within 30 days before or after the sale. The loss is disallowed and added back to the basis of the newly acquired security. The cost basis reporting regulations require reporting to the IRS any wash sale occurring in an account on form 1099-B.

## The Tax Mountain for MFJ



\*The Medicare surtax of 3.8% is based on AGI while capital gains and income tax brackets are based upon taxable income. Additional .9% Medicare withholding is based on wages.

## Taxation of Children (Kiddie Tax)

Special rules apply to the taxation of unearned income (such as interest and dividends) of a child not filing a joint return regardless of whether the child can be claimed as a dependent on a parent's tax return. Generally, the kiddie tax applies to a child if: (1) the child has not reached the age of 19 by the close of the taxable year, or the child is a full-time student under the age of 24, and either of the child's parents is alive at such time.

Tax Cuts and Jobs Act (P.L. 115-97) has made changes to the kiddie tax rules. The provision simplifies the “kiddie tax” by effectively applying ordinary and capital gains rates applicable to trusts and estates to the net unearned income of a child. Thus, as under present law, taxable income attributable to earned income is taxed according to unmarried taxpayers' brackets and rates. Taxable income attributable to net unearned income is taxed according to the brackets applicable to trusts and estates, with respect to both ordinary income and income taxed at preferential rates. Thus, under the provision, the child's tax is unaffected by the tax situation of the child's parent or the unearned income of any siblings.

## Income Taxation of Social Security Benefits

Up to 85 % of Social Security benefits can be taxable. Social Security benefits (including survivor and disability benefits) are subject to tax if a taxpayer's Provisional Income (modified adjusted gross income plus tax-exempt interest income received or accrued, plus one-half of annual Social Security benefits) exceeds \$25,000 (\$32,000 for married taxpayers filing joint returns). For more detailed information and computation worksheets, see IRS Pub. 915, *Social Security and Equivalent Railroad Retirement Benefits*.

## Loss of Social Security Benefits Due to Continued Work

Retirees who have not attained full retirement age (66 for those born in 1943–1954) in 2018 may have earnings of \$17,040 without loss of benefits. “Earnings” is defined as wages, bonuses, commissions, fees from all types of work and net earnings from self-employment. For those retirees, \$1 in Social Security benefits is withheld for each \$2 of earnings in excess of \$17,040 during 2018. If you reach full retirement age during 2018, \$1 is deducted from your benefits for each \$3 you earn above \$45,360 until the month you reach full retirement age. There is no limit on the earnings of retirees who have attained full retirement age.

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## Effect of Early Retirement on Social Security Benefits

Percentage of Worker's Benefit Available at Full Retirement Age		
Age When Benefits Begin	Worker	Spouse
62	75.0%	35.0%
63	80.0%	37.5%
64	86.7%	41.7%
65	93.3%	45.8%
Full Retirement Age	100.0%	50.0%

Full retirement age for Social Security purposes is age 66, but reduced benefits can begin as early as age 62, as shown in the table to the left.

For early retirement purposes, a spouse is entitled to the higher of the amount shown in this table or the benefit computed on the basis of the spouse's own work record. In addition, a worker retiring after full retirement age is entitled to an additional benefit for each year worked between full retirement age and age 70. The retirement age when unreduced benefits are available is age 66 for workers born in 1943–1954. It is increased by two months a year for workers born in 1955–1959 and reaches age 67 for workers born after 1959.

## Social Security and Medicare Taxes

	Employer	Employee	Self-Employed
Wage Base	Rate	Rate	Rate
\$128,400 OASDI	6.20%	6.20%	12.40%
Unlimited Medicare	1.45%	1.45%	2.90%
Medicare Surtax*	0.00%	0.90%	0.90%

\*Your employer is required to begin withholding "Additional Medicare Tax" in the pay period in which your wages are in excess of \$200,000 and continue to withhold for each pay period until the end of the calendar year without regard to the individual's filing status or wages paid by another employer. The additional Medicare Tax is only imposed on the employee. The threshold for the surtax is \$250,000 for MFJ and \$200,000 for single filers.

