CFP BOARD

CFP BOARD KEY ELEMENTS TAX CUTS AND JOBS ACT 2017

IMPACT | CONSIDERATIONS | LEARNING OBJECTIVES
FOR THE NOVEMBER 2018 CFP® CERTIFICATION EXAMINATION

CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.
1425 K St NW #800 Washington, DC 20005 | 202.379.2200 | f 202.379.2299 | CFP.net

The goal of this publication is to highlight key elements related to the final provisions of the Tax Cuts and Jobs Act of 2017. The document addresses the potential impact of tax reform, financial planning considerations, and related learning objectives that result from changes in regulation.

CFP Board developed this document to serve as a resource for CFP Board Registered Education Programs and CFP® examination candidates to highlight the key elements of the Tax Cuts and Jobs Act of 2017 that are critical to the CFP® examination. Please note that the document is not an all-inclusive list. The development group excluded multiple elements of the tax reform bill considered outside the scope of the CFP® exam.

The CFP® certification examination tests a candidate's ability to apply and integrate knowledge from all of CFP Board's specified content areas. Questions may focus on discrete content areas or may require application, integration, synthesis, or evaluation across several content areas. The exam is comprised of questions distributed across the eight Principal Topics categories, based upon the targeted percentage allocations for each topic.

There is considerable variety in the work environments and compensation models of the more than 80,000 CFP® professionals in the United States, but the financial planning process remains the same. While there are CFP® professionals that specialize in law (estate or otherwise), tax, insurance, or investments, etc., CFP Board engages a diverse group of subject matter experts (SMEs) to write exam items from a generalist's perspective, without the overrepresentation of perspective from any particular specialty.

Document Development

CFP Board convened a diverse group of SMEs to review and evaluate available literature addressing the changes enacted by the Tax Cuts and Jobs Act of 2017. The group employed a modified Delphi technique to evaluate the very broad and rapid change brought by the legislation. The method seeks to aggregate opinions from a diverse set of experts to identify key elements of the Tax Cuts and Jobs Act of 2017 that will affect the content of the CFP Board examination.

CFP Board convened an initial in-person meeting to collect comments from subject matter experts. Facilitators sent copies of the compiled comments to each participant with the opportunity to comment further. CFP Board then administered a second round of commentary to a larger group of subject matter experts to achieve a general consensus. The subject matter experts used the resulting document in a review of examination content to identify the impact of the tax reform provision.

