UBS

2018 tax planning guide

We are committed to helping you confirm that your current and future tax strategy supports your larger financial goals.

Advice. Beyond investing. Your financial wellness encompasses so much more than how the markets are currently performing. Every decision you make with regard to financial planning—whether it pertains to investments, insurance, education, housing, retirement and/or estate planning—can have some impact on your tax situation. We are committed to helping you address your needs and giving you the confidence to pursue all of life's goals. This includes helping you confirm that your current and future tax strategy supports your larger financial goals.

The top individual income tax rate was lowered to 37%.

Summary of key tax reform changes

At the close of 2017, Congress passed what is commonly referred to as the Tax Cuts and Jobs Act. Below is a summary of some of the relevant changes to the law. In order to comply with Senate budget reconciliation rules, except where specifically noted, all individual provisions will sunset after 2025.

Item	Changes
Income tax rate brackets	The top individual income tax rate was lowered to 37%, and additional modifications were made to the income levels for some brackets (see "2018 individual income tax rates" for more detail). Modifications were made to the brackets for trusts, as well (see "2018 trust and estate income tax rates").
Standard deduction and personal exemptions	The standard deduction was significantly increased (see "Additional tax numbers" for amounts) and personal exemptions were eliminated.
Itemized deductions	A number of changes were made to itemized deductions, including the temporary repeal of the Pease Limitation and the cap on SALT. See "2018 itemized deductions" and "charitable contributions" for more information.
Alternative Minimum Tax (AMT)	AMT has been modified with increased exemption amounts and phase-out thresholds (see "2018 Alternative Minimum Tax exemption" for more detail).
Estate tax	Under the Tax Cuts and Jobs Act, the basic exclusion increased from $5 million to $10 million (indexed annually for inflation) for estates of decedents dying and gifts made after 2017 and before 2026. In 2018, the exemption is a projected $11.18 million (pending final IRS guidance).
Pass-through business income	The law provides a 20% deduction for qualified business income from a partnership, S corporation or sole proprietorship. The 20% deduction combined with a top ordinary income tax rate of 37% will result in a top rate of 29.6% for such income in the absence of other limitations. The law also provides that trusts and estates are eligible for the 20% deduction.
Carried interest	The law will recharacterize certain gains of partnership interest from long-term to short-term capital gains to the extent such gains relate to property with a holding period not greater than three years, effective for tax years beginning in 2018. *This provision does not sunset*.
Net operating losses	The law limits a taxpayer's ability to utilize losses incurred after 2017 to 80% of taxable income. The law will generally eliminate carryback of these NOLs, but would allow for an indefinite carryforward. *This provision does not sunset*.

The corporate tax rate has been reduced to a flat 21% rate.

Item	Changes
Like-kind exchanges	The law limits the applicability of the gain deferral rules to like-kind exchanges of real property, effective for exchanges completed after December 31, 2017. *This provision does not sunset*.
Child/elder care benefits	The child tax credit has been increased to $2,000 per child. The refundable portion of this credit is $1,400. This credit applies for children under the age of 18. In addition, a $500 nonrefundable credit is allowed for a qualifying dependent that is not a child. The income phase-out threshold has been increased to $400,000 for taxpayers who are married filing jointly and $200,000 for all other taxpayers. The increased phase-out threshold will result in some taxpayers who have not been able to claim this credit in the past, to be eligible for it in 2018.
Corporate tax structure	The Tax Cuts and Jobs Act reduces the corporate tax rate to a flat 21% rate. Previously, income over $10 million was taxed at 35%. *This provision does not sunset.*

2018 dividends and capital gains tax rates

The Tax Cuts and Jobs Act of 2017 that was signed into law on December 22, 2017 retains the same tax treatment for capital gains and dividend income. One notable change is that the 0%, 15% and 20% rates are now tied to "breakpoints" based on income level.

Type of income	Holding period	Top rate for lower incomes	Top rate for middle incomes	Top rate for top incomes
NEW in 2018—Breakpoints		Single: $0 – $38,599	Single: $38,600 – $425,799	Single: $425,800+
		MFJ: $0 – $77,199	MFJ: $77,200 – $478,999	MFJ: $479,000+
		HOH: $0 – $51,699	HOH: $51,700 – $452,399	HOH: $452,400+
Ordinary dividends	(See below)	Ordinary income tax rate	Ordinary income tax rate	Ordinary income tax rate
Qualified dividends	(See below)	0%	15%	20%
Short-term capital gains	12 months or less	Ordinary income tax rate	Ordinary income tax rate	Ordinary income tax rate
Long-term capital gains	More than 12 months	0%	15%	20%

Up to $3,000 of net capital losses may be deducted each year against ordinary income.

Qualified dividends
A dividend is considered qualified if it is paid by a U.S. corporation or an entity that is a "qualified foreign corporation." The term "qualified foreign corporation" includes: a foreign corporation incorporated in a U.S. possession; a foreign corporation whose dividend-paying security is "readily traded" on an established securities market in the U.S.; and a foreign corporation entitled to the benefits of a tax treaty with the U.S. that includes an exchange of information requirement.

Passive Foreign Investment Companies (PFICs) are not qualified foreign corporations. A foreign-based corporation is classified as a PFIC if either 75% or more of the corporation's income is considered passive, or at least 50% of the company's assets are investments that produce interest, dividends and/or capital gains.

To be eligible for the lower qualified dividend tax rate, a taxpayer must have held the dividend-paying stock for more than 60 days during the 121-day period that began 60 days prior to the ex-dividend date. For dividends received on certain preferred stock (generally dividends that represent an earnings period of more than one year), the taxpayer must have held the stock for more than 90 days during the 181-day period that began 90 days before the ex-dividend date.

Capital losses
Capital losses are deductible—dollar for dollar—against capital gains. Up to $3,000 ($1,500 for married taxpayers filing separately) of net capital losses (either short-term or long-term) may be deducted each year against ordinary income. Net capital loss amounts in excess of $3,000 may be carried forward indefinitely.