## Estate and Gift Taxes

The federal government levies a gift tax on the value of transfers taking place during life and an estate tax on the value of transfers at death. The tax rate on both types of transfers is the same. An individual can give away \$15,000 annually to any number of people (including non-family members) without incurring a gift tax. An individual can give away \$11,200,000 over and above the \$15,000 annual gift tax exclusion during the individual's lifetime without incurring a gift tax, though the individual will have to file a gift tax return.

The estate of a decedent who is survived by a spouse can make a portability election to permit the surviving spouse to apply the decedent's unused estate exclusion amount.

In addition to any potential federal tax, some states impose their own gift, estate and/or inheritance tax. These state tax provisions should not be overlooked when an individual is planning his or her estate.

### BASIS OF GIFTED ASSETS

A donee's basis for property acquired by gift is the same as the adjusted basis in the hands of the donor. If the donor was required to pay gift tax, the recipient's basis is increased by the amount of gift tax paid that is attributable to that gift. If the fair market value (FMV) at the date of the gift is lower than the adjusted basis, then the basis for determining loss is its fair market value on that date. It is possible that neither gain nor loss will be realized if the donee sells the property.

For example: Stock with a \$10,000 basis is gifted when the FMV on the date of gift is \$9,000. The stock is later sold for \$9,500. There is neither a gain nor loss, since the basis for determining gain is \$10,000 and the basis for determining loss is \$9,000.

If the fair market value of stock or other property that you plan to gift is less than your cost basis at the time of the gift, your best strategy might be to simply sell the stock and recognize a loss, which you can use to offset other gains and then make the gift in cash.

### GIFT AND ESTATE TAX EXCLUSION AMOUNTS

Year	Exclusion Equivalent	Credit	Top Rate
2016	\$5,450,000	\$2,125,800	40%
2017	\$5,490,000	\$2,141,800	40%
2018	\$11,200,000	\$4,371,600	40%

### BASIS OF INHERITED ASSETS

Generally, when you inherit property or investments, your cost basis is equal to the fair market value (FMV) of the property at the time of the decedent's death.

The alternate valuation date can only be used if it lowers the estate tax. The election is made by the estate. Your cost basis will be equal to the fair market value of the property on the earlier of:

- 6 months after the date of death or
- The date that the property was distributed to you.

### 2018 ESTATE AND TRUST INCOME TAX RATES

#### TRUST AND ESTATE UNDISTRIBUTED INCOME TAX RATES

But		Your tax is:	Of the amount over:	Long-Term Capital Gains/Qualified Dividends tax rates
Over:	not over:			
\$0	\$2,550	\$0.00+10%	\$0	0%
\$2,550	\$9,150	\$255.00+24%	\$2,550	15%
\$9,150	\$12,500	\$1,839.00+35%	\$9,150	15%
\$12,500		\$3,011.50 + 37%	\$12,500	20%