CONTENTS

1. INDIVIDUAL AND CORPORATE TAX RATES LOWERED (F: TAX PLANNING) 4
2. STANDARD DEDUCTIONS CHANGES (F: TAX PLANNING) 4
3. PERSONAL AND DEPENDENT EXEMPTIONS REPEALED (F: TAX PLANNING) 5
4. STATE AND LOCAL TAXES (SALT) CHANGED (F: TAX PLANNING) 5
5. MORTGAGE INTEREST DEDUCTION LIMIT. NEW DEBT INCURRED (F: TAX PLANNING) 5
6. HOME EQUITY LOAN DEBT LIMITED TO COST OF HOME (INCLUDED IN MORTGAGE INTEREST DEDUCTION LIMIT) (F: TAX PLANNING) 6
7. CHARITABLE CONTRIBUTION CEILING INCREASED (F: TAX PLANNING) 6
8. MEDICAL EXPENSES DEDUCTION CHANGED EFFECTIVE JANUARY 1, 2019 (F: TAX PLANNING) 7
9. DEDUCTIONS FOR INVESTMENT EXPENSES, TAX PREP FEES, AND UNREIMBURSED EMPLOYEE EXPENSES ARE ELIMINATED (F: TAX PLANNING) 7
10. PERSONAL CASUALTY LOSSES LIMITED (F: TAX PLANNING) 7
11. PERSONAL THEFT LOSS DEDUCTION IS REPEALED (F: TAX PLANNING) 8
12. ITEMIZED DEDUCTION PHASE-OUT ELIMINATED (F: TAX PLANNING) 8
13. CHILD CREDIT INCREASES. THE INCOME LEVEL AT WHICH THE CREDIT BEGINS TO PHASE OUT ALSO INCREASES (F: TAX PLANNING) 8
14. BEGINNING WITH 2019, AGREEMENTS ALIMONY PAYMENTS ARE NOT DEDUCTIBLE BY THE PAYER NOR ARE THEY TAXABLE TO THE RECIPIENT (F: TAX PLANNING) 9
15. ALTERNATIVE MINIMUM TAX (AMT) EXEMPTION IS INCREASED ALLOWING MORE TAXPAYERS TO AVOID AMT (F: TAX PLANNING) 9
16. 529 PLANS CAN BE USED PRIOR TO COLLEGE (K-12) FOR UP TO $10,000 (F: TAX PLANNING) 9
17. ROTH IRA RE-CHARCTERIZATION RULES HAVE CHANGED TO ELIMINATE OPTION (G: RETIREMENT SAVINGS AND INCOME PLANNING) 10
18. INVESTMENT INCOME OF A CHILD WILL BE TAXED AT TRUST INCOME TAX RATES RATHER THAN INDIVIDUAL INCOME TAX RATES (F: TAX PLANNING) 10
19. ABLE ACCOUNTS ENHANCED (F: TAX PLANNING, E: INVESTMENT PLANNING, G: RETIREMENT SAVINGS AND INCOME PLANNING) 10
20. ESTATE EXCLUSION DOUBLED PER PERSON, EFFECTIVE IN 2018 (GIFT/ESTATE/GENERATION-SKIPPING TRANSFER (GST) TAX EXEMPTION) (G: RETIREMENT SAVINGS AND INCOME PLANNING) 11
21. CHANGES TO PROPERTY DEPRECIATION RULES (F: TAX PLANNING) 11
22. BUSINESS ENTERTAINMENT EXPENSES ELIMINATED (F: TAX PLANNING) 12
23. CHANGES TO SECTION 1031 LIKE KIND EXCHANGES (F: TAX PLANNING, E: INVESTMENT PLANNING) 12
24. CHANGES TO DEDUCTIONS OF REIT DIVIDENDS (F: TAX PLANNING, E: INVESTMENT PLANNING) 12
25. 20% DEDUCTION FOR QUALIFIED BUSINESS INCOME OF S CORPORATIONS (F: TAX PLANNING, E: INVESTMENT PLANNING) 13

1 INDIVIDUAL AND CORPORATE TAX RATES LOWERED

F: TAX PLANNING

Change:

- **C corporations tax rate reduced to flat rate of 21%.**

Impact:

- Additional funds available for other company uses.
- Potentially higher taxes for smaller businesses.

Considerations:

- Consider planning options for additional funds.
- Consider appropriate entity for business structure (C corporation or S corporation).

Learning Objectives:

- Determine how potential tax savings from the 2018 tax law change impact a corporate cash flow.

Change:

- **Seven individual tax brackets remain; individual tax rates were lowered with the maximum personal income rate set at 37%**

Impact:

- At a given level of taxable income, the income tax rate is lower.
- Some individuals may have a larger pool of disposable income.

Consideration:

- Since taxable income is determined after applying deductions, it will be important to evaluate how the loss of deductions may offset the benefit of lower rates.
- Determine how the individual may best utilize potential tax savings.

Learning Objectives:

- Recommend actions to minimize tax liability and maximize after-tax returns for clients and dependents consistent with IRS Code.
- Determine how potential tax savings from the 2018 tax law change impact a client's cash flow.

2 STANDARD DEDUCTIONS CHANGES

F: TAX PLANNING

Change:

- **Standard deduction nearly doubled to $24,000 (married), $12,000 (single), head of household to $18,000, and married, filing single to $12,000.**

Impact:

- Fewer individual taxpayers will itemize their individual deductions.
- Reduced record-keeping responsibilities for many taxpayers.

Considerations:

- Some taxpayers may want to consider "bunching" charitable contributions into alternate years, with a view to qualifying for itemization at least some of the time. However, bunching may impact cash flow management.