Capital losses expire at death. These losses belong to the individual who incurred them and cannot be transferred to a spouse or the individual's estate or revocable trust at death.

Other preferential capital gains rates
- Long-term capital gains attributable to real estate depreciation (known as unrecaptured Section 1250 gains) are taxed at a maximum rate of 25%.
- Capital gains on collectibles (e.g., gold and art) held for more than one year are taxed at a rate of 28%.
- Capital gains on Qualified Small Business Stock (QSBS) may be excluded from taxation if certain requirements are met, limited to the greater of $10 million or ten times the adjusted basis of the investment.
- A taxpayer may exclude up to $250,000 ($500,000 for certain joint return filers) of gain from the sale or exchange of property that the taxpayer has owned and used as the taxpayer's principal residence for periods of two years or more during the five-year period ending on the date of the sale or exchange.

Net investment income tax
The 3.8% Net Investment Income Tax (NIIT) remains in effect. The tax is 3.8% of the lesser of: (1) net investment income and (2) the excess of Modified Adjusted Gross Income (MAGI) over the threshold amount. The NIIT will be assessed on taxpayers with MAGI exceeding the following threshold amounts:
- $250,000 for taxpayers who are married filing jointly and surviving spouses;
- $125,000 for taxpayers who are married filing separately; and

– $200,000 for all other taxpayers

Income derived from real estate activities may be excluded from net investment income for purposes of calculating NIIT if an individual qualifies as a real estate professional. The rules are complex; consult your tax advisor if you think you qualify as a real estate professional.

Similarly, certain investment income earned by a trader in financial instruments is exempt from the NIIT. Again, the rules are complex, and you should consult your tax advisor if you think you qualify as a trader in financial instruments.

Worthless securities
If a security that is a capital asset becomes worthless at any time during the tax year, it is treated as if it were sold on the last day of the tax year in which it became worthless.

A tax loss may be claimed in the year the security becomes worthless. A security that became worthless in a prior year may not be claimed as a capital loss in the current year (but the loss may be claimed by amending the tax return for the year the loss occurred). Generally, the refund limitation for carrybacks is three years, but it may extend up to seven years in certain situations. The taxpayer must have evidence that the security is worthless.

Wash sales
A wash sale occurs when stock or securities are sold or disposed of at a loss and—within the 61-day period beginning 30 days prior to the sale or disposition date and ending 30 days after the sale or disposition date—substantially similar stock or securities (or a contract/option to buy substantially similar stock or securities) are acquired.

Losses from the sale or disposition of stock or securities that constitute a wash sale are not deductible.

Losses from the sale or disposition of stock or securities that constitute a wash sale are not deductible. The disallowed losses are added to the cost basis of the newly purchased stock or securities, resulting in a postponement of the loss recognition until the sale of the new stock or securities.

The holding period for the newly purchased stock or securities begins on the same day the original stock or securities were purchased.

Note: An IRA cannot be used to avoid the effect of the wash sale rule. When an individual sells stock or securities for a loss and purchases substantially similar stock or securities through his/her IRA or Roth IRA within the 61-day period beginning 30 days prior to the sale and ending 30 days after the sale, then the individual's loss on the sale is disallowed.

Custodial accounts

UGMA/UTMA
Each state has adopted a Uniform Gifts to Minors Act (UGMA) and/or a Uniform Transfers to Minors Act (UTMA) to facilitate ownership of assets by minors.

Contribution limits
There are no limits on contributions to UGMA or UTMA accounts. However, contributions in excess of the gift tax annual exclusion amount may be subject

to gift tax if the donor has used all of his/her lifetime gift tax exemption—*see page 18 for further information.*

Transfers to custodial accounts are complete and irrevocable.

Ownership
Transfers to custodial accounts are complete and irrevocable. The minor can take full control of the account when he/she reaches the age of majority, which is generally age 18 or 21 (depending on state law).

Taxes
Custodial accounts do not provide tax deferral. Taxes are due in the year income is recognized/earned by the account. All income (including capital gains) is taxed to the minor and is subject to "Kiddie Tax" rules (see below).

Kiddie tax

The Kiddie Tax rules apply to a child's unearned income (e.g., interest, dividends and capital gain distributions). The Kiddie Tax rules generally apply if:
- The child was under age 18 at the end of the tax year, and
- The child was age 19 at the end of the tax year and the child's earned income does not exceed one-half of the child's own support for the year, *or*
- The child was a full-time student under age 24 and the child's earned income does not exceed one-half of the child's own support for the year

Kiddie tax rate—New in 2018
Prior to the 2018 tax year, a child's unearned income in excess of $2,100 was subject to taxation at the parent's top marginal rate. A temporary provision, effective January 1, 2018 through December 31, 2025, will apply ordinary and capital gains tax rates of estates and trusts to such unearned income of children. *See page 18 for trust tax tables*.

Parental election to report child's income
Parents may elect to report their child's income on their own tax returns. If the election is made, the child is not required to file a tax return. Parents can make this election only if all of the following conditions are met:
- He/she is the parent whose return must be used when applying the special tax rules for children
- The child was under age 19 (or under age 24 if a full-time student) at the end of the year
- The child's only income was comprised entirely of interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends)
- The child's gross income was less than $10,500
- But for this election, the child would be required to file a return
- The child does not file a joint return for the year
- No estimated tax payment was made for the year and no overpayment from the previous year (or from any amended return) was applied to this year under the child's name and Social Security number
- No federal income tax was withheld from the child's income under the backup withholding rules

Note: If a child has a capital gain or loss on the sale of securities (not capital gain distributions) the child must file his or her own return.

The wage base for Social Security and self-employment tax is $128,400 (up from $127,200 in 2017).