1862	Abraham Lincoln enacts emergency measure to pay for Civil War: Minimum 3% tax rate.
1872	Lincoln's income tax law lapses.
1894	2% federal income tax enacted.
1895	Income tax ruled unconstitutional by U.S. Supreme Court in Pollack v. Farmer's Loan and Trust.
1909	16th amendment that authorizes Congress to collect taxes on income is proposed.
1913	Wyoming casts 37th vote, ratifying the 16th amendment. One in 271 people pays 1% rate.
1926	Revenue Act of 1926 reduces taxes: Too much money being collected.
1939	Revenue statutes codified. One out of 32 citizens pays 4% rate.
1943	One out of three people pays taxes. Withholding on salaries and wages introduced.
1954	875-page Internal Revenue Code of 1954 passes. Considered the most monumental overhaul of federal income tax system to date. 3,000 changes to tax rules.
1969	Tax Reform Act: Major amendments to 1954 overhaul.
1984	Reagan Tax Reform Act: Most complex bill ever, requires over 180 technical corrections.
1986	Tax Reform Act reduces tax brackets from five or two.
1993	Clinton's Revenue Reconciliation Act passes by one Vice Presidential vote.
1996	Four bills make over 700 changes, including Medical Savings Accounts and SIMPLE plans.
1997	Taxpayer Relief Act brings more than 800 changes. Child tax credit, Roth IRAs, capital gains reduction, breaks for higher education enacted.
2001	Tax Relief Act creates 441 changes. Lowers tax rates, repeals estate tax, increases contribution limits on 401(k)s and IRAs.
2002	The Job Creation and Worker Assistance Act brings business tax relief, including a 5-year net operating loss carryback and extends and adds depreciation.
2003	Jobs and Growth Tax Relief Reconciliation Act lowers taxes on capital gains and dividends, accelerates marginal tax rate cuts, brings marriage penalty relief, increases child tax credit, extends bonus depreciation and more. Bills passed late in the year bring military tax relief and Medicare reform.
2004	Back-to-back tax bills, Working Families Tax Relief Act and American Jobs Creation Act, brought the most tax law changes since 1986. The American Jobs Creation Act gave ordinary taxpayers, as well as businesses of all sizes, tax relief.
2005	Congress used the tax code to encourage energy savings and cope with natural disasters in the Energy Policy Act of 2005, the Katrina Emergency Tax Relief Act of 2005 and the Gulf Opportunity Zone Act of 2005.
2006	Congress passed three major laws affecting taxes and several minor ones, making more than 500 changes to the Internal Revenue Code altogether. Among other things, temporary capital gains and dividend rates of 15% (0% for the bottom two brackets) were extended for two years beyond 2008 and the AMT exemption was increased, but for 2006 only.
2007	Congress passed another temporary "fix" for the AMT, extended the reach of the "kiddie tax" to age 18 (age 23 for students) beginning in 2008 and changed the rules on forgiveness of debt to benefit homeowners facing foreclosure or reworking their mortgages.
2008	Six big tax laws passed: Economic Stimulus Act; Heroes Earnings Assistance and Relief Tax Act; Housing Assistance Tax Act; Emergency Economic Stabilization Act; Worker, Retiree and Employer Recovery Act; and Heartland, Habitat, Harvest and Horticulture Act. Among the major provisions of these laws were economic stimulus rebates, a first-time homebuyers credit, an additional standard deduction for real property taxes, extension of expiring deductions and yet another temporary AMT "fix."
2009	Congress passed a major stimulus bill with nearly \$300 billion in tax relief, providing for a Making Work Pay Credit, an American Opportunity Credit to expand on existing higher education credits, expansion of the first-time homebuyer credit, an enhanced child credit, expanded net loss carrybacks for business and expanded energy credits. The homebuyer credit and net loss provisions were later extended and expanded in the Worker, Homeownership, and Business Assistance Act.
2010	Congress at year-end extended tax breaks that had expired at the end of 2009 for two years through 2011 and extended tax breaks from the 2001 and 2003 Tax Acts scheduled to sunset at the end of 2010 for two years through 2012; a payroll tax reduction was also enacted for 2011. Other legislation enacted during the year included tax provisions with respect to health care reform, hiring stimulus and small business stimulus.
2013	Congress permanently extends tax cuts from 2001 and 2003 for all but the highest income taxpayers. New Net Investment Income tax and Medicare Contribution tax become effective. Leading tax, accounting and audit information, software and services provider Wolters Kluwer Tax & Accounting US celebrates its 100 <sup>th</sup> anniversary serving professionals since 1913 — the year the modern federal income tax became law in the U.S.
2014	New penalty for failure to obtain health insurance and credit to assist with health insurance premiums become effective.
2015	New penalty for employers who fail to provide health insurance becomes effective. States are authorized to set up plans to allow tax-favored accounts for disabled persons.