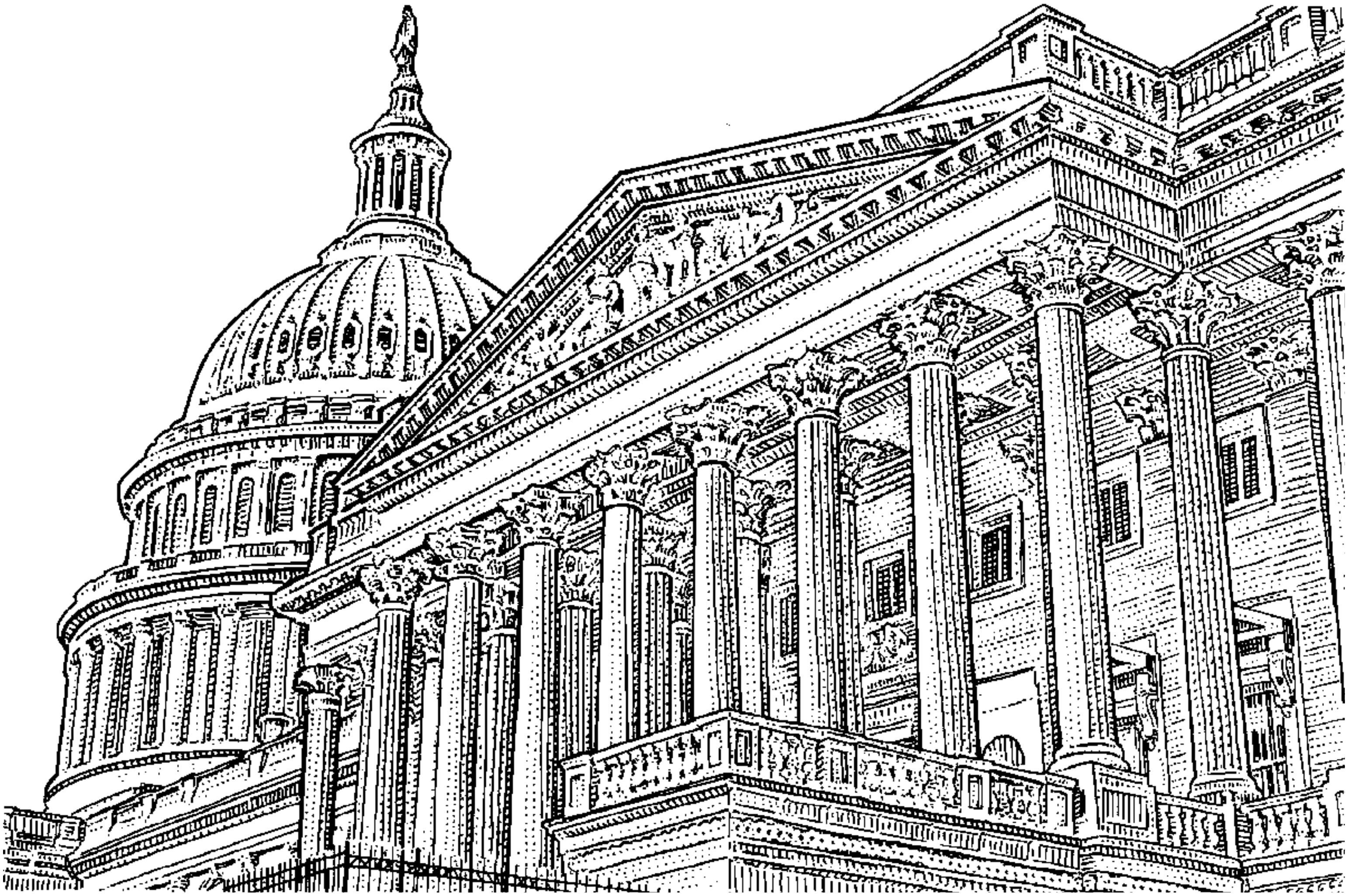

THE WALL STREET JOURNAL.

The New World of Taxes: 2019

By Laura Saunders, Richard Rubin and the staff of The Wall Street Journal

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ACKNOWLEDGMENTS

The lead authors of this book were Laura Saunders, Richard Rubin, Theo Francis and Nick Timiraos, along with co-authors Stephanie Armour, Drew FitzGerald, Sarah Krouse, Laura Kusisto, Peter Loftus, Sarah Nassauer, Michael Rapoport, Jonathan Rockoff and Anne Tergesen. The news editor was David Marcelis and lead editor was Amber Burton.

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INTRODUCTION

Late in 2017, Congress raced forward to deliver the largest overhaul of the U.S. tax code in three decades. Most provisions took effect for 2018, and since then Americans have been sorting through what it means for them. This year, taxpayers will file their first returns based on the revisions, and confusion abounds.

The new law made landmark changes for individuals and businesses. Tax brackets and rates shifted for individuals, though less dramatically than some had proposed, and there were far-reaching revisions to specific provisions affecting popular, commonly used tax breaks. For corporations, the top rate was cut to 21% from 35%, and a corporate alternative minimum tax was eliminated. Nearly every American taxpayer will be affected in some way.

People first felt the new law's impact when adjustments to payroll withholding appeared in paychecks early in 2018. But full appreciation of the changes is ongoing, as Americans face new rules on deductions (affecting mortgage interest, state and local taxes, charitable donations and more), the alternative minimum tax, child-tax credits, and estate and gift taxes, among other things.

Businesses are adjusting their practices to the new law, and politicians are already proposing and considering changes as they head into the 2020 campaign season.

This book was first written by the reporters and editors of The Wall Street Journal in 2018, and it has now been updated to include information for 2019—including the current tax-filing season. It explains what individuals, business owners and professionals need to know about what has changed and what hasn't. It also discusses the political and economic context of the tax overhaul, and what it means to corporations and investors. With this book, taxpayers have a guide to the new world of taxes.

—Laura Saunders and Richard Rubin

THE BIG PICTURE

TAX RATES AND BRACKETS

Tax overhaul changed rates and income brackets, but whether people owe more or less will often depend on other provisions

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The tax overhaul altered rates and brackets, but not as much as some proposed. Instead, the major changes affecting Americans often stem from other provisions, such as the expanded standard deduction or child tax credit.

Lawmakers also switched to a less-generous method for calculating inflation adjustments to tax brackets and other key provisions. They will now be adjusted using the typically slower-moving chained consumer-price index instead of a traditional method of inflation known as the CPI-U. The shift will cost Americans $133.5 billion over a decade, according to Congress's Joint Committee on Taxation.

THE TOP AND BOTTOM RATES
The top tax rate was reduced to 37% from 39.6%; the lowest rate remains 10%. The changes to rates and brackets weren't as dramatic as some proposed.

For example, the new top tax bracket for individuals begins at $500,000 for 2018 and rises to $510,300 for 2019 under the new inflation adjustment. The adjustment would have been to $512,075 under the prior system, according to calculations by the Tax Foundation. By 2025, this gap between the old and new brackets is projected to be $10,325.

As before the overhaul, the tax code has seven income brackets. The rate changes expire at the end of 2025, but the change to the inflation adjustment is permanent.

The overhaul dropped the top rate from 39.6% to 37%. The lowest rate remains 10%, which takes effect at the first dollar of taxable income.

However, taxpayers may have more or less income before the 10% rate applies than they did in the past, due to changes to deductions, exemptions and other provisions.

—Richard Rubin and Laura Saunders

TAX RATES AND BRACKETS

Tax Rates and Brackets, 2018 and 2019

2018 rates	Single filers	Married, filing jointly*
10%	Up to $9,525	Up to $19,050
12	9,526 – 38,700	19,051 – 77,400
22	38,701 – 82,500	77,401 – 165,000
24	82,501 – 157,500	165,001 – 315,000
32	157,501 – 200,000	315,001 – 400,000
35	200,001 – 500,000	400,001 – 600,000
37	above 500,000	above 600,000

2019 rates	Single filers	Married, filing jointly*
10%	Up to $9,700	Up to $19,400
12	9,701 – 39,475	19,401 – 78,950
22	39,476 – 84,200	78,951 – 168,400
24	84,201 – 160,725	168,401 – 321,450
32	160,726 – 204,100	321,451 – 408,200
35	204,101 – 510,300	408,201 – 612,350
37	above 510,300	above 612,350

*and qualifying widow or widower
Source: Internal Revenue Service

STANDARD DEDUCTION AND PERSONAL EXEMPTION

The expansion of the standard deduction and repeal of the personal exemption affect millions of Americans

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For many people, the tax overhaul's most sweeping changes are the near-doubling of the standard deduction and repeal of the personal exemption.