Estimated tax payments

Estimated tax is used to pay tax on income that is not subject to withholding, such as income derived from self-employment. A penalty may be assessed if sufficient payment is not made through withholding and/or estimated tax payments. In general, estimated tax must be paid if the taxpayer expects to owe at least $1,000 in tax for 2018 (after subtracting the credit for taxes withheld) and he/she expects withholding and credits to be less than the lesser of:

- 90% of the tax to be shown on the taxpayer's 2018 tax return, or
- 100% of the tax shown on the taxpayer's 2017 tax return (110% if the taxpayer's 2017 AGI exceeded $150,000, or $75,000 for taxpayers who are married filing separately). The 2017 tax return must cover all 12 months.

Due dates (for calendar year-end individuals)

Installment	Due date
First	April 17, 2018
Second	June 15, 2018
Third	September 17, 2018
Fourth*	January 15, 2019

* A fourth installment is not required if the taxpayer files his/her 2018 tax return and pays any tax owed before January 31, 2019.

Social Security, Medicare and self-employment taxes

Social Security and Medicare tax detail

Status	Social Security/ OASDI* tax	Medicare tax rate	Total tax rate
Employee	6.20%	1.45%	7.65%
Self-Employed**	12.40%	2.90%	15.30%

An additional 0.9% Medicare tax will be assessed on earned income over $200,000 for single taxpayers ($250,000 for married taxpayers filing jointly, $125,000 for married taxpayers filing separately). This 0.9% surtax, combined with the ordinary 2.9% Medicare tax, equals a total 3.8% Medicare tax on earned income over the threshold amount. Self-employed individuals are responsible for paying the full 3.8% tax. Non-self-employed taxpayers must add the 0.9% to their portion of the Medicare tax (1.45%); they are therefore responsible for paying a 2.35% tax on income over the threshold.

The 2018 Cost of Living Adjustment to the Social Security base is 2%. The wage base for Social Security and self-employment tax is $128,400 (up from $127,200 in 2017). This means Social Security taxes are calculated on the first $128,400 of earned income only. There is no wage base for Medicare; the tax applies to all earned income.

Assume a worker earned $150,000 of income during 2018 (multiply wage base by the Social Security and Medicare rates listed above).

Status	Social Security/OASDI* tax rate	Medicare tax	Total tax
Employee	$7,960.80	$2,175	$10,135.80
Employer	$7,960.80	$2,175	$10,135.80
Self-Employed**	$15,921.60	$4,350	$20,271.60

* Old age, survivor and disability insurance portion of Social Security tax.
** Self-employed individuals may deduct one-half of the self-employment tax on their income tax return.

Social Security income thresholds
Social Security benefits may be taxable (up to a maximum of 85% of the benefit amount) when provisional income exceeds a specified threshold amount (noted below). Provisional income is AGI, plus tax-exempt interest, plus one-half of Social Security benefits.

Filing status	50% tax threshold	85% tax threshold
Married filing jointly	$32,000 – $44,000	Over $44,000
Single	$25,000 – $34,000	Over $34,000

The maximum monthly Social Security benefit is $2,788.

2018 maximum monthly Social Security benefit
The maximum monthly Social Security benefit is $2,788. An individual who reached full retirement age in 2018 and who earned at least the annual maximum wage base amount during his/her working years would be eligible for this level of benefit.

Social Security Administration contact information

Entity	Phone number	Website
Social Security Administration	800-772-1213	*ssa.gov*
Medicare	800-633-4227	*medicare.gov*

Social Security earnings test
The Social Security earnings test indicates the level of earnings permissible for recipients of Social Security benefits, without incurring a reduction in benefits.

Retiree age	Earnings limitation for 2018	Reduction in benefits
Years prior to full retirement age	$17,040/year	$1 for every $2 in earnings above the limit
Year of retirement age up to retirement month	$45,360/year	$1 for every $3 in earnings above the limit
Month reaching retirement age and beyond	No limit	No reduction

Businesses that maintain a SEP-IRA can make contributions of up to $55,000 or 25% of compensation, whichever is less, to each eligible employee's SEP IRA.

Retirement plans

Employer-sponsored retirement plan contribution limits

The following are the 2018 limits on contributions to various retirement plans. Individuals age 50 or older are eligible for "catch-up" contributions in addition to the base limit.

Account type	Salary deferral limit	Catch-up contribution (age 50+)	Total maximum salary deferral (age 50+)
401(k)/403(b) and most 457 plans	$18,500	$6,000	$24,500
SIMPLE IRA	$12,500	$3,000	$15,500

The total maximum allowable addition to a 401(k), 403(b) or 457 plan account—including employee salary deferral and employer contribution—is $55,000 in 2018.

Businesses that maintain a SEP-IRA plan can make contributions of up to $55,000 or 25% of compensation, whichever is less, to each eligible employee's SEP IRA. For self-employed taxpayers, the percentage contribution limit is 20% of net self-employment income (after deduction for self-employment taxes) instead of 25%.

Traditional IRA vs. Roth IRA

	Traditional IRA	Roth IRA
Qualifications	Individual or spouse must have taxable compensation and must not reach age 70½ by the end of the year.	Individual or spouse must have taxable compensation; the ability to contribute is subject to the phase-out limits listed below.
Maximum contribution*	100% of taxable compensation, up to $5,500 ($6,500 if age 50 or older). *Contributions to all of an individual's traditional and Roth IRAs cannot exceed 100% of taxable compensation, up to $5,500 ($6,500 if age 50 or older).	100% of taxable compensation, up to $5,500 ($6,500 if age 50 or older).
Tax deduction allowed	If neither the taxpayer nor spouse is a participant in an employer's plan, then the contribution is 100% deductible, regardless of AGI. Active participation in an employer's plan will subject the deduction to the following limits: Active participation in an employer's plan will subject the deduction to the following limits:	No deductions are allowed for contributions.