Learning Objectives:

- Determine the impact of the increased standardized deductions on the individual's tax liability in regard to planning opportunities.
- Examine cash flow management strategies due to "bunching" charitable contributions.

3 PERSONAL AND DEPENDENT EXEMPTIONS REPEALED

F: TAX PLANNING

Change:

- **The deduction for personal and dependency exemptions have been repealed.**

Impact:

- Individuals with large families will see an increase in their taxable income; larger families will lose personal deductions.
- The repeal of personal exemptions may be mitigated or offset by the increased standard deduction and/or child credit.

Considerations:

- Individuals should consult with a tax advisor to determine the impact on tax liability and personal cash flow.

Learning Objectives:

- Determine the impact of the deduction on the individual's planning opportunities.

4 STATE AND LOCAL TAXES (SALT) CHANGED

F: TAX PLANNING

Change:

- **Individual deduction for state and local (SALT) for income, sales, and property is limited in the aggregate to $10,000 (married, single, and head of household filers) and $5,000 (married, filing separately).**

Impact:

- Tax increase for high-income earners and residents of high tax states.
- Generally, wage earners from no-tax states could see tax savings; as above, high wage earner from high-tax states could see a higher tax bill.

Considerations:

- Timing of tax payments.
- Considerations of state residency for occupation and/or retirement may be more important.

Learning Objectives:

- Calculate the impact of the loss of SALT on tax liability.
- If applicable, determine the most appropriate timing of state and local tax payments.

5 MORTGAGE INTEREST DEDUCTION LIMIT FOR NEW DEBT INCURRED

F: TAX PLANNING

Change:

- **Individuals are allowed an itemized deduction for interest on principal residence and second residence purchase, construction, or improvement mortgages up to a combined $750,000 for new debt incurred after December 15, 2017.**

Impact:

- Potentially fewer new mortgages in excess of $750,000.
- Potential negative impact on residential real estate market.
- Potential negative impact to the mortgage industry.

Considerations:

- Potential loss of deduction for individuals considering purchase, construction, or home improvement.

Learning Objectives:

- Recognize the differences between tax treatment of home mortgages and home equity loans.
- Evaluate implications of the combined deduction on taxes and cash flow.

6 HOME EQUITY LOAN DEBT LIMITED TO COST OF HOME. INCLUDED IN $750,000 LIMIT

F: TAX PLANNING

Change:

- **Mortgage interest deduction is eliminated for interest paid on home equity debt, with the exception of acquisition debt (buy, build, or improve your home) which is still deductible.**

Impact:

- Taxpayers can no longer use home equity loans to pay for personal expenses on a tax-advantaged basis.

Consideration:

- Review cash flow management issues considering interest is no longer deductible.

Learning Objectives:

- Describe the limitations on HELOC debt.
- Recognize the differences between tax treatment of home mortgages, home equity loans, and home equity lines of credit.

Change:

- **Interest deduction for cash-out refinance eliminated except for property improvements.**

Impact:

- Revised options for clients to manage cash and make purchases.

Considerations:

- Re-evaluate how clients could consider financing personal debt and non-home acquisition expenses.

Learning Objectives:

- Evaluate financing options and cash flow management strategies for the future.

7 CHARITABLE CONTRIBUTION CEILING INCREASED

F: TAX PLANNING

Change:

- **A cash gift to public charities is deductible if it does not exceed 60% of a taxpayer's AGI.**

Impact:

- This may draw increased charitable contributions.

Considerations:

- Potential to assist with bunching contribution strategies.
- Potentially creates additional charitable and wealth transfer opportunities for clients.

Learning Objectives:

- Identify the advantages of appropriately timing charitable contributions.
- Recommend situations where the increased charitable contribution will benefit taxpayers.

8 MEDICAL EXPENSES DEDUCTION CHANGED, EFFECTIVE JANUARY 1, 2019

F: TAX PLANNING

Change:

- **Threshold reduced to 7.5% of AGI for tax years 2017 and 2018. Increase to 10% in 2019.**

Impact:

- Starting in 2019, certain taxpayers may see reduced or eliminated deductions.

Considerations:

- Bunch discretionary medical expenses to alternating years, if possible.