The standard deduction is the amount filers subtract from income if they don't break out deductions for mortgage interest, charitable contributions, state and local taxes and other items on Schedule A. Listing these deductions is called "itemizing."

The overhaul raised the 2018 standard deduction to $24,000 per married couple filing jointly and $12,000 for singles, up from $12,700 for couples and $6,350 for singles for 2017. For 2019, it rises to $24,400 per couple and $12,200 per single filer.

As a result, the number of taxpayers who will itemize for 2018 is expected to drop by more than half—from nearly 47 million to about 18 million for 2017 out of about 150 million tax returns, according to data from the Joint Committee on Taxation and the Internal Revenue Service.

BUYING HOMES, MAKING DONATIONS

The larger standard deduction means tax returns will be simpler for millions of filers because they won't itemize their deductions. But they won't get a specific benefit for having a mortgage or making charitable donations, which could affect future decisions about owning a home or giving to charity.

Switching to the standard deduction will simplify the returns of nearly 30 million filers. It will also lighten the IRS's burden, because the agency will have fewer deductions to monitor.

But the change also means these filers won't get a specific benefit for having mortgage interest or making charitable donations. That could affect future decisions about donations or owning a home.

PERSONAL EXEMPTION REPEALED

The repeal of the personal exemption is also a landmark shift. Before the overhaul, this provision was a subtraction from income for each person included on a tax return—typically the members of a family. The 2018 amount was set to be $4,150 per person, and it phased out for higher earners.

The personal exemption was also integral to figuring an employee's correct withholding from pay.

The interaction of the expanded standard deduction, repealed personal exemption and expanded child credit is complex, and the effects on individuals will vary widely depending on their circumstances. In part that is because the personal exemption was a deduction from income, while the child credit is a dollar-for-dollar offset of taxes.

Many families with younger children will come out ahead under the new law for 2018, especially if they took the standard deduction in the past, because of the expanded child credit of up to $2,000 per child that extends to far more households. But some others won't, especially if their dependents are age 17 or older. They will get a $500 tax credit in place of the exemption.

Both the expanded standard deduction and the repeal of the personal exemption expire at the end of 2025.

—Laura Saunders

CHILD AND DEPENDENT TAX CREDITS

The child credit doubled and became available to more families, a move that more than offset the repeal of the personal exemption in many cases

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The overhaul doubled the maximum child tax credit to $2,000 from $1,000 for each child in a family under age 17 at year-end.

Many more families are also eligible for this credit. For 2018, it begins to phase out at $400,000 of adjusted gross income for most couples and $200,000 for most singles, compared with 2017 levels of $110,000 for couples and $75,000 for singles. Low and moderate earners may be eligible for a payment of up to $1,400 per child due to the credit, even if they don't owe income tax.

The changes to this credit expire after 2025. The credit and income levels aren't adjusted for inflation, but the payment of up to $1,400 per child to lower earners will be adjusted infrequently in coming years.

CHILD CREDIT VS. PERSONAL EXEMPTION
For many filers with children under 17, the expanded credit will be a more valuable benefit than the personal exemption, which was suspended by the overhaul. A credit is a dollar-for-dollar offset of taxes, while the personal exemption was a deduction from income that phased out for higher earners.

For many filers with children under 17, the expanded credit will be a more valuable benefit than the personal exemption, which was suspended by the overhaul. A credit is a dollar-for-dollar offset of taxes, while the personal exemption was a deduction from income that phased out for higher earners. For 2017, it was $4,050 for each household member.

For example, a married couple with three young children and taxable income of about $200,000 in 2017 wouldn't have qualified for the prior child tax credit. The personal exemption for the children could have saved them about $3,300 in tax, according to tax specialist Roberton Williams of the Tax Policy Center.

CHILD AND DEPENDENT TAX CREDITS

For 2018, the child credit would save such a family $6,000 of tax. Families with dependents age 17 and older, such as college students or an elderly parent, often fare less well after the overhaul. The tax credit for each of these dependents drops to $500, so in many cases the personal exemption would have provided more benefit.

The new provisions don't alter existing tax-code rules defining who is a dependent.

—Laura Saunders

WITHHOLDING AND ESTIMATED TAX PAYMENTS

Employees should refigure paycheck withholding or risk unwelcome surprises

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More than 90% of employees saw bigger paychecks in 2018, after the Treasury Department made automatic adjustments to paycheck withholding based on the overhaul's changes. The withholding changes also applied to pension payments.

As a result, taxpayers received most of the overhaul's $180 billion in individual tax cuts for 2018 during last year. But up to $75 billion will show up in larger refunds or smaller payments due when people file their 2018 returns, according to estimates by Evercore ISI, a research firm. That is an average of $420 per household, but individual results when people file their returns will vary greatly. For tax year 2017, about 73% of filers received refunds, and they averaged $2,899 each.

WITHHOLDING AND TAX REFUNDS
Taxpayers received most of the overhaul's $180 billion in individual tax cuts for 2018 during last year. But up to $75 billion will show up in larger refunds or smaller payments due when people file their 2018 returns.

During 2018, government officials posted a withholding calculator on the IRS's website and urged taxpayers to use it in order to avoid tax-time surprises, but relatively few people used it. This calculator has been updated for 2019.

In early 2019, the IRS said it would waive penalties for some people who didn't pay enough taxes throughout the year in 2018. In general, filers can avoid penalties if they pay 90% of the current year's taxes owed, either through withholding or by making the correct quarterly estimated tax payments.

The agency lowered the threshold to 85% for 2018 in a nod to uncertainty about new law and also relaxed some requirements for quarterly payments for filers who paid in at least 85%. Taxpayers who want to claim the waiver must fill out IRS Form 2210.

—Richard Rubin and Laura Saunders

TAXES ON INVESTMENT INCOME

The overhaul made few changes to investment-income taxes, preserving the favorable rates for capital gains and dividends

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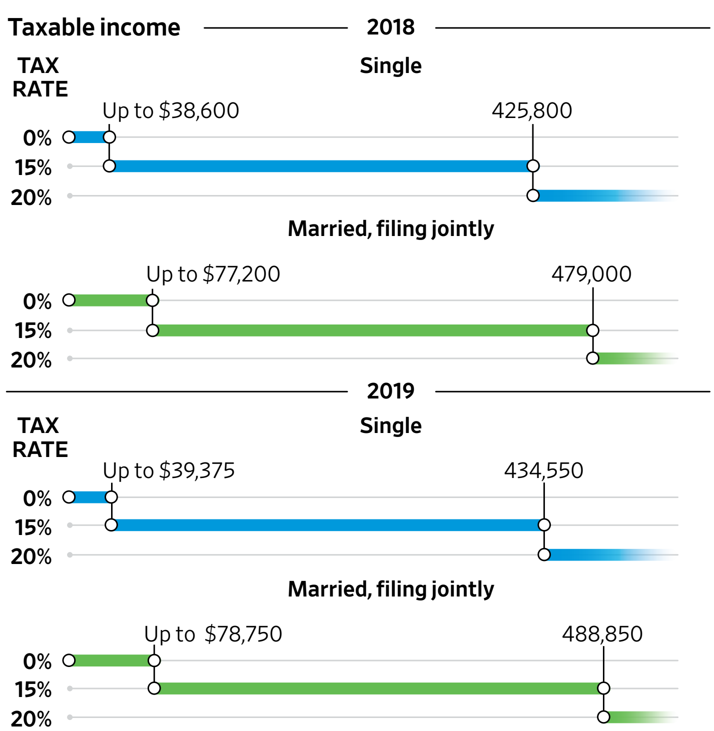
The tax overhaul didn't change the favorable rates for long-term capital gains and many dividends, and a popular zero rate on these types of investment income is still in effect.

Tax on Investment Income

2018 tax rates on long-term capital gains and qualified dividends, plus 3.8% surtax



Note: Rates do not include 3.8% tax on net investment income. The threshold is $200,000 of adjusted gross income for most single filers and $250,000 of adjusted gross income for most joint filers.

Source: Joint Committee on Taxation Staff

For 2018, the zero rate applies to married couples, filing jointly, that have up to $77,200 of taxable income ($38,600 for singles). A 15% rate then takes effect for joint filers with up to $479,000 of taxable income ($425,800 for singles), and a 20% rate applies above that.

There is also a 3.8% surtax on net investment income for filers with higher incomes.

Long-term capital gains are net profits on investments held longer than a year. As in prior law, short-term capital gains on investments held a year or less are taxed at the same rates as ordinary income.