<table>
<tr><th></th><th>Traditional IRA</th><th>Roth IRA</th></tr>
<tr><td></td><td>
<table>
<tr><th>If taxpayer is:</th><th>Phase-out of deduction begins if AGI is:</th><th>Ability to deduct contribution is totally phased out if AGI is greater than or equal to:</th></tr>
<tr><td>Single</td><td>$63,000</td><td>$73,000</td></tr>
<tr><td>Married filing jointly</td><td>$101,000</td><td>$121,000</td></tr>
<tr><td>The nonworking spouse of a covered participant</td><td>$189,000</td><td>$199,000</td></tr>
<tr><td>Married filing separately</td><td>$0</td><td>$10,000</td></tr>
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</td><td></td></tr>
<tr><td>Contributions allowed</td><td>Contributions to traditional IRAs are allowed, up to the lesser of: (1) earned income and (2) the maximum contribution amount (deductibility of contributions is subject to income limitations—see above).

April 17, 2018 is the last day for making a 2017 tax year contribution to a traditional IRA.</td><td>Roth contributions are subject to the following limits:</td></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>If taxpayer is:</th><th>Phase-out of ability to contribute begins if MAGI is:</th><th>Ability to contribute is totally phased out if MAGI is greater than or equal to:</th></tr>
<tr><td>Single</td><td>$120,000</td><td>$135,000</td></tr>
<tr><td>Married filing jointly</td><td>$189,000</td><td>$199,000</td></tr>
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	Traditional IRA	Roth IRA
		April 17, 2018 is the last day for making a 2017 tax year contribution to a Roth IRA.
Required Minimum Distributions (RMD)*	Must begin by April 1 following the year in which the IRA owner attains age 70½. Distributions in subsequent years must occur by December 31.	Distributions are only required after the death of the IRA owner.
	Post-death distributions are required depending on whether distributions had already begun for the IRA owner and the beneficiary's relationship to the IRA owner.	Post-death distributions are required depending on the beneficiary's relationship to the IRA owner.
	* The Internal Revenue Code imposes a 50% excess accumulation penalty on IRA owners and IRA beneficiaries who fail to take some or all of an RMD.	
Penalties on distributions	A 10% penalty may apply to early distributions.	A 10% penalty may apply to nonqualified Roth IRA distributions.
	A 6% penalty applies to excess contributions (assessed each year until excess is removed).	A 6% penalty applies to excess contributions.

Conversions and rollovers

Assets held in a traditional IRA can be converted to a Roth IRA. The taxable portion of the amount converted is subject to tax in the year the conversion takes place. Converted amounts are not subject to the 10% early distribution penalty.

Amounts converted to a Roth IRA are not subject to the 10% early distribution penalty if the amount distributed from the Roth IRA has been held by the Roth IRA for at least five years.

A taxpayer may only make one nontaxable 60-day IRA rollover within any 12-month period.

When rolling a traditional IRA to a different traditional IRA, funds must be transferred to the new account within 60 days of receipt of the funds; otherwise, the distribution will be deemed taxable. A taxpayer may only make one nontaxable 60-day IRA rollover within any 12-month period. All of an individual's IRAs, including SEP, SIMPLE, Roth and traditional IRAs, are aggregated for these purposes. These rules do not apply to direct trustee-to-trustee transfers or Roth conversions.

Taxpayers who are not eligible to contribute directly to a Roth IRA can contribute to a traditional IRA and then convert to a Roth IRA. Distributions from Roth IRAs (including distributions of earnings) are tax-free after a five "taxable year" period beginning the year for which the first Roth IRA contribution was made and if the account holder is at least age 59½, disabled, deceased or making a first-time home purchase (lifetime limit of $10,000 per taxpayer). If you have pre-tax assets in any traditional IRA, SEP-IRA, SIMPLE IRA, or rollover IRA, a portion of these Roth IRA conversions will be taxable as ordinary income in the year converted, but are not subject to the additional 3.8% NIIT.

An investor may not recharacterize a conversion made after the 2017 tax year.

Provision for IRA distributions donated to charity
A "qualified charitable distribution" from a traditional IRA or a Roth IRA is any otherwise taxable distribution that is made directly from the IRA trustee to a qualified charity after the IRA owner has attained the age of 70½. A qualified charity for these purposes does not include a private foundation or a donor-advised fund.

Up to $100,000 of qualified charitable distributions can be used to satisfy the required minimum distribution of an IRA owner each year and can be excluded from gross income.

Roth IRA recharacterization—New in 2018
The Tax Cuts and Jobs Act, which is effective for tax years beginning on or after January 1, 2018, contains a provision that eliminates an investor's ability to recharacterize a conversion made after the 2017 tax year. Previously, an IRA owner could recharacterize a conversion up until the due date of their return, including extensions. The ability to recharacterize a Roth IRA contribution to a traditional IRA or vice versa is not affected by this new legislation.

Employee stock options (tax characteristics)

Non-Qualified Stock Options (NQSOs)
The difference between the exercise price and the market price ("spread" or "bargain element") of a NQSO is taxed as compensation income in the year of exercise. The employer must withhold all applicable income taxes (i.e., federal, Social Security, Medicare, state and local) when the options are exercised.

The taxpayer's basis at the time of exercise is equal to the exercise price plus the amount of ordinary income reported—the spread based on Fair Market Value (FMV) on the date of exercise. The holding period of the stock begins on the date the right to acquire the stock is exercised. Capital gain (or loss) applies to any post-exercise appreciation (or depreciation).

The spread on a NQSO is not treated as an "adjustment item" for Alternative Minimum Tax (AMT) purposes.

Incentive Stock Options (ISOs)
There are no "regular" income tax consequences at the time of exercise.

However, the difference between the exercise price and the FMV ("spread" or "bargain element") is an adjustment item for AMT purposes in the year of exercise.

The basis of the stock received is equal to the exercise price paid for regular tax purposes. For AMT purposes, the basis is the amount paid plus the amount of the AMT adjustment.

If the stock is held for more than two years from the grant date and more than one year from the exercise date, all appreciation after the exercise date is taxed as long-term capital gain. The holding period requirement is waived in the event of the employee's death.

