2018 Tax Highlights

The passage of 500 pages of new tax legislation in December ushers in the largest tax overhaul in 30 years. Here's what investors need to know.

New Tax Brackets

2018 will keep the seven-bracket structure, but with lower rates overall, including a reduction for top-tier earners.

With the new brackets, the "marriage penalty" has, in general, been reduced for couples in all but the highest tax bracket.

Table 1. 2018 Ordinary Income Tax Rates

Rate	For Unmarried Individuals, Taxable Income	For Married Individuals Filing Joint Returns, Taxable Income	For Heads of Households, Taxable Income
10%	Up to $9,525	Up to $19,050	Up to $13,600
12%	$9,526 – $38,700	$19,051 – $77,400	$13,601 – $51,800
22%	$38,701 – $82,500	$77,401 – $165,000	$51,801 – $82,500
24%	$82,501 – $157,500	$165,001 – $315,000	$82,501 – $157,500
32%	$157,501 – $200,000	$315,001 – $400,000	$157,501 – $200,000
35%	$200,001 – $500,000	$400,001 – $600,000	$200,001 – $500,000
37%	Over $500,000	Over $600,000	Over $500,000

Changes in Deductions

The standard deduction will almost double, increasing to $12,000 for single filers and married individuals filing separately, to $18,000 for heads of households, and to $24,000 for married couples filing jointly (Table 2). As a result, it is possible that more taxpayers will take the standard deduction, simplifying their taxes.

Although the **personal exemption** has been eliminated entirely, the effect when combined with a higher standard deduction may well be net-positive for many taxpayers.

Table 2. 2018 Standard Deduction

Filing Status	Deduction Amount
Single or Married Filing Separately	$12,000
Married Filing Jointly	$24,000
Head of Household	$18,000

Charitable contributions will lose some of their tax-deductible draw as many filers will no longer itemize. Filers may choose to "bunch" deductions into different years, making contributions for the next two or more years in a single year, allowing them to exceed their standard deduction and therefore benefit from itemization.

State taxes, local taxes and property taxes can still be itemized, but only up to a new combined limit of $10,000. That change will hurt property owners and other taxpayers in high-tax states like CA, NY and NJ.

Mortgage interest for primary and secondary homes remains deductible, but up to a loan limit of $750,000 (down from $1 million), or $375,000 for married taxpayers filing separately. Homeowners may be less likely to deduct mortgage interest as a result. In addition, homeowners will no longer be able to deduct interest on home equity loans. These changes may increase the after-tax cost of owning a home and borrowing on the equity therein.

Costs for tax preparation, investment advisory and trustee fees are no longer deductible.

For 2017 and 2018, **Medical expenses** that exceed 7.5% of a taxpayer's income will be deductible. That threshold is set to revert to 10% in 2019, thus potentially decreasing the after-tax cost of medical procedures in 2017 and 2018 in comparison to other years. Starting in 2019, individual health insurance will no longer be mandatory.

Alternative Minimum Tax

The alternative minimum tax (AMT) remains in place for individuals, but with higher exemption deductions and increased phase-out levels. That means fewer filers will have to pay AMT. Exemption amounts are now $70,300 for individuals and $109,400 for married couples filing jointly. In 2018, the 26% AMT rate applies to the alternative minimum taxable income (AMTI) that does not exceed $191,500, or $95,750 for married couples filing separately, and the 28% AMT rate applies to AMTI in excess of such amounts.

Table 3. 2018 Alternative Minimum Tax Exemption Phaseout Thresholds

Filing Status	Threshold
Unmarried Individuals	$500,000
Married Filing Jointly	$1,000,000

Under new rules, AMT exemptions phase out at 25 cents per dollar earned once the filer's AMTI reaches a certain threshold. In 2018, the exemption will start phasing out at $500,000 in AMTI for single filers, $1 million for married couples filing jointly (Table 3).

Investment Taxes

Short-term capital gains will still be taxed as ordinary income. As tax brackets have been reduced for some, taxes on short-term gains may be lower as well.

Long-term capital gains will be taxed as shown in Table 4—a minor change from last year.

The Net investment income tax—the 3.8% surtax on income from investments used to fund the Affordable Care Act—remains in place.