The favorable rates for dividends apply to those that are "qualified," which most are. Nonqualified dividends are taxed at ordinary-income rates.

HOW THE ZERO RATE APPLIES

Some readers have asked how the zero rate on investment income applies. Here is a simplified example.

Say that Susan is a single taxpayer with $30,000 of taxable ordinary income after deductions and exemptions, such as for tax-free municipal-bond interest or the sale of a home. Her taxable income is subject to regular rates up to 12%, as detailed in the tax brackets.

But Susan also has a $20,000 long-term capital gain. This $20,000 “stacks” on top of her $30,000 of other income. As a result, she would owe zero tax on $8,600 of her gain and 15% on the remaining $11,400.

3.8% SURTAX

The tax overhaul didn’t repeal the 3.8% surtax on net investment income. This levy takes effect at $250,000 of adjusted gross income for most married couples and $200,000 for most single filers. Those thresholds aren’t indexed for inflation.

As a result, top-bracket taxpayers typically owe 23.8% instead of 20% on their long-term gains and dividends. Some investors in the 15% bracket for this income owe the 3.8% surtax on part or all of it because their adjusted gross income is above the $250,000/$200,000 thresholds. Filers below the threshold don’t owe it.

Congress also preserved most tax exemptions for municipal-bond interest.

—Laura Saunders

ALTERNATIVE MINIMUM TAX

After vowing to kill it, Republicans kept this unpopular levy, but they revised it to affect far fewer people

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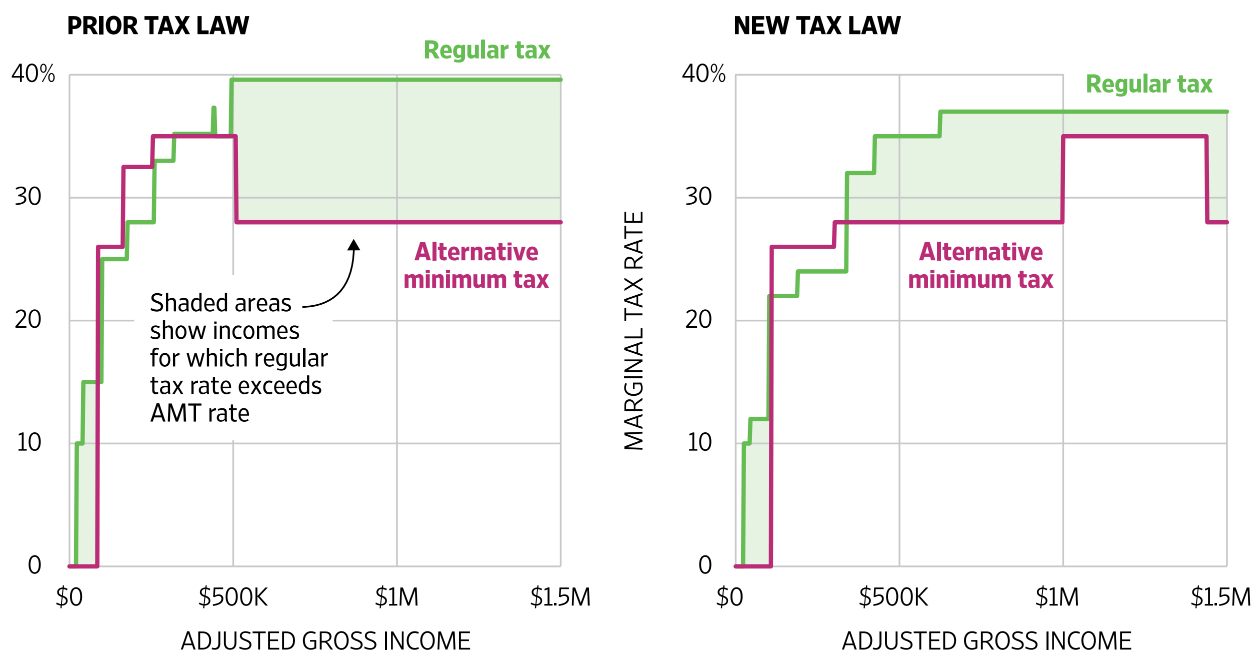
The overhaul nearly repealed the alternative minimum tax, or AMT, a parallel tax system that is both complex and unpredictable. The purpose of the AMT is to limit tax breaks allowed by the regular tax system and ensure that high earners can't legally avoid all taxes.

Hollowed Out

The recent overhaul changed the alternative minimum tax so that millions of filers won't owe it for 2018. Under prior law, AMT tax rates were above or close to regular tax rates for a wider range of income.



Note: Data are for married couples, filing jointly and taking the standard deduction.
The spike in the regular tax rate for prior law is from the personal exemption phaseout.
Source: Reed Shuldiner

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In the end, lawmakers retained the AMT, but with important changes. The changes expire at the end of 2025.

Far fewer people will owe the revised AMT, according to economist Joe Rosenberg of the Tax Policy Center. Mr. Rosenberg expects it to affect the filers of about 200,000 returns for 2018, compared with 5 million filers for 2017.

ALTERNATIVE MINIMUM TAX

This levy will also fall less heavily on the affluent and more heavily on very high earners than in the past. The number of people earning $500,000 or less who owe AMT will drop to about 50,000 for 2018, vs. about 4 million for 2017, according to Mr. Rosenberg.

Several triggers of the prior AMT have been reduced or repealed, helping to lower the number of taxpayers who owe it. These prior triggers include state and local tax deductions, personal exemptions and miscellaneous deductions. In addition, the AMT exemption was expanded.

Tax specialists say the breaks triggering the revised AMT are likely to be more unusual items, such as incentive stock options, interest from certain municipal bonds, and net operating losses.

—Laura Saunders

INDIVIDUAL MANDATE

Obamacare requirement to have health insurance or pay a penalty is gone for 2019

Republicans used the tax overhaul to achieve a health-policy aim: eliminating the individual mandate to have health insurance, a centerpiece of the 2010 Affordable Care Act.

A principal feature of the ACA, often called Obamacare, was that most individuals had to pay a penalty if they didn't have health coverage that met new federal standards. The law exempted certain groups from the payment, including the very poor, members of certain religious groups and people with brief coverage gaps. Those exemptions were expanded in 2018, enabling people to claim the exemption without showing supporting documents.

FEWER INSURED

Some projections have suggested that the elimination of the mandate will lead to millions fewer people getting insurance. Health plans worry more specifically that fewer young, low-risk people will get insurance, forcing up premiums further. Some analysts counter that the mandate has never been particularly aggressively enforced and has had little impact.

Some states have, or are considering, their own state-wide penalties and insurance coverage requirements.

—*Stephanie Armour*

HOME SELLERS' EXEMPTION

Nothing changed, despite an initial effort by House Republicans to reduce the benefit

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Despite proposed changes, the tax overhaul retained the existing benefit for home sellers.

Married couples filing jointly can exclude $500,000 of profit on the sale of a primary home from taxes. For single filers, the exemption is $250,000 of profit. These amounts aren't indexed for inflation.

$250,000
Exemption for singles

$500,000
Exemption for married couples

For example, say that John and Jane bought a home many years ago for $120,000 and later made improvements that added $100,000 to its cost. This year, they sell the home for $600,000.

The gain, or profit, on the sale is $380,000. All of it would be exempt from capital-gains tax due to their $500,000 exemption.

To be eligible for this benefit, the homeowner must have used the house as a primary residence for two of the previous five years. In general, taxpayers aren't eligible for the full exemption if they excluded the gain from the sale of another home during the two years before the sale.

Other limits and exceptions apply, such as for certain military personnel. For more information, see IRS Publication 523, Selling Your Home.

—*Laura Saunders*

ESTATE AND GIFT TAX

Lawmakers didn't repeal the estate tax, but they doubled the exemption, reducing the number of liable estates

The overhaul doubled the estate- and gift-tax exemption, which is a combined amount that applies to an individual's gifts made during life or assets left at death.

For 2018, the limit rose to $11.18 million per individual and $22.36 million per married couple. For 2019, an inflation adjustment lifts it to $11.4 million per individual and $22.8 million per couple.

About
6,500
Number of estates expected to owe estate tax for 2017

Fewer than
2,000
Number of estates expected to owe estate tax for 2018

This increase in the exemption is set to lapse after 2025. In November 2018, the Treasury Department and the IRS issued proposed regulations that would allow individuals who make large gifts between 2018 and 2025 to retain the tax benefit of the higher exemption, even if it reverts to pre-2018 levels.