Taxpayers are limited to $100,000 in value of ISOs for any given tax year. If the aggregate FMV of stock options that become exercisable for the first time during any year exceeds $100,000, the options in excess of this amount cannot be treated as ISOs.

Disqualifying disposition (ISOs)
A disqualifying disposition occurs when stock received from an ISO exercise is sold or otherwise disposed of before meeting the holding period requirements (two years from the grant date or one year from the exercise date). When a disqualifying disposition of incentive stock options occurs, the tax impact is similar to that of nonqualified stock options. In the year of disposition, the difference between the exercise price and the market price on the day of the exercise is treated as compensation income and any appreciation above or depreciation below the market price between the date of disposition and the date of exercise is treated as a capital gain or loss for tax purposes. The spread is not treated as an adjustment item for AMT purposes if the disposition occurs in the year of exercise.

Employee Stock Purchase Plans (ESPPs)
The company may provide a discount of up to 15% on the price of the stock in an ESPP.

An employee may not purchase more than $25,000 worth of stock in any one calendar year. This limit is determined based on the fair market value of the stock at the time the option is granted.

There is a special holding period requirement that is met on the later of two years after the grant date and one year after the employee receives the stock. If the stock is sold or otherwise disposed of prior to satisfying the special holding period, the taxpayer must report compensation income equal to the bargain element when the stock was purchased. This income must be reported even if the stock is sold at a loss. If the special holding period is met, no compensation income is reported if the stock is sold at a loss. If the stock is sold at a gain, compensation income is limited to the lesser of the amount of profit and the difference between the value of the stock when the option was granted and the option price.

The basis for ESPP stock is equal to the purchase price plus any ordinary income recognized.

Note: An ESPP is not a retirement plan and does not fall within the purview of ERISA. An ESPP should not be confused with an employee stock ownership plan (ESOP). An ESOP is a qualified tax-deferred plan designed to invest primarily in employer stock.

2018 individual income tax rates

Individual income tax rates have changed as a result of the tax reform legislation. Below illustrates a comparison of 2017 and 2018 individual income tax rates for all categories of filers.

2017—Taxable income is

Over	But not over	Pay	Plus % on excess	Of the amount over
Married filing jointly/Qualifying widow(er)				
$0	$18,650	$0	10%	$0
$18,650	$75,900	$1,865	15%	$18,650
$75,900	$153,100	$10,452.50	25%	$75,900
$153,100	$233,350	$29,752.50	28%	$153,100
$233,350	$416,700	$52,222.50	33%	$233,350
$413,700	$470,700	$112,728	35%	$416,700
$470,700	–	$131,628	39.60%	$470,700
Single				
$0	$9,325	$0	10%	$0
$9,325	$37,950	$932.50	15%	$9,325
$37,950	$91,900	$5,226.25	25%	$37,950
$91,900	$191,650	$18,713.75	28%	$91,900
$191,650	$416,700	$46,643.75	33%	$191,650
$416,700	$418,400	$120,910.25	35%	$416,700
$418,400	–	$121,505.25	39.60%	$418,400
Head of household				
$0	$13,350	$0	10%	$0
$13,350	$50,800	$1,335	15%	$13,350
$50,800	$131,200	$6,952.50	25%	$50,800
$131,200	$212,500	$27,052.50	28%	$131,200
$212,500	$416,700	$49,816.50	33%	$212,500
$416,700	$444,550	$117,202.50	35%	$416,700
$444,550	–	$126,950	39.60%	$444,550
Married filing separately				
$0	$9,325	$0	10%	$0
$9,325	$37,950	$932.50	15%	$9,325
$37,950	$76,550	$5,226.25	25%	$37,950
$76,550	$116,675	$14,876.25	28%	$76,550
$116,675	$208,350	$26,111.25	33%	$116,675
$208,350	$235,350	$56,364	35%	$208,350
$235,350	–	$65,814	39.60%	$235,350

2018—Taxable income is

Over	But not over	Pay	Plus % on excess	Of the amount over
Married filing jointly/Qualifying widow(er)				
$0	$19,050	$0	10%	$0
$19,050	$77,400	$1,905	12%	$19,050
$77,400	$165,000	$8,907	22%	$77,400
$165,000	$315,000	$28,179	24%	$165,000
$315,000	$400,000	$64,179	32%	$315,000
$400,000	$600,000	$91,379	35%	$400,000
$600,000	–	$161,379	37%	$600,000
Single				
$0	$9,525	$0	10%	$0
$9,525	$38,700	$9,52.50	12%	$9,525
$38,700	$82,500	$4,453.50	22%	$38,700
$82,500	$157,500	$14,089.50	24%	$82,500
$157,500	$200,000	$32,089.50	32%	$157,500
$200,000	$500,000	$45,689.50	35%	$200,000
$500,000	–	$150,689.50	37%	$500,000
Head of household				
$0	$13,600	$0	10%	$0
$13,600	$51,800	$1,360	12%	$13,600
$51,800	$82,500	$5,944.50	22%	$51,800
$82,500	$157,500	$12,698	24%	$82,500
$157,500	$200,000	$30,698	32%	$157,500
$200,000	$500,000	$44,298	35%	$200,000
$500,000	–	$149,298	37%	$500,000
Married filing separately				
$0	$9,525	$0	10%	$0
$9,525	$38,700	$952.50	12%	$9,525
$38,700	$82,500	$4,453.50	22%	$38,700
$82,500	$157,500	$14,089.50	24%	$82,500
$157,500	$200,000	$32,089.50	32%	$157,500
$200,000	$300,000	$45,689.50	35%	$200,000
$300,000	–	$80,689.50	37%	$300,000

Taxable income is income after all deductions (including either itemized deductions or the standard deduction).

Additional tax numbers, including income tax and AMT deductions and exemptions

Standard deduction

Married filing jointly/ Qualifying widower	Single	Head of household	Married filing separately
$24,000	$12,000	$18,000	$12,000

An additional standard deduction can be claimed by filers who are over age 65 or blind. The amount of each additional standard deduction is $1,300 for married individuals and $1,600 for single filers.