Table 4. Long-Term Capital Gains Overview

Long-Term Capital Gains Rate	Single Taxpayers	Married Filing Jointly	Head of Household	Married Filing Separately
0%	Up to $38,600	Up to $77,200	Up to $51,700	Up to $38,600
15%	$38,601 – $425,800	$77,201 – $479,000	$51,701 – $452,400	$38,601 – $239,500
20%	Over $425,800	Over $479,000	Over $452,400	Over $239,500

Other Changes Affecting Investors and Small Business Owners

Certain small business owners who hold their businesses in "pass-through" form could potentially benefit from a new provision that allows a deduction of 20% of qualified income from a partnership, S corporation or sole proprietorship , subject to various limitations and phaseouts. This means that self-employed filers could have a lower tax rate than other employees.

The estate and gift tax exemption will increase from $5.49 million per individual ($10.98 million for married couples) to nearly double that: approximately $11 million for individuals and about $22 million for couples (in each case, indexed for inflation). This means married taxpayers today can leave an estate worth $22 million to heirs without paying federal estate or gift tax. The new rates are set to roll back in 2026, however. Wealthy clients who expect to live past 2026 may want to consider gifting assets before 2026 to ensure the tax-free transfer of assets to heirs.

529 College Savings Plans are now permitted to distribute up to $10,000 per student for elementary or secondary school tuition expenses incurred in a taxable year, but beware: Your individual state might not be so generous. Distributions for K-12 expenses may not be deductible for state tax purposes and any money withdrawn for K-12 tuition could be subject to state tax. Check your state's treatment of K-12 withdrawals before tapping into your 529 plan.

We recommend seeking the advice of your tax advisor to learn more about how to the 2018 tax changes may affect your individual situation.

For more information, visit amgfunds.com/readiness.

About AMG Funds

The largest network of institutional quality investment solutions through a single point of access

The unrivaled insights of over 30 independent and autonomous investment managers

More than 100 actively managed products covering the risk spectrum for investors searching beyond the index

AMG Funds

amgfunds.com

linkedin.com/company/amg-funds

Sources:

El-Sibaie, Amir. 2018 Tax Brackets, Tax Foundation. Jan. 2, 2018.

Berger, Rob. The New 2018 Federal Income Tax Brackets & Rates. Forbes, Dec. 17, 2017.

Fontinelle, Amy. How the GOP Tax Bill Affects You. Investopedia. Jan. 3, 2018.

Bischoff, Bill. Should you prepay your 2018 property taxes and 9 more things to know about the new tax law. MarketWatch. Dec. 28, 2017.

Lacurci, Greg. Tax reform: 7 essential strategies for financial advisers. InvestmentNews. Jan. 13, 2018.

The tax information contained herein is provided for informational purposes only. AMG Funds does not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific financial or tax situation.

Investing involves risk, including possible loss of principal.

These materials are being provided on the express basis that they and any related communications (whether written or oral) will not cause AMG Funds LLC (or any affiliate) (collectively, the “Manufacturer”) to become an investment advice fiduciary under ERISA or the Internal Revenue Code with respect to any retirement plan or IRA investor, as the recipients are fully aware that the Manufacturer (i) is not undertaking to provide impartial investment advice, make a recommendation regarding the acquisition, holding or disposal of an investment, act as an impartial adviser, or give advice in a fiduciary capacity, and (ii) has a financial interest in the offering and sale of one or more products and services, which may depend on a number of factors relating to the Manufacturer’s internal business objectives, and which has been disclosed to the recipient. Nothing set forth herein or any information conveyed (in writing or orally) in connection with these materials is intended to constitute a recommendation that any person take or refrain from taking any course of action within the meaning of U.S. Department of Labor Regulation §2510.3-21(b)(1), including without limitation buying, selling or continuing to hold any security. No information contained herein should be regarded as a suggestion to engage in or refrain from any investment-related course of action as none of AMG Funds LLC nor any of its affiliates is undertaking to provide investment advice, act as an adviser to any plan or entity subject to the Employee Retirement Income Security Act of 1974, as amended, individual retirement account or individual retirement annuity, or give advice in a fiduciary capacity with respect to the materials presented herein. You are advised to contact your own financial advisor or other fiduciary unrelated to AMG Funds LLC about whether any given course of action may be appropriate for your circumstances. The information provided herein is intended to be used solely by the recipient in considering the products or services described herein and may not be used for any other reason, personal or otherwise.

AMG Distributors, Inc., a member of FINRA/SIPC.

AMG Funds LLC is a subsidiary and U.S. distribution arm of Affiliated Managers Group, Inc. (NYSE: AMG).