Here is a simplified example. Say that John has assets of $11 million, and he gives it to a trust for his heirs in 2019. The transfer is free of gift tax because exemption is $11.18 million for 2019.

But after 2025 the exemption reverts to its 2017 level of $5.49 million (plus an inflation adjustment), and John dies in 2026. Under to the Treasury proposal, John's estate wouldn't owe tax on the portion of his 2019 gift that's above the 2026 exemption.

The number of estates the tax will apply to is expected to drop sharply as a result of the overhaul's changes. Fewer than 2,000 estates, or 0.1% of people who die, are expected to owe estate tax for 2019, according to estimates by the Tax Policy Center. For 2017, when the exemption was $5.49 million per person, an estimated 6,500 estates owed the tax.

NO CHANGE ON CAPITAL GAINS AT DEATH

Assets held at death still aren't subject to capital-gains tax. This is known as the "step-up in basis."

For example, say that Robert dies owning shares of stock worth $100 each that he bought for $5, and he held them in a taxable account rather than a tax-favored retirement plan such as an IRA.

Because of the step-up provision, Robert's estate won't owe capital-gains tax on the $95 of growth in each share of stock. Instead, the shares go into his estate at their full market value of $100 each. Heirs who receive the shares then have a cost of $100 each as a starting point for measuring taxable gain when they sell.

UNUSED PORTION OF EXEMPTION IS "PORTABLE"

The tax overhaul also didn't change the rules on portability, a generous tax benefit for many married couples. It allows a surviving spouse to receive the unused portion of the federal estate-tax exemption of the spouse who died.

If Linda dies in 2019 leaving an estate of $2 million to heirs other than her husband Jack, he could claim the $9.4 million of Linda's unused exemption for his own use during life or after his death.

ANNUAL GIFTS

The law also allows any taxpayer to make annual gifts to anyone— relative, neighbor, friend or stranger—up to a certain amount free of federal gift tax. An inflation adjustment raised this exemption from $14,000 to $15,000 per recipient for 2018, and it will remain at that level for 2019.

Above this exemption, taxable gifts are subtracted from an individual's lifetime estate- and gift-tax exemption, which is currently $11.4 million per person.

These annual gifts aren't deductible from income tax, but they do gradually remove assets from the giver's estate, and the amounts can add up—especially if the assets grow in value after the gift. A husband and wife with three married children and six grandchildren, for example, could shift $360,000 a year to the 12 family members by using this benefit.

The annual exemption can be used to transfer complex assets, such as fractional shares of a business, but expert help is recommended.

BUNCHING GIFTS FOR COLLEGE

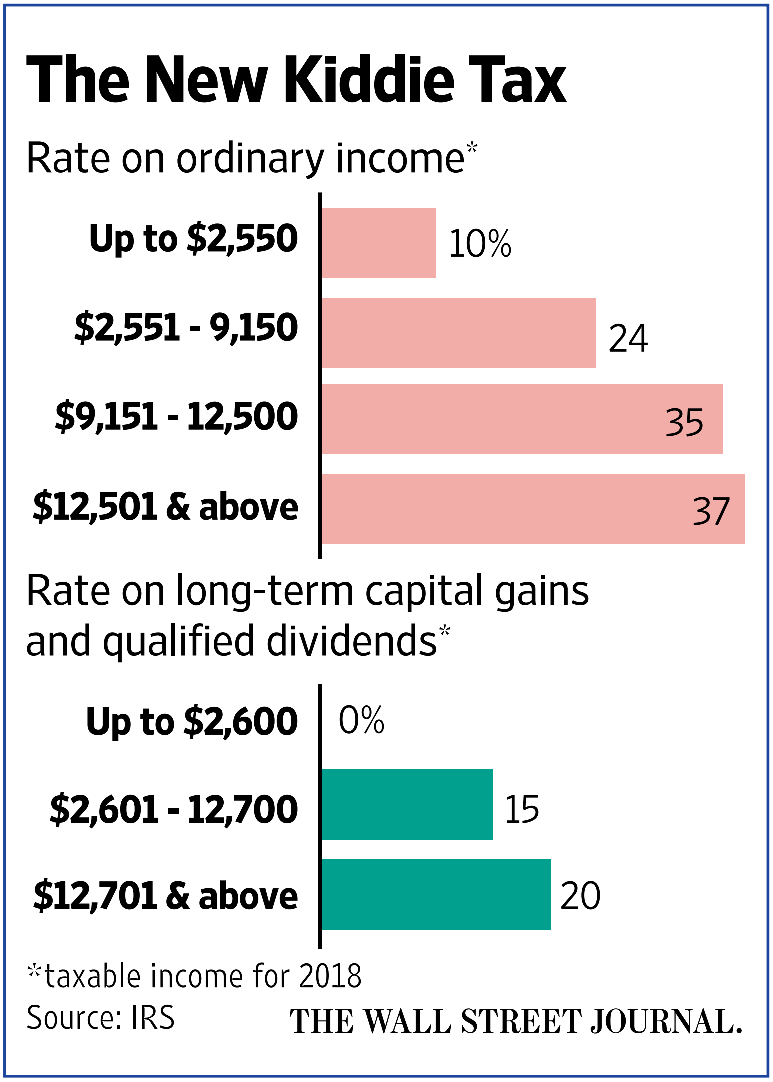
In an alternative strategy, givers can "bunch" five years of annual $15,000 gifts to a 529 education-savings plan, typically for children or grandchildren.

No tax is due, but a gift-tax form should be filed, says Mark Kantrowitz, the publisher of savingforcollege.com.

—Laura Saunders

THE "KIDDIE TAX"

The overhaul greatly simplified a special levy on a child's "unearned" income, but the shift in rates is unfavorable for some



The overhaul made significant changes to the "Kiddie Tax," a special levy on a child's "unearned" income above $2,100 for 2018 and $2,200 for 2019. It typically applies to investment income such dividends, interest, and capital gains, and it doesn't apply to a young person's earned income from mowing lawns or designing websites.

Congress passed the Kiddie Tax in 1986 to prevent wealthy or affluent people from taking advantage of their children's lower tax rates by shifting income-producing assets to them.

Today, the Kiddie Tax applies to nearly all children under 18 and many who are under 24, if they are full-time students and aren't self-supporting.

The overhaul revised the Kiddie Tax so that now a youngster's unearned taxable income will be subject to trust tax rates rather than the parents' income-tax rate. This change expires at the end of 2025.

The change greatly simplifies the tax, but the shift in rates is unfavorable for some. For example, the threshold for the 20% capital-gains rate is $12,700 for 2018, compared with more than $400,000 for 2017 under prior law. For 2019, an inflation adjustment lifts it to $12,950.

THE "KIDDIE" TAX

"The new Kiddie Tax will often be lower or the same for children of high-income parents, but it could rise for children of parents in lower tax brackets," says Tim Steffen, a tax specialist with Robert W. Baird & Co.

For example, say that a full-time college student has a high-earning grandparent and his parents have taxable income of about $150,000. To help with costs, the grandparent gives the student stock to sell that has a long-term gain of $40,000.

Under prior law, the grandson would have owed tax of nearly $5,700 because his parents' capital-gains rate was 15%. But under the new law, his tax bill on the sale rises to nearly $6,600, because part of the gain is now taxed at the top rate of 20%.

Mr. Steffen says a better move would be for grandparent to give the stock to the parents instead of the student and let them sell it, reducing the tax rate to 15%.

The overhaul's changes will often be favorable for children of top-bracket taxpayers. If such a child has $4,000 of interest or payout from an inherited individual retirement account, the Kiddie Tax bill would have been about $860 before the overhaul. It drops to about $300 for 2018 due to the lower rates for trusts.

As a result, generous parents, grandparents and others need to take a new look at the income-tax effects of making gifts to young people.

—Laura Saunders

DEDUCTIONS

STATE AND LOCAL TAX DEDUCTIONS

The overhaul capped the deduction for state and local taxes at $10,000 per return

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In a landmark change, the tax overhaul put a cap on deductions for state and local taxes, known as SALT. Previously these deductions were unlimited for individuals, although many people who owed the alternative minimum tax lost the benefit of some or all of their SALT write-offs.

For 2018, taxpayers can deduct property and income or sales taxes, but only up to $10,000 per return. This change expires at the end of 2025.

For example, say that Dan is a single filer who owes $6,000 of state income tax and $6,000 of property tax on his home. For 2017, he could deduct the $12,000 total of these taxes. But for tax years 2018-2025, the deduction is capped at $10,000 per return, and it isn't indexed for inflation.

According to the Tax Foundation, this change is expected to hit hardest in the six states where SALT deductions are highest as a percentage of income: New York, New Jersey, Connecticut, California, Maryland, and Oregon.