Personal and dependency exemptions
Per the Tax Cuts and Jobs Act, personal exemptions are suspended for tax years beginning on January 1, 2018. The suspension does not apply to taxable years beginning after December 31, 2025.

2018 itemized deductions

There are numerous changes to itemized deductions to be aware of under the new law. Note that states vary widely in how they treat itemized deductions for individual taxpayers under state income tax laws.

Pease Limitation
With the passing of the Tax Cuts and Jobs Act, the limitation on itemized deductions is temporarily repealed for tax years beginning on January 1, 2018. The repeal does not apply to taxable years beginning after December 31, 2025.

Mortgage interest
For any acquisition indebtedness incurred after December 14, 2017, interest would only be deductible for loan amounts not exceeding $750,000 (for married filing jointly). As under current law, the acquisition debt limit applies in aggregate on up to two personal residences. Existing mortgages as of December 14, 2017 continue to be subject to the current $1,000,000 limitation.

Home equity loans
Interest will no longer be deductible on a home equity loan after 2017 unless the proceeds are used to substantially improve a home, and therefore meet the definition of acquisition debt.

Interest will no longer be deductible on a home equity loan after 2017 unless the proceeds are used to substantially improve a home.

State and local income, sales, and property taxes
The law permits individual taxpayers to deduct up to $10,000 for any combination of state and local income taxes, property taxes and sales taxes. Taxes in excess of $10,000 are not allowed as a deduction on schedule A.

Miscellaneous itemized deductions
Deductions for miscellaneous itemized deductions subject to the two percent floor (including tax preparation fees, investment expenses and unreimbursed business expenses) are repealed.

Contributions to qualified organizations are tax deductible up to either 60% or 30% of the taxpayer's AGI.

Charitable contributions—New in 2018

Contributions to qualified organizations are tax deductible up to either 60% or 30% of the taxpayer's AGI (and are subject to the Pease limitation for tax years after 2025). Qualified organizations should be able to identify if they qualify as a 60% or 30% charity. Contributions to any individual person are considered gifts and therefore are not deductible. In addition, the Tax Cuts and Jobs Act disallows a charitable deduction for payments made in exchange for college athletic event seating rights.

See pages 18 – 20 for more detail on gift tax consequences.

Donations of appreciated property are valued at the FMV on the date of transfer. Gifts of appreciated property to a public charity are deductible up to 30% of AGI; gifts of appreciated property to a private foundation are deductible up to 20% of AGI. Making gifts of appreciated property can be an excellent strategy to maximize tax deductions, but it is important to speak with a tax advisor before making such donations in order to ensure that you have a valid deduction and to confirm whether your deduction will be based on the FMV of the donated property or limited to your basis.

A donor must obtain written acknowledgement for any charitable contribution exceeding $250.

Charitable contributions in excess of AGI limitations can be carried forward up to five years.

Charitable contribution carryovers expire upon death. These deductions belong to the individual who incurred them and cannot be transferred to a spouse or the individual's estate or revocable trust upon death.

2018 Alternative minimum tax exemption

Married filing jointly/ Qualifying widower	Single	Married filing separately	Estates and trusts
$109,400	$70,300	$54,700	$22,500

2018 Standard mileage rates

Mileage rate	2017	2018
Business	$0.535 per mile	$0.545 per mile
Medical and moving	$0.17 per mile	$0.18 per mile
Charitable	$0.14 per mile	$0.14 per mile

The 2018 gift tax annual exclusion is $15,000.

2018 trust and estate income tax rates

The taxable income is:

Over	But not over	Pay	Plus % on excess	Of the amount over
$0	$2,550	$0	10%	$0
$2,550	$9,150	$255.00	24%	$2,550
$9,150	$12,500	$1,839.00	35%	$9,150
$12,500	–	$3,011.50	37%	$12,500

Estate and gift taxes

2018 gift tax annual exclusion

- The 2018 gift tax annual exclusion is $15,000 ($30,000 for married couples who elect gift-splitting) to any person (other than gifts of future interests in property). This amount is excluded from the total amount of taxable gifts made during the year
- In 2018, the first $152,000 of gifts to a spouse who is not a U.S. citizen is excluded from the total amount of taxable gifts made during the year
- Recipients of distributions from foreign trusts, gifts from foreign persons, or distributions from foreign corporations or partnerships that are treated as gifts may be required to report these gifts

Summary of transfer tax rates and exemption amounts

	Highest gift tax rate	Highest estate tax rate	Generation-Skipping Transfer (GST) tax rate	Lifetime gift tax exclusion amount	Estate tax exemption amount	Lifetime GS exemption amount
2010	35%	0%	0%	$1,000,000	N/A	$5,000,00
2011	35%	35%	35%	$5,000,000	$5,000,000	$5,000,00
2012	35%	35%	35%	$5,120,000	$5,120,000	$5,120,00
2013	40%	40%	40%	$5,250,000	$5,250,000	$5,250,00
2014	40%	40%	40%	$5,340,000	$5,340,000	$5,340,00
2015	40%	40%	40%	$5,430,000	$5,430,000	$5,430,00
2016	40%	40%	40%	$5,450,000	$5,450,000	$5,450,00
2017	40%	40%	40%	$5,490,000	$5,490,000	$5,490,00
2018*	40%	40%	40%	$11,180,000	$11,180,000	$11,180,00

Note: Portability allows a surviving spouse to elect to take advantage of the unused portion of the estate tax exemption of his/her predeceased spouse, but not the GST exemption amount.
* Projected pending final IRS guidance.

Portability does not apply to the Generation-Skipping Transfer Tax exemption or to state estate tax exemptions.

