THE PRIVATE BANK
By Nevada State Bank®

HIGH NET WORTH REPORT

2018 | ISSUE 1

THE TAX CUTS AND JOBS ACT: MAJOR PROVISIONS AND IMPACTS

KEY FINDINGS

The Tax Cuts and Jobs Act (TCJA) was arguably the largest overhaul of the U.S. tax code in the last 30 years. The new legislation substantially revised the existing tax code for both individuals and businesses. These changes will affect millions of taxpayers as many rules related to individual credits and deductions were changed. This report highlights key provisions and changes under the TCJA and is intended for informational purposes only. Because of the complexities of the tax code and the unique financial situation of each household, consult a certified tax professional for specific tax planning advice.

TAX RATES

Generally, individual taxpayers will benefit from lower income tax rates across most tax brackets under the new legislation, with the top tax bracket rate being reduced from 39.6 percent to 37.0 percent. Income ranges were also raised for many brackets, effectively applying lower tax rates to a greater portion of income. High net worth households in Nevada, defined as those with $200,000 or more in annual adjusted gross income, accounted for 3.2 percent of tax returns in 2015 with an average income of $662,300, according to the latest available data from the Internal Revenue Service. While a household's tax liability varies depending on deductions, credits and other adjustments, taxpayer data suggest that a sizeable portion of Nevada's more than 42,000 high net worth households will benefit from the reduced tax rates in 2018.

DEDUCTIONS AND EXEMPTIONS

The standard taxpayer deduction was nearly doubled in the new tax code. The standard deduction rose from $6,350 to $12,000 for individuals, $9,350 to $18,000 for heads of household, and $12,700 to $24,000 for joint filers. The law also eliminated the personal exemption of $4,050 for each taxpayer and dependent, reducing the net benefit of the standard deduction increase. Nevada's high net worth households claimed 2.5 personal exemptions per return in 2015, and about 30 percent of exemptions were for dependents. The elimination of the personal exemption potentially affects large families to a greater degree than smaller households, however, those impacts will be mitigated by doubling the child tax credit from $1,000 to $2,000. In 2015, only 20 high net worth households in Nevada claimed the child tax credit due to the income phaseout

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INSIGHTS FROM JEFF EDWARDS

CERTIFIED PUBLIC ACCOUNTANT
PIERCY BOWLER TAYLOR & KERN

Charitable donations can reduce income and lower your tax liability, as well as provide much needed support for our local nonprofits. However, the amount of your deduction depends on more than just the actual amount you donate. One of the biggest factors affecting your deduction is WHAT you give.

Type of Gifts

The most common gift to charity is cash. You may deduct 100 percent of gifts made by check, credit card or payroll deduction. However, the IRS closely scrutinizes non-cash charitable contribution deductions. If your tax return is audited and the IRS finds that documentation is lacking, they could disallow property deductions and assess penalties.

Other Factors

You'll benefit from the charitable deduction only if you itemize deductions rather than claim the standard deduction. Also, your annual charitable donation deductions may be reduced if they exceed certain income-based limits. In addition, your deduction generally reduces by the value of any benefit received from the charity.

2018 Planning

While the Tax Cuts and Jobs Act (TCJA) preserves the charitable deduction, it temporarily makes itemizing less attractive for many taxpayers, reducing the tax benefits of charitable giving for them.

Itemizing saves tax only if itemized deductions exceed the standard deduction. For 2018 through 2025, the TCJA nearly doubles the standard deduction — and, it limits or eliminates some common itemized deductions. As a result, you may no longer have enough itemized deductions to exceed the standard deduction, in which case your charitable donations won't save you tax.

You might be able to preserve your charitable deduction by "bunching" donations into alternating years, so that you'll exceed the standard deduction and can claim a qualified charitable deduction in the years where adjusted gross income limitations apply, or when your itemized deductions are not utilized.

In light of the TCJA, rely on your CPA to help with your charitable giving strategy going forward.

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APPLIED ANALYSIS

beginning at $110,000 for joint filers. The phaseout now begins at $400,000, which will make the credit available to many more high net worth families.

Other impactful changes in the tax deduction framework include a lower limit on the mortgage interest deduction and a cap on the state and local taxes (SALT) deduction. Under the new law, the cap on deductible mortgage interest is reduced from $1 million in mortgage debt to $750,000. Certain grandfather provisions apply to existing mortgages, and in general the reduced cap applies only to new mortgages taken out after Dec. 16, 2017. Nearly two-thirds of Nevada's high net worth households claimed the mortgage interest deduction in 2015.

The SALT deductions for sales and property taxes are also popular among Nevada's high net worth households, with 60 percent taking the sales tax deduction and 75 percent the property tax deduction in 2015. Under the new tax law, total deductions in this category are capped at $10,000. In Nevada, the average high net worth taxpayer claimed $4,030 under the sales tax deduction and $8,100 under the property tax deduction in 2015, suggesting some high net worth households will be affected by the SALT deduction cap. The congressional Joint Committee on Taxation expects claims for both the mortgage interest and SALT deductions to drop by about 40 percent among high net worth households.