STATES MOST AFFECTED

- New York
- New Jersey
- Connecticut
- California
- Maryland
- Oregon

States where SALT deductions are highest as a percentage of income

Lawmakers in some states have considered strategies to preserve the full deductibility of state and local taxes. One proposed fix would, in effect, have converted these levies to charitable contributions that could be deducted on the federal return.

In August, the Treasury Department moved to block attempts by New York, New Jersey and Connecticut to enable their residents to take such write-offs. But

Treasury's proposal also pinches tax-credit programs that benefit private schools and other programs in Georgia, Arizona and elsewhere, preventing donors from getting more money in tax breaks than they contribute.

Treasury's rule wouldn't affect New York's other major attempt to work around the cap—an optional payroll tax shifting SALT deductions from individuals who can no longer fully take them to businesses that can. Businesses have been skeptical of this idea, and relatively few signed up for 2019.

The new cap will affect many married couples more than singles, because the $10,000 SALT limit is per return and not per person.

FILING SEPARATELY
Spouses cannot file separately as a strategy to claim two $10,000 deductions. If married couples file separately, each spouse would get a $5,000 deduction for state and local taxes. To qualify for two $10,000 deductions, the couple would have to divorce.

Some Wall Street Journal readers have asked whether two spouses can each file separately and claim two $10,000 deductions. The answer is no. Although married couples can file separate returns, in this case each spouse would get a $5,000 deduction for state and local taxes. To qualify for two $10,000 deductions, the couple would have to divorce.

—Laura Saunders

MORTGAGE-INTEREST DEDUCTION

Near-doubling of standard deduction, caps on eligible mortgages mean fewer will take popular write-off

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The tax overhaul contains new curbs on deductions for mortgage interest, both indirect and direct. These changes expire at the end of 2025.

As a result, the number of tax returns with a mortgage-interest deduction will drop to about 14 million for 2018 compared with 32 million for 2017, according to data from the Joint Committee on Taxation.

32 million vs. 14 million

Estimated number of returns taking the mortgage deduction as a result of the old law vs. the new law

One reason for the change is that millions more filers will claim the expanded standard deduction rather than list write-offs separately on Schedule A.

For example, if a married couple's mortgage interest, state taxes and charitable contributions average about $15,000 per year, they benefited from listing these deductions on Schedule A before the overhaul. But for 2018 they won't, because it is to their advantage to take the $24,000 standard deduction instead.

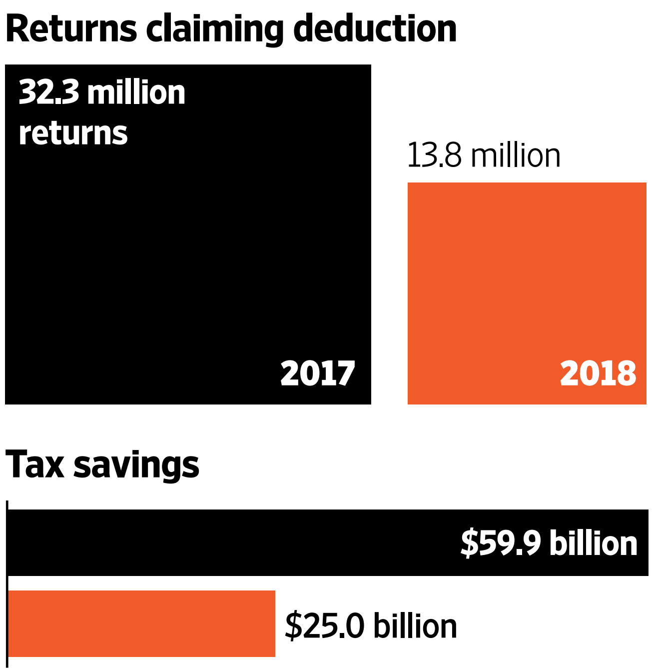
NEW LIMIT ON ELIGIBLE MORTGAGE DEBT

Lawmakers also made important changes affecting some taxpayers who do take mortgage-interest deductions. The new law allows homeowners with existing mortgages to continue to deduct interest on a total of $1 million of debt for a first and second home.

For new buyers, however, the $1 million limit drops to $750,000 for a first and second home. These limits aren't indexed for inflation.

For example, if John had a $750,000 mortgage on a first home and a $200,000 mortgage on a second home as of December 15, 2017, then he can continue to deduct the interest on both on Schedule A. But if he bought one home with a $750,000 mortgage before Dec. 2017 and then bought a second home using a $200,000

The tax overhaul's changes to the mortgage-interest deduction limit its use.



Source: Joint Committee on Taxation
THE WALL STREET JOURNAL.

mortgage in 2018, he can't deduct the interest on the second loan.

MORTGAGE REFINANCING

According to the National Association of Realtors, homeowners can refinance mortgage debt up to $1 million that existed on Dec. 15, 2017 and still deduct the interest. But often the new loan can't exceed the amount of the mortgage being refinanced.

For example, if Linda has a $1 million mortgage she has paid down to $800,000, then she can refinance up to $800,000 of debt and continue to deduct interest on it. If she refinances for $900,000 and uses $100,000 of cash to upgrade the home, she could also deduct the interest on $900,000, according to the NAR.

But if Linda refinances for $900,000 and simply pockets $100,000 of cash, then she could deduct interest on only $800,000 of the refinancing.

HOME-EQUITY LOANS AND LINES OF CREDIT (HELOCS)

The overhaul prohibits interest deductions for this debt unless the funds are used for certain types of home improvement. Under prior law, homeowners could deduct the interest on up to $100,000 of home-equity debt used for any purpose.

To be deductible, the borrowing must now be used to “buy, build, or substantially improve” a first or second home. The debt must also be secured by the home it applies to, so a Heloc on a first home can’t be used to buy or expand a second home.

For more information, see IRS Publication 936, which has been revised to reflect the new law.

—Laura Saunders

CHARITABLE-DONATION DEDUCTIONS

The overhaul didn't make major changes to these deductions, but the near-doubling of the standard deduction means far fewer filers will choose to itemize

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The number of tax returns claiming deductions for charitable contributions is expected drop by more than 50% as a result of the overhaul. For 2018, about 15 million filers will take this write-off, compared with about 36 million for 2017, according to the Tax Policy Center.

Here is why. The standard deduction for 2018 is nearly double the level for 2017, rising from $6,350 to $12,000 for single filers and from $12,700 to $24,000 for couples filing jointly. For 2019, it rises to $12,200 for singles and $24,400 for couples.

36 Million
Returns deducting charitable donations for 2017

15 Million
Returns deducting charitable donations for 2018

The standard deduction is the amount filers can subtract from income if they don't list "itemized" write-offs for mortgage interest, charitable donations, state taxes and the like on Schedule A.

As a result, a filer's itemized deductions for 2018 will need to be greater than new standard-deduction amounts for the filer to benefit from itemizing.

Say that Jane and her husband, Robert, donate $10,000 to charities each year, but their mortgage is paid off and their only other itemized deduction is $10,000 of state and local taxes, for a total of $20,000.

This couple itemized deductions on Schedule A for tax year 2017, because the $20,000 total exceeded their $12,700 standard deduction. But for tax year 2018, they will opt for the standard deduction of $24,000, because it exceeds the $20,000 total on Schedule A.

This means that Jane and Robert won't get a specific tax benefit for giving to charity on their 2018 return—a change that is worrying charities that rely donations from filers who aren’t wealthy.

For charitable donors who want a tax break, there are ways around this change. One is to “bunch” donations every few years to surmount the higher standard deduction. If Jane and Robert donate $20,000 every other year, they could itemize in those years and claim the standard deduction in the years they don’t donate.

DONOR-ADVISED FUNDS
Donors can bunch smaller gifts into one larger deduction, but payments to charities can be made over several years. Meanwhile, the assets can be invested and grow tax-free. These accounts save paperwork but have fees.

Givers should also consider so-called donor-advised funds. These popular accounts enable donors to bunch smaller gifts into one large amount and take a deduction in the year of the gift. The donor can then designate charities as recipients later. Meanwhile, the assets can be invested and grow tax-free, although the accounts have fees.

Donors who are 70½ or older have another good strategy if they have individual retirement accounts. Many can benefit from contributing up to $100,000 of IRA assets directly to one or more charities.

—*Laura Saunders*

MEDICAL-EXPENSES DEDUCTION

After considering ending it, lawmakers retained this write-off and made it slightly more generous

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An attempt by the House to end the deduction for medical expenses provoked an intense reaction because it would have affected people in nursing homes and those with expensive chronic illnesses.