Form of asset ownership and estate tax results

How property is titled	Subject to probate	% included in decedent's estate	Basis adjustment	Who inherits property	How property is transferred
Individual ownership	Yes	100%	100%	Beneficiary of choice	By will or intestacy
Tenancy by entirety	No	50%	50%	Surviving spouse	By operation of law
Joint tenancy	No	Up to 100%*	Up to 100%*	Other joint tenant	By operation of law
Tenants in common	Yes	% Owned	% Owned	Beneficiary of choice	By will or intestacy
Community property	Yes	50%	100%	Beneficiary of choice	By will or intestacy

* If the joint tenants are U.S. citizen spouses, then 50% of the property is included in the deceased spouse's estate (with certain exemptions for real property owned jointly and purchased before January 1, 1977). Thus, 50% of the property receives a new cost basis. (See the table above for rules concerning community property.) If the joint tenants are not spouses or are not U.S. citizens, then 100% is included in the estate of the first to die unless the survivor can show that he/she contributed toward the acquisition of property. The basis adjustment will be proportional to the percentage included in the decedent's estate.

2018 estate and gift tax exemption and credit

	Exemption amount	Tax credit
Transfer by lifetime gift	$11,180,000*	$4,417,800*
Transfer at death	$11,180,000*	$4,417,800*

*Projected pending final guidance from the IRS

The estate and gift tax credit offsets estate and gift tax liability incurred during one's lifetime and at death. The exemption amount represents the dollar amount of assets that would result in an estate and gift tax equal to the credit amount.

Since 2011, portability has allowed a surviving spouse to take advantage of the unused portion of the estate tax exemption of his/her predeceased spouse. The executor of the predeceased spouse's estate must make a timely election on his/her federal estate tax return to take advantage of this exemption.

Portability does not apply to the Generation-Skipping Transfer Tax exemption or to state estate tax exemptions.

The increased basic exclusion amount discussed above will not apply to estates of decedents dying and gifts made after December. 31, 2025.

Basis and holding period of property received as a gift

The basis and holding period of property received as a gift depends on the FMV of the gifted property in relation to the donor's adjusted basis.

- If the FMV of the gifted property is equal to or greater than the donor's adjusted basis, the recipient's basis will be that of the donor, increased by a portion of any gift tax paid on the gift.
- If the FMV of the gifted property is less than the donor's adjusted basis, the recipient's basis depends on whether a gain or loss results when the

property is ultimately sold.

– If the property is sold at a gain, the gift recipient's basis will be the donor's adjusted basis.
– If the property is sold at a loss, the gift recipient's basis will be the FMV at the time of the gift. No gain or loss will be recognized if the property is sold for an amount less than the donor's basis but greater than the FMV of the property on the date of the gift.

Note: For gifted property, the donor's holding period is generally "tacked on" to the donee's holding period.

Basis and holding period of property inherited upon death
Property acquired from a decedent generally has a long-term holding period in the hands of the recipient, regardless of how long the decedent or the recipient actually held the property.

For assets included in the gross estate, the income tax basis of property acquired from a decedent at death is generally stepped up (or stepped down) to its value as of the date of the decedent's death (or the estate tax alternate valuation date, if elected). If an estate tax return was filed August 1, 2015 or after, the new "basis consistency" rules of Section 1014(f) may apply. It is important to speak with your tax advisor regarding how these rules may impact your sale or gifting of inherited property.

2018 health and education items

Item	Tax treatment
Direct payment of tuition and medical expenses	There is an unlimited gift tax exclusion for amounts paid for another individual's tuition expenses (not including room, board, and books) and/or unreimbursed medical expenses. Expenses must be paid directly to the educational institution or medical provider and cannot be reimbursed.
529 Plans	An individual can make annual contributions to a 529 plan up to $15,000 ($30,000 for a married couple)—the gift tax annual exclusion for 2018—and may front-load up to five years of gift tax annual exclusions. This means that an individual could potentially contribute up to $75,000 ($150,000 for a married couple) to a 529 plan this year and treat the gift as though it were made ratably over the current year and subsequent four years. **New** Beginning in 2018, 529 accounts may be able to distribute up to $10,000 per student per student per year for tuition at a public, private or religious elementary or secondary school. Availability is dependent on when state law conforms their definition of eligible educational expenses to match this change to federal law. Please consult with your attorney as each individual state 529 Plans may or may not exempt such distributions from state income tax.
Coverdell Educational Savings Plans and Education Savings Accounts (ESAs)	The limit on annual aggregate contributions is $2,000 per beneficiary. This is phased out for taxpayers with a MAGI between $95,000 and 110,000 (for single taxpayers), and between $190,000 and 220,000 (for married taxpayers filing jointly).

<table>
<tr><th>Item</th><th>Tax treatment</th></tr>
<tr><td>American Opportunity Tax Credit for Higher Education Expenses</td><td>The maximum credit amount is $2,500 per eligible student per year. This is phased out for taxpayers with a MAGI between $80,000 and $90,000 (for single taxpayers), and between $160,000 and $180,000 (for married taxpayers filing jointly).</td></tr>
<tr><td>Tuition and fees deduction</td><td>This deduction does not apply to tax years beginning after December 31, 2016.</td></tr>
<tr><td>Interest paid on qualified higher education loans</td><td>The maximum deductible amount of student loan interest is $2,500. This is phased out for taxpayers with a MAGI between $65,000 and $80,000 (for single taxpayers), and between $135,000 and $165,000 (for married taxpayers filing jointly).</td></tr>
<tr><td>Health Savings Accounts (HSAs)</td><td>The maximum allowed annual HSA contribution amounts are $3,450 for individuals with single coverage and $6,900 for individuals with family coverage. An additional $1,000 catch up is allowed for taxpayers over age 55. If both spouses are over age 55, the allowed catch up is $1,000 per spouse.</td></tr>
<tr><td>Eligible long-term care premiums</td><td>For 2018 the deduction limitations regarding eligible long-term care premiums are:
<table>
<tr><th>Age attained before the close of the taxable year</th><th>Limitation on premiums</th></tr>
<tr><td>40 or under</td><td>$420</td></tr>
<tr><td>41 – 50</td><td>$780</td></tr>
<tr><td>51 – 60</td><td>$1,560</td></tr>
<tr><td>61 – 70</td><td>$4,160</td></tr>
<tr><td>71 or older</td><td>$5,200</td></tr>
</table></td></tr>
</table>

Affordable Care Act—penalties and forms

In 2018, the penalty for not having minimum essential health care coverage is the higher of $695 per adult or 2.5% of household income. The maximum penalty per family is $2,085.