Learning Objectives:

- Recommend strategies for planning around the increased limit on deductible medical expense.
- Evaluate the impact of the increased standard deduction relative to the change in the medical expense deduction (itemized deduction).

9 DEDUCTIONS FOR INVESTMENT EXPENSES, TAX PREP FEES, AND UNREIMBURSED EMPLOYEE EXPENSES ARE ELIMINATED

F: TAX PLANNING

Change:

- **Miscellaneous itemized deductions that were subject to the 2% of AGI threshold are no longer allowed (e.g. tax preparation and investment expenses).**

Impact:

- Fewer deductions for taxpayers who itemize.

Considerations:

- May affect individual's decision-making relative to these expenses.

Learning Objectives:

- Identify the impact of the elimination of miscellaneous itemized deductions subject to the 2% limitation.
- List the deductions that are no longer permitted due to this change.

10 PERSONAL CASUALTY LOSSES LIMITED

F: TAX PLANNING

Change:

- **Personal casualty losses are limited to those losses incurred on properties located within federally declared disaster areas.**

Impact:

- All non-federally declared disaster area casualty losses are not deductible, resulting in fewer deductions.

Considerations:

- Review insurance policies to ensure clients have adequate coverage.

Learning Objectives:

- Calculate the impact of the repeal of the casualty loss deduction.
- Identify situations in which a casualty loss deduction would be permitted.

11 PERSONAL THEFT LOSS DEDUCTION IS REPEALED

F: TAX PLANNING

Change:

- **Personal theft loss deduction is repealed.**

Impact:

- All personal theft deductions are eliminated.

Considerations:

- Review insurance policies to ensure clients have adequate coverage.

Learning Objectives:

- Recognize the impact of the repeal of the theft loss deduction.
- Determine appropriate ways to mitigate the impact of this repeal.

12 ITEMIZED DEDUCTION PHASE-OUT ELIMINATED

F: TAX PLANNING

Change:

- **Phase-out of itemized deductions is eliminated for high-income taxpayers.**

Impact:

- May allow higher income earners to continue itemizing and take full advantage of the deductions (i.e. higher dollar amount).
- Taxpayers may consider increasing deductible expenses.

Consideration:

- A review of potential itemized deductions.
- Taxpayer may consider increased deductible expenses.

Learning Objectives:

- Identify which taxpayers will be impacted by the repeal of the phase-out.
- Identify how taxpayers will be impacted by the repeal of the phase-out.
- Recommend opportunities to take advantage of the repeal.

13 CHILD CREDIT INCREASES. THE INCOME LEVEL AT WHICH THE CREDIT BEGINS TO PHASE OUT ALSO INCREASES

F: TAX PLANNING

Change:

- **Child Tax Credit increases from $1,000 to $2,000 per qualified child, with $1,400 being refundable. Phase out of credit begins at income of $200,000 (single) and $400,000 (married).**

Impact:

- Qualifying taxpayers will receive an increased tax credit; relatively higher earning taxpayers now eligible for the credit up to a certain income level.
- Qualifying taxpayers who previously had $0 tax refundable may be eligible for a refund of up to $1400 per child.

Considerations:

- Investment of additional funds – opportunity for a cash management review.

Learning Objectives:

- Calculate the impact of the increased child tax credit.
- Calculate the amount refundable.
- Identify taxpayers eligible for the child tax credit.
- Develop appropriate education planning strategies with regard to high-income families.

14 BEGINNING WITH 2019 AGREEMENTS ALIMONY PAYMENTS ARE NOT DEDUCTIBLE BY THE PAYER NOR ARE THEY TAXABLE TO THE RECIPIENT

F: TAX PLANNING

Change:

- **Beginning in 2019, alimony payments are not deductible by the payer nor are they taxable to the recipient.**

Impact:

- Structure of divorce and separation agreements may be altered.
- Alimony amounts may be impacted.

Considerations:

- Evaluate advantages and disadvantages of pending divorces prior to December 31, 2018.

Learning Objectives:

- Explain the impact of the new alimony rules.