7.5%
Income threshold above which medical expenses are deductible for 2018

In the end, lawmakers retained the deduction and made it slightly more generous. They lowered the threshold for taking the write-off from 10% to 7.5% of income for tax year 2017 and made it apply for 2018 as well. Thus, taxpayers can deduct eligible expenses for 2018 if they exceed 7.5% of income.

In 2019, the threshold rises to 10% of adjusted gross income for all filers.

Expenses that qualify include many out-of-pocket costs not typically covered by health insurance. Among them are nursing-home costs, insurance premiums paid with after-tax dollars, prostheses, eyeglasses, and even a wig if needed after chemotherapy, among others.

This deduction is only available to filers who itemize. For more details, see IRS Publication 502.

—Laura Saunders

ALIMONY

Future alimony payments are expected to shrink as a result of the overhaul

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The overhaul made a major change to the tax status of alimony payments. Payers won't be able to deduct alimony on their tax returns for divorce and separation agreements signed after 2018.

At the same time, future alimony recipients will no longer have to report these payments as income, making the tax treatment of them similar to that for child support.

Deductions will still be allowed for alimony paid as a result of agreements signed in 2018 and before, and such payments will still be taxable to recipients.

Divorce specialists say that in many cases, the overhaul's changes to alimony will be negative for both members of the couple because the payer and the payee often are in very different tax brackets.

The move "changes the economics of many divorces," says Madeline Marzano-Lesnevich, a New Jersey-based lawyer and national head of the American Academy of Matrimonial Lawyers. She said the payments to lower-earning spouses are likely to shrink as a result.

Alimony, also called maintenance, is typically used when one spouse of a divorcing couple earns far more than the other. Alimony payments continue for a period of years and help defray the expense of splitting one household into two.

—Laura Saunders

OTHER DEDUCTIONS

Many write-offs have been curtailed, including those for unreimbursed employee travel expenses

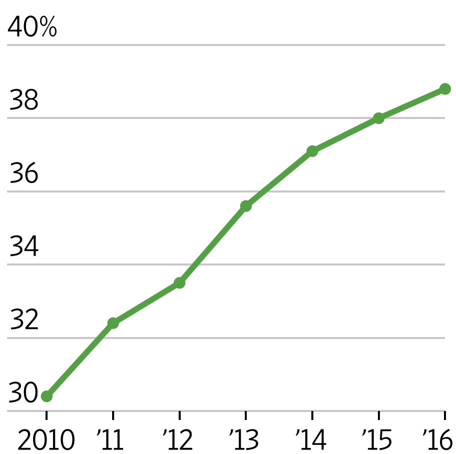
While taking aim at major write-offs like mortgage interest and state and local taxes, the tax overhaul also suspended many other deductions or imposed new limits on them. These changes generally expire at the end of 2025.

On Schedule A, Congress eliminated deductions for miscellaneous expenses, a grab bag of items. The change removed deductions for unreimbursed employee expenses for travel, meals and entertainment; union dues; uniforms; subscriptions; safe-deposit box fees; and tax-preparation fees; among others.

Also gone is the deduction for investment-advisory fees. This change affects investors who pay fees for advice based on a percentage of their assets, including many with tax-efficient separately managed accounts. It also hits investors in hedge funds or other funds structured as partnerships, if they owe tax on profits before hefty fees are deducted.

Under Advisement

Assets in fee-based accounts as a percentage of total investment assets



Source: Aite Group

THE WALL STREET JOURNAL.

Many taxpayers found the miscellaneous-expenses deduction hard to qualify for, because total eligible expenses had to exceed 2% of adjusted gross income.

Also on Schedule A, lawmakers curtailed the deduction for most casualty and theft losses other than from federally declared disasters. Some other itemized deductions are still allowed, such as for certain gambling losses. They are listed in the instructions for Schedule A.

Elsewhere on the return, Congress ended the deduction for moving expenses by taxpayers who aren't in the military. However, educators can still deduct up to $250 of personal expenses for classroom supplies, even if they don't itemize.

—Laura Saunders

RETIREMENT AND EDUCATION

RETIREMENT SAVINGS

The overhaul changed the timeframe of 401(k) loan repayments, ended savers' ability to 'undo' Roth IRA conversions

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Lawmakers backed off a controversial proposal to lower the amount Americans can contribute before taxes to 401(k) and similar retirement-savings plans. But they did make other changes affecting savers who have these plans.

Savers who leave a company with a 401(k) loan outstanding now have until the day they file their federal tax return to repay the loan. Under prior law, such employees typically had to repay such loans within 60 days of departure or pay income tax on the loan's balance and in some cases a 10% penalty.

CHANGE FOR ROTH IRAS

The legislation also ended the ability of savers to "undo" Roth IRA conversions and thus nullify tax bills they would owe.

With a traditional IRA, savers typically get a tax deduction for contributions and owe ordinary income tax on withdrawals. With a Roth IRA, there is no upfront tax deduction, but withdrawals are usually tax-free in retirement.

Savers can also convert all or part of a traditional IRA to a Roth IRA, but they owe income tax on the conversion. Future tax-free withdrawals from the Roth account won't push the saver into a higher tax bracket or trigger higher Medicare premiums.

Until the overhaul, savers could also undo a Roth conversion by "recharacterizing" it by the October tax-filing date of the year following the original conversion.

Reasons for undoing the conversion typically include a lower account balance than at the time of the switch, or a lack of cash to pay the tax bill.

Roth conversions completed in or after 2018 can no longer be undone.

—Anne Tergesen

RETIREE TAX ISSUES

The overhaul didn't change the taxation of Social Security benefits or retirement-plan distributions, but the large increase in the standard deduction will benefit many retirees

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A key change of the overhaul will be positive for many retirees: the near-doubling of the standard deduction. For individuals it is $12,000 for 2018 and $12,200 for 2019, while for married couples filing jointly it is $24,000 for 2018 and $24,400 for 2019.

The standard deduction is the amount taxpayers can deduct if they don't list write-offs for state taxes, charitable donations, mortgage interest and the like on Schedule A. Many retirees who have paid off their mortgages take the standard deduction.

The expanded standard deduction expires at the end of 2025.

The overhaul also retained the "additional standard deduction" for people age 65 and older. It is $1,600 for singles and $1,300 for each spouse in a married couple for 2018. For 2019, this write-off rises to $1,650 for singles and remains $1,300 for each spouse of a married couple.

ADDITIONAL STANDARD DEDUCTION
People age 65 and older are eligible to take the additional standard deduction for 2018:

- $1,600 for singles
- $1,300 for each partner of a married couple

As a result of these changes, many retirees will see an after-tax income boost, even with the elimination of the personal exemption.

Here is an example. Say that Henry and Lois are a married couple, ages 67 and 65, with no children at home. Under prior law for 2018, they would have had a standard deduction of $13,000, additional deductions of $2,600, and personal exemptions totaling $8,300, for a total of $23,900.

Under the new law for 2018, Henry and Lois will get a standard deduction of $24,000, plus an additional standard deduction of $2,600, for a total of $26,600—or $2,700 more.

NO CHANGES TO IRA CHARITABLE TRANSFERS

The overhaul didn't change charitable transfers from individual retirement accounts, or IRAs. This popular benefit allows retirees 70½ or older to donate IRA assets up to $100,000 directly to one or more charities and have the donations count toward their required annual payout.

For IRA owners who give to charity, this is often a tax-efficient move. Donors can still take the standard deduction and receive a tax break for their giving.

While there is no deduction for gifts of IRA assets, the withdrawal doesn't count as taxable income. This can help reduce Medicare premiums that rise with income and taxes on other investment income.

—Laura Saunders

529 EDUCATION-SAVINGS ACCOUNTS

These plans can now be used to pay up to $10,000 of private-school tuition, but clarifications are needed in some states

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The overhaul made so-called 529 accounts more flexible—but there is also a downside.

Named after a section of the tax code enacted two decades ago, 529 accounts allow savers to contribute dollars after federal taxes have been paid on them. The assets are invested and can grow free of federal and state taxes.

Withdrawals from the accounts are tax-free if they are used to pay eligible education expenses such as college tuition, books, and often room and board.

These plans are popular with middle- and upper-income families. According to Mark Kantrowitz, publisher of savingforcollege.com, assets in 529 plans grew to $329 billion in June 2018 from $129 billion a decade earlier.

Most 529 plans are offered by states, and nearly all states have them. More than 30 states offer a tax break for contributions, says Mr. Kantrowitz. Savers dissatisfied with their own state's investment offerings or fees can go elsewhere, although investment options are limited in most states.