New—The Tax Cuts and Jobs Act eliminates this fee for individuals for years beginning after December 31, 2018. Nevertheless, large employers that fail to offer minimum essential coverage to their full-time employees will continue to owe shared responsibility payments. In addition, individuals will still need to have minimum essential coverage to qualify for the premium tax credit.
You may receive one or more Form 1095, relating to your health care coverage. There are three versions of this form:

– *Form 1095-A Health Insurance Marketplace Statement:* You will receive this form if you purchased health insurance through the marketplace in 2017.
– The deadline for the marketplace to mail these forms is now March 2, 2018. If you expect a Form 1095-A, you should wait to file your tax return until after the form is received. It contains information you will need to complete your return.

– *Form 1095-B Health Coverage:* This form is sent by health insurance providers to the individuals they cover.
– *Form 1095-C Employer-Provided Health Insurance Offer and Coverage:* Certain large employers send this form to certain employees. It contains information about the coverage that was offered by the employer.
– Employers should mail Forms 1095-B and 1095-C by March 2, 2018.

You do not have to wait to file until after you receive these forms. Rather, once received these should be retained with your 2017 tax records as confirmation that you had health insurance coverage for the 2017 tax year.

ABLE accounts

Federal legislation passed in 2014 established the framework for ABLE Accounts (i.e., 529A plans). These accounts are intended for certain individuals who were diagnosed with significant disabilities prior to attaining age 26. These accounts will provide a tax-deferred savings vehicle for individuals who wish to save for future expenses without having to forfeit public benefits. Some states provide for the deductibility of contributions (which are generally subject to the same rules as 529 plans). Individuals can choose from most states' plans, which provide more control over investment options and expenses (note that the individual states' legislatures are in various stages of enacting laws to establish ABLE Act programs).

Individuals may roll over amounts from a qualified tuition plan to an ABLE account if certain requirements are met.

What's new for 2018?

The Tax Cuts and Jobs Act allows individuals to roll over amounts from a qualified tuition plan to an ABLE account if the ABLE account is owned by the same designated beneficiary of the 529 Plan or a member of the designated beneficiary's family before January 1, 2026. The aggregate annual contribution limit to an ABLE account cannot exceed the annual gift tax exclusion amount. For 2018, this limit is $15,000. However, under certain circumstances this limit may be increased.

IRS contact information

Entity	Phone number	Website
IRS general information	800-829-1040	*irs.gov*
National Taxpayer Advocate	877-777-4778	*irs.gov/Advocate*

Recent changes and proposals

The following additional proposals were made under the House proposal. Included are the proposals and the results respectively.

Medical expense deduction for seniors

For tax years beginning after December 31, 2012 and ending before January 1, 2017, the threshold to claim an itemized deduction for unreimbursed medical expenses was 7.5% for individuals age 65 or older. This was meant to be a temporary waiver, and for tax years beginning after December 31, 2016, taxpayers age 65 or older were going to be subject to the same 10% threshold as younger taxpayers. *Instead, the Tax Cuts and Jobs Act extends the 7.5% threshold for ALL taxpayers until December 31, 2018.*

Free Application for Federal Student Aid (FAFSA®) changes
Students can now submit their FAFSA® earlier: beginning on October 1, 2016, rather than January 1, 2017. This earlier date is now a permanent change, enabling students to submit their FAFSA® as early as October 1 every year. Additionally, students are required to report information from an earlier tax year, removing the obstacle to early filing. For example, for the 2017 – 2018 FAFSA® students and parents would report their 2015 income information, rather than their 2016 income information. This change in submission dates is important to note, as need-based aid is often awarded on a first-come, first- served basis.

Potential elimination of the Stretch IRA
Over the past several years there have been multiple attempts to eliminate what are referred to as "stretch IRAs." Currently, if strict requirements are met, the minimum distribution rules permit an IRA beneficiary to have the payments from a decedent's IRA paid out over the beneficiary's lifetime. A stretch IRA strategy allows the original beneficiary of an IRA to distribute assets to a designated later-generation beneficiary. By using this strategy, the IRA can be passed on from generation to generation while beneficiaries enjoy tax-deferred and/or tax-free growth as long as possible. The term "stretch" does not represent a specific type of IRA; rather it is a financial strategy that allows people to stretch out the life—and therefore the tax advantages—of an IRA.

Legislation has been proposed that would require non-spouse beneficiaries who do not meet one of the exceptions (i.e., disabled, chronically ill, not more than 10 years younger than owner, a minor) to take distributions over no more than five years, eliminating the ability to stretch payments well into the future. *The Tax Cuts and Jobs Act did not address this proposal and thus "stretch IRAs" remain intact.*

Proposed Section 2704 regulations
In August 2016, the IRS issued proposed regulations under IRC Section 2704 that, if enacted, would eliminate most discounts on transfers of entity interests (including family businesses, limited partnerships, corporations, LLCs and others). *These were withdrawn by the Treasury in the Fall of 2017.*

The **Advanced Planning Group** of UBS provides comprehensive planning, advice, and education to ultra high net worth individuals and families. The team consists of professionals with advanced degrees, extensive planning experience, and various areas of expertise. Through our publications, the Advanced Planning Group features the intellectual capital of UBS in wealth planning, estate tax, and philanthropy and evaluates how changes in the legislative and tax landscape might impact our clients' planning.

See important notes and disclosures on the next page