15 ALTERNATIVE MINIMUM TAX (AMT) EXEMPTION IS INCREASED ALLOWING MORE TAXPAYERS TO AVOID AMT

F: TAX PLANNING

Change:

- **AMT exemption is increased allowing more taxpayers to avoid AMT.**

Impact:

- Most taxpayers will avoid paying AMT.

Considerations:

- Consider how the AMT tax credit may lower regular tax.

Learning Objectives:

- Explain AMT.
- Identify taxpayer situations that are most likely to result in imposition of the AMT.
- Recommend strategies to avoid triggering the AMT.

16 529 PLANS CAN BE USED PRIOR TO COLLEGE (K-12) FOR UP TO $10,000

F: TAX PLANNING

Change:

- **The Act allows up to $10,000 per year used for elementary and high school tuition and specifically allows funds to be used for private and religious schools.**

Impact:

- 529 college savings plans become more attractive tools for meeting savings goals.
- Savings plans formerly used to fund K-12 education costs may no longer be as attractive.

Considerations:

- Consider additional funding for a 529 plan since the funds may now be used for tuition for grades K-12.

Learning Objectives:

- Compare and contrast tax implications of using 529 college savings plans as a vehicle for meeting client's savings goals.
- Evaluate 529 college savings plans as an appropriate investment alternative for client's savings given the client's goals and objectives.

17 ROTH IRA CHARACTERIZATION RULES HAVE CHANGED TO ELIMINATE OPTION

G: RETIREMENT SAVINGS AND INCOME PLANNING

Change:

- **Under the new law, "re-characterizing" a Roth conversion that occurs in 2018 is no longer possible.**

Impact:

- Taxpayers who want to convert their Traditional IRA to a Roth IRA will need to consider the consequences carefully since they no longer have a period of time to undo it if they change their mind.

Considerations:

- A Roth conversion can still be a useful tax strategy in years where you have a decrease in income or a market decline in your retirement plan assets.

Learning Objectives:

- Identify related risks and key considerations for the measure that prohibits the re-characterization of Roth IRA conversions in 2018.

18 INVESTMENT INCOME OF A CHILD WILL BE TAXED AT TRUST INCOME TAX RATES RATHER THAN INDIVIDUAL INCOME TAX RATES

F: TAX PLANNING

Change:

- **Unearned income of an individual either under age 19, or under age 24 and a full-time student, will be taxed at trust income tax rates.**

Impact:

- Potential for increased tax for a given level of taxable income.

Considerations:

- Consider asset-titling strategies.
- Consider tax-advantaged investment vehicles.
- Consider converting UTMA assets into a 529 plan.

Learning Objectives:

- Identify investment strategies that can be used to manage tax liability; e.g., tax loss harvesting, bond swaps, etc.
- Evaluate implications for additional education funding; i.e., custodial accounts and relevant impact.

19 ABLE ACCOUNTS ENHANCED

F: TAX PLANNING, E: INVESTMENT PLANNING, G: RETIREMENT SAVINGS AND INCOME PLANNING

Changes:

- **Rules related to ABLE contributions and rollover opportunities are enhanced.**
- **Contributions to ABLE accounts are eligible for the saver's credit.**
- **Contributions to ABLE accounts are increased to the amount of beneficiary's earned income (up to federal poverty line).**

Impact:

- ABLE accounts are now more attractive and easier to implement.
- Will likely result in an increased number of ABLE accounts and/or higher balances.

Considerations:

- Consider suitability of ABLE accounts.
- Income planning for beneficiaries and utilizing the account for the needs of the individual.
- Work with a tax advisor to determine the most appropriate way to make ABLE account contributions that qualify for the tax credit.

Learning Objectives:

- Identify strategies that can be used to take advantage of ABLE accounts.
- Determine when ABLE accounts would be appropriate for a client situation.
- Explain ABLE accounts.