PAYING FOR K-12 EDUCATION

A big change in the tax law allows 529 plan assets to be used for up to $10,000 per year, per student, for private-school tuition for K-12.

This change provides savers who have a 529 plan with more flexibility.

But private schools will likely want to know about families' 529 savings and may take that information into account when making financial-aid decisions. Those who want to use this new break should also check carefully to make sure that these withdrawals are approved for their specific plan. Several states have clarified that they are, but others—including New York, California, Michigan and New Jersey—have warned account owners that such withdrawals are subject to taxes and other charges.

TRANSFERS TO 529 ABLE ACCOUNTS

In another significant change, the overhaul also enabled savers to transfer funds from 529 plans to 529 ABLE accounts. ABLE accounts are for people who become blind or disabled before age 26, and they don't limit the person's access to Medicaid and Supplemental Security Income, or SSI, benefits.

$15,000
Amount that may be transferred per year from a regular 529 to a 529 ABLE account

Like 529 plans, 529 ABLE accounts allow assets to grow tax-free. Annual contributions are capped at $15,000, and withdrawals can be tax-free if used to pay expenses such as housing, legal fees and employment training. Total assets in an account can reach $100,000 without affecting SSI benefits.

The recent change allows transfers of up to $15,000 a year from a regular 529 plan to a 529 ABLE account. The ability to make such transfers avoids a significant drawback. It is that after the disabled person's death, remaining funds in an ABLE account typically go to the state to repay benefits if the person was receiving Medicaid—as many are.

The assets of a regular 529 plan needn't go to the state at death, however. So under the new rules, someone could fund a 529 account for a disabled person and transfer money from it as needed to a 529 ABLE account, according to Mr. Kantrowitz. This arrangement offers tax-free growth and perhaps a state-tax deduction, without giving up ownership of assets.

Owners of 529 and 529 ABLE accounts who want to use this new benefit should check their state plans to make sure it is allowed.

—*Laura Saunders*

OTHER EDUCATION BENEFITS

The House had planned a major shake-up—but in the end, Congress passed very few changes

Many changes related to education seemed to be on the horizon as the tax overhaul took shape. In the end, Congress didn't enact several that were approved by the House of Representatives.

One of these changes would have repealed tax-free tuition waivers for graduate students, researchers and family members of university faculty and staff. Others would have ended the student-loan interest deduction of up to $2,500 per tax return and a tax benefit for employer-paid tuition.

In addition, Congress didn't enact the House Republicans' changes to the American Opportunity tax credit for college, Coverdell education savings accounts and the Lifetime Learning tax credit.

The overhaul did make an important change for people with student loans who die or become disabled: such forgiveness of debt due to death or disability is no longer taxable. This provision expires at the end of 2025.

For more information, see IRS Publication 970, Tax Benefits for Education.

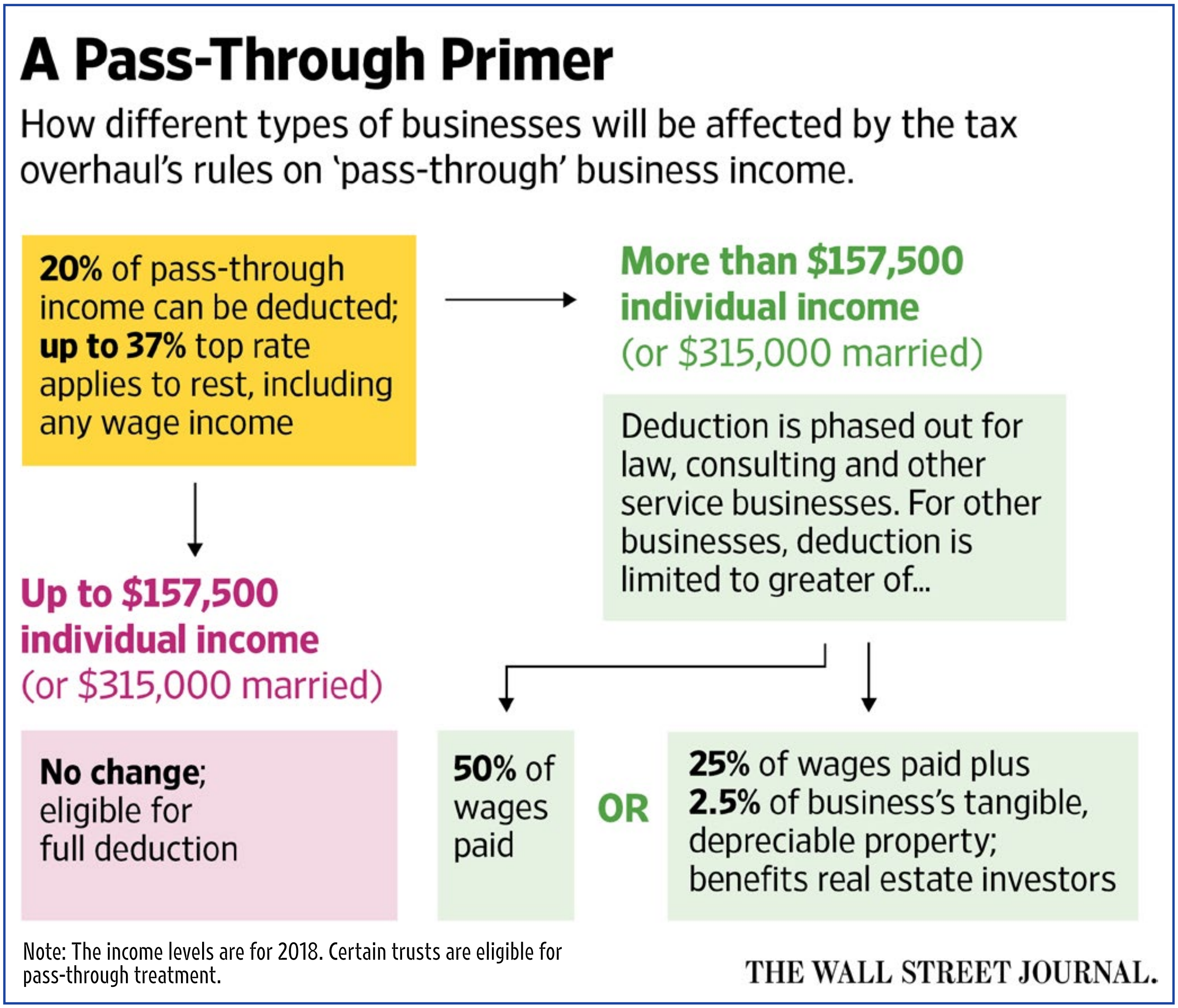
—Laura Saunders

FOR BUSINESS OWNERS

PASS-THROUGH INCOME

Owners of pass-through businesses got a break—
but figuring out who is eligible can be challenging

The overhaul created a new deduction of 20% for many pass-through business owners, making their top tax rate 29.6% instead of the 37% rate that applies to top earners' wages and other income. Lawmakers made the change as a way to assist firms that won't benefit from the cut in the top corporate rate to 21% from 35%.



So-called pass-through businesses include millions of partnerships, limited liability companies, S corporations and sole proprietorships. Regular corporations pay corporate taxes and then shareholders pay a second layer of taxes on dividends. For pass-throughs, their net income flows directly to their owners' personal return and is only taxed once, at the owners' individual rates.

Pass-throughs businesses include large private companies as well as fast-food franchises, manufacturers, investment funds, law firms and mom-and-pop firms.

Pass-through owners can claim the 20% deduction for 2018 if their taxable income is under $315,000 for joint filers or $157,500 for singles. They calculate their business income, take 20% of it and subtract that from total income. It effectively operates like a rate cut on business income.

For 2019, an inflation adjustment lifts the taxable-income limits to $160,725 for single filers and $321,400 for married joint filers, according to the IRS.

Above those income levels, the new law has important limits that are designed to reduce the measure's cost and prevent higher-earning pass-through owners from claiming a business tax break for what is really their own labor income.

High-earning doctors, lawyers, accountants, consultants and other owners of service businesses generally can't claim the 20% deduction. Separate restrictions are tied to the level of wages paid and capital investment.

INCOME LIMITS

Pass-through owners can claim the 20% deduction if their taxable income for 2018 is under:

- $315,000 for joint filers
- $157,500 for single filers

Phase-outs, exceptions and gray areas make this new tax break complex, and tax advisers have been struggling to figure it out, espcially for service businesses. Tax specialists are combing through recent IRS guidance that provides more clarity and cushion for some owners of rental real estate but denies the break to owners of professional sports teams.