Due to these changes in the deduction framework, the Joint Committee on Taxation expects the number of U.S. taxpayers who itemize deductions to decline by 61 percent in 2018. High net worth households are expected to see a smaller decline of 45 percent, with most of that change concentrated in the $200,000 to $500,000 income group. In Nevada, 80 percent of high income households itemized deductions in 2015 compared with 23 percent for all other income groups, suggesting that the changes to the tax deduction framework will potentially have a greater impact on high net worth households.

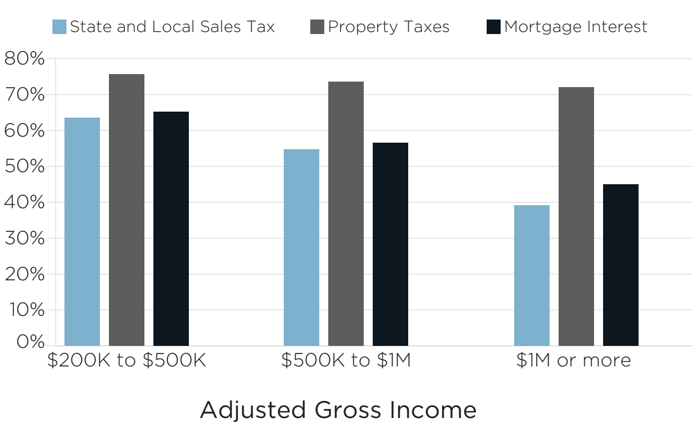
PASS-THROUGH BUSINESS INCOME DEDUCTION

More than 90 percent of U.S. companies are pass-through businesses organized as sole proprietorships, partnerships or S corporations. Instead of paying corporate income taxes, these businesses pass any profits or losses to their owners as personal income, which is subject to individual tax rates. Under the new tax framework, filers with pass-through business income may be able to deduct up to 20 percent of their qualified business income.

The entire 20 percent deduction is applicable for joint filers earning up to $315,000 in taxable income and for other filers earning up to $157,500. The deduction phases out at higher incomes depending on the type of business and other factors, including wages paid to employees and capital investments. For example, certain service-providing companies such as those in the fields of health, law, consulting, and financial services are ineligible for the deduction once income thresholds are reached.

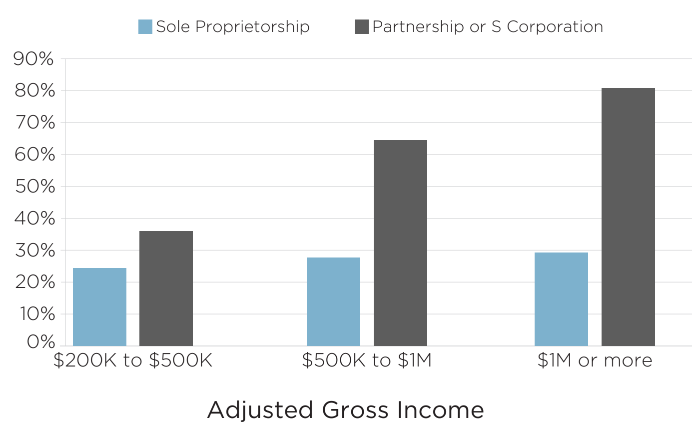
The Joint Committee on Taxation estimates that U.S. high net worth households will realize three quarters of the pass-through business deduction benefit in 2018. In Nevada, one in four high net worth tax filers reported income from sole proprietorships in 2015, with an average income of $73,300. During the same period, 44 percent of the state's high net worth households reported income from partnerships and S corporations, with an average of $309,900.

SHARE OF NEVADA HIGH NET WORTH HOUSEHOLDS CLAIMING TAX DEDUCTIONS



Source: Internal Revenue Service (Tax Year 2015)

SHARE OF NEVADA HIGH NET WORTH HOUSEHOLDS REPORTING PASS-THROUGH BUSINESS INCOME



Source: Internal Revenue Service (Tax Year 2015)

The Private Bank by Nevada State Bank retained the team at Applied Analysis to explore the high net worth segment of the community. Specifically, the team has been working to better understand the size, consumer trends, needs and other aspects of this key segment of the market. Research efforts focused on selected demographic and economic data, as well as information garnered through direct surveying techniques and other cutting edge research methodologies. This reporting series has been designed with these high net worth individuals in mind. We hope you find the elements of our research and analysis helpful in assessing the market.

The High Net Worth Report can be found at www.nsbank.com/HNWreport.
For more information, please call The Private Bank by Nevada State Bank at 702.855.4596.