20 ESTATE EXCLUSION DOUBLED PER PERSON, EFFECTIVE IN 2018 (GIFT/ESTATE/GENERATION-SKIPPING TRANSFER (GST) TAX EXEMPTION)

G: RETIREMENT SAVINGS AND INCOME PLANNING

Change:

- **The applicable estate exclusion amount is doubled to $11,180,000 per person.**

Impact:

- Far fewer individuals will be subject to estate tax.
- The amount of wealth transfer going forward may be significantly increased.

Considerations:

- Existing estate plans need to be re-evaluated.

Learning Objectives:

- Identify estate-planning revisions that are appropriate given the higher limits.

21 CHANGES TO PROPERTY DEPRECIATION RULES

F: TAX PLANNING

Change:

- **Enhanced ability to utilize bonus depreciation.**

Impact:

- Taxpayers have an opportunity to take larger depreciation deductions on their business properties.

Considerations:

- Taxpayer should consider timing of asset acquisition.
- Consider increased usage of tax savings for business purposes.

Learning Objectives:

- Determine situations where utilizing increased business depreciation limits is appropriate.
- Explain the special rules related to bonus depreciation.

Change:

- **Increased limits for expensing are allowed under Section 179 and certain real property improvements are added as qualifying property.**

Impact:

- Taxpayers have an opportunity to take larger depreciation deductions on their business properties.

Considerations:

- Taxpayer should consider timing of asset acquisition.
- Consider increased usage of tax savings for business purposes.
- Potential impact on certain sectors of the economy (e.g. equipment manufacturers, etc.)

Learning Objectives:

- Explain the special rules related to Section 179 expensing.
- Determine situations where utilizing increased business depreciation limits is inappropriate.
- Recognize property eligible for business.

22 BUSINESS ENTERTAINMENT EXPENSES ELIMINATED

F: TAX PLANNING

Change:

- **Meal expenses are reduced up to 50%.**

Impact:

- Taxpayers need to consider meals budgets and format (attendees, location, and purpose) for business purposes.

Considerations:

- Reduced and/or lost deductions may negatively impact cash flow.

Learning Objectives:

- Differentiate the new limits on meals and entertainment deductions.

Change:

- **Business entertainment expenses eliminated.**

Impact:

- Taxpayers need to consider meals budgets and format (attendees, location, and purpose) for business purposes.

Considerations:

- Reduced and/or lost deductions may negatively impact cash flow.

Learning Objectives:

- Differentiate the new limits on meals and entertainment deductions.

23 CHANGES TO SECTION 1031 LIKE-KIND EXCHANGES

F: TAX PLANNING, E: INVESTMENT PLANNING

Change:

- **Limits applicability of like-kind exchanges to only real property that is not primarily held for sale.**

Impact:

- All other property previously eligible for 1031 like-kind exchange is no longer eligible (automobiles, equipment, and livestock).
- Gains that were previously tax-deferred are now taxable.

Considerations:

- Consider acquisition and timing for additional equipment.

Learning Objective:

- Classify property that is eligible for 1031 lifetime like-kind exchanges.

24 CHANGES TO DEDUCTIONS OF REIT DIVIDENDS

F: TAX PLANNING, E: INVESTMENT PLANNING

Change:

- **Taxpayers can deduct 20% of income received from qualified REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income.**

Impact:

- Reduced taxes on these income sources.
- Positive net inflows to these investment vehicles.

Considerations:

- Consider the new enhanced advantages of these investment vehicles.

Learning Objectives:

- Explain how the REIT, dividend and partnership income deduction works.
- Identify which taxpayers could benefit most from these tax changes.

25 20% DEDUCTION FOR QUALIFIED BUSINESS INCOME OF S CORPORATIONS

F: TAX PLANNING, E: INVESTMENT PLANNING

Change:

- **Taxpayers can deduct 20% of qualified business income received from flow-through entities (S corporations, partnerships, and sole proprietorships).**

Impact:

- Increase in these types of business structures.
- Current business entity choice may no longer be appropriate.

Considerations:

- Carefully consider business entity selection.

Learning Objectives:

- Determine which entities would benefit most from 20% deduction.
- Differentiate between the organizational form and the tax treatment of income, expenses, payroll and wage taxes for sole proprietorships, partnerships, LLPs, LLCs, S corporations and C corporations.