—*Richard Rubin*

INTEREST PAYMENTS

The overhaul put a cap on the amount of interest cost that most companies can deduct

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Heavily indebted companies are facing new limits on their ability to deduct interest payments from their tax returns, a change that makes business debt less attractive.

Interest payments have long been deductible, but the tax law creates a cap on that break that will raise $253 billion in tax revenue over a decade, according to the Joint Committee on Taxation. Under the new rule, companies will be able to deduct their net interest costs, but only up to 30% of earnings before interest, taxes, depreciation and amortization.

NO EXCEPTIONS
The law doesn't make any exceptions for debt issued before the law was enacted, so companies that borrowed in the past will be facing the stringent new limits immediately.

The law doesn't make any exceptions for debt issued before the law was enacted, so companies that borrowed in the past will be facing the stringent new limits immediately. And proposed Treasury regulations on the subject create a broad definition of interest that may pinch some companies.

Starting in 2022, unless Congress acts again, the restriction will get even tougher. At that point, the 30% limit will apply to a different measure of income: earnings before interest and taxes. The change would hit even more companies.

Small firms won't be affected. The limit applies only to businesses with average gross receipts of at least $25 million for the preceding three years. Car dealers and other similar companies also will be exempt from the limit on the loans they use to get inventory on their showroom floors.

The legislation exempts many electric utilities from the limit and lets farmers and many real-estate firms opt out of the limit. Real-estate companies don't get the benefit of immediate write-offs for capital investments that tax policy experts view as the trade-off for the interest limits.

—Richard Rubin

DEPRECIATION

The overhaul allowed companies to immediately write off 100% of equipment purchases, an extraordinary—albeit temporary—perk

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Businesses buying equipment are getting an extraordinary new benefit from the new tax law: the ability to deduct the entire cost of their equipment purchases in the first year.

That marked a major change in the income-tax system, replacing the prior framework that required companies to deduct those costs over several years according to depreciation schedules. Economists encouraged Republicans to try what is known as "full expensing" so that companies would have an incentive to make the kinds of investments that can improve productivity, output and wages. Business investments increased quickly in early 2018 but the pace of growth decelerated later in the year.

EPHEMERAL BENEFIT
The 100% write-offs are available for items acquired and used after Sept. 27, 2017, and before 2023. After that, the amount eligible for the deduction declines each year until 2027. Then, regular depreciation schedules resume.

The 100% deductions are an expanded form of the "bonus depreciation" that has been in place for most of the past 20 years. The break is now available to businesses that buy used equipment, not just items that are placed into service for the first time.

There is a catch. The 100% write-offs are even more ephemeral than other tax cuts in the new law. They are available for items acquired and used after Sept. 27, 2017 and before 2023. After that, the amount eligible for the deduction declines each year until 2027, when the regular depreciation schedules resume. Republicans have been trying to make those breaks permanent, but that will become more difficult in divided government.

DEPRECIATION

Many small companies had already been getting 100% deductions for capital investments, under what is known as Section 179 of the tax code. The law retains and expands those rules.

The new rules don't apply to real-estate firms. Generally, they will continue to operate under the old system that includes depreciation deductions and the ability to fully deduct interest costs, which are now limited for most other firms.

—Richard Rubin

THE TAX LANDSCAPE

POLITICAL IMPLICATIONS OF TAX OVERHAUL

The tax law was the GOP's biggest achievement, but it remained unpopular as Republicans tried to use it to win elections

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Republicans hoped their 2017 tax law would be a political winner, putting money into voters' pockets and delivering victories into the GOP column. That didn't happen.

Donald Trump

At its best, the law barely broke even in national polling, and it motivated some Republican voters and campaign donors. But the law showed up in Democratic campaign ads, too, and opposition to the Republicans' biggest legislative achievement with full control of Congress contributed to Republicans' loss of the House majority in the November 2018 election.

Republicans thought that independent voters would welcome a tax cut.

"If we can't sell this to the American people, we ought to go into another line of work," Senate Majority Leader Mitch McConnell (R., Ky.) said in late 2017.

Politically, though, the law suffered from several flaws that proved difficult for Republicans to overcome.

The first significant benefit for individuals came in February 2018, when the IRS released new paycheck-withholding tables. For many workers, that change was nearly invisible—an extra $15 or $20 a week. That helped economically, because the fatter paychecks fueled consumer spending. But that doesn't mean taxpayers linked it in their minds to the tax law, and most people didn't immediately see the larger wage boosts Republicans had promised.

Individual taxpayers won't be able to measure the full effects of the tax law until they file their 2018 tax returns in early 2019. And even then there may be confusion, because people may see their typical refunds increase or decrease and develop an impression about the law. But because of changes in paycheck withholding, they will need to compare their 2017 and 2018 tax returns to see how they actually fared.

In some parts of the country, the give-and-take embedded inside the law fueled opposition. That was particularly true in high-tax states such as New York, New Jersey and California, where Republicans were already struggling to hold on to suburban voters frustrated with Mr. Trump.

The law capped the state and local tax deduction at $10,000, and Republicans openly described the move as a signal to high-tax states. Still, the cap didn't directly affect most voters, who were already getting the standard deduction and not itemizing, according to Internal Revenue Service data. The majority of taxpayers—even in those states—still received tax cuts because of the rate reductions, child-tax credit expansion and limits on the alternative minimum tax that already curbed the deductibility of state taxes.

New York, New Jersey and California voters still felt targeted by the change, and Republicans lost 14 House seats in those three states alone, plus races in Minnesota and Illinois where the deduction cap also was an issue.

Mitch McConnell

On top of that, the politics of tax cuts have shifted in the past 20 years. President George W. Bush pushed his tax cuts through Congress at a time of projected budget surpluses, using the message that taxpayers were being overcharged and deserved their money back.

Amid large budget deficits, the Republicans' defense of their deficit-financed tax cuts was tougher to sell than it was during the Bush years. Democrats in Congress were unanimous in their opposition to the law. In campaigns, they could parry the GOP attacks by pointing to priorities on infrastructure, education and health care and arguing that there were better uses for the $1.5 trillion that the tax law was projected to cost over a decade in reduced revenue.

The composition of the tax cuts hurt Republicans, too. They drove the corporate rate down from 35% to 21%, reflecting a bipartisan consensus that the corporate tax rate needed to decline to follow other countries' moves. That consensus didn't necessarily extend to voters, who have consistently said corporations don't pay enough.

Republicans touted the bonuses that hundreds of companies linked to the tax cuts. Democrats countered by pointing to companies' plummeting tax rates and rising stock buybacks.

During the campaign, President Trump was an uncertain messenger for the tax law he signed, at one point literally tossing a tax speech aside and proclaiming it boring.

House Republicans tried to keep up the momentum, pushing through a bill to extend the breaks and warning that Democrats would increase taxes if given the chance. The bill never came up for a Senate vote, and it was just one of several messages for GOP candidates.


Nancy Pelosi

The tax cuts weren't the primary issue that Republican candidates talked about during the 2018 midterms. The GOP's closing themes were immigration and opposition to House Democratic leader Nancy Pelosi of California.

Mrs. Pelosi is now the House speaker again, and she has partial control over the law's fate. In the short term, the new House Democratic majority will hold hearings on whether the law is working and begin attempts to roll it back. The biggest potential changes—raising the corporate tax rate or reshaping the international tax system—will run into roadblocks in the Republican-controlled Senate.

Lawmakers may also pursue technical corrections sought by the Trump administration and congressional Republicans, though Democrats may demand a price for that.

POLITICAL IMPLICATIONS OF TAX OVERHAUL

In the longer run, the fate of the tax law will be bound up in the country's next political debate, the 2020 presidential and congressional elections. Republicans will be running to protect their achievement, pointing to continued economic growth as proof that their plan is working.

Democrats, by contrast, see a chance to reverse parts of the tax law that benefit high-income people and corporations and use the money to pay for their priorities.

The 2017 tax law, partisan in its design and passage, didn't end the political fight over taxes. It just deepened that fight, hardened the battle lines and advanced the feud to the next phase.

—Richard Rubin

THE ECONOMIC IMPACT

Economists expected a boost in the first two years after the law was passed, but longer-term effects remain less clear

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President Trump and Republicans bet that the 2017 tax overhaul would invigorate the U.S. economy after a long but slow expansion, putting controversial economic theories about growth to a crucial test.

A broad measure of business investment surged early in 2018 but slowed in the second half of the year, in part reflecting changes in energy prices. Shipments of capital goods tailed off after rising briskly early in the year.

Some economists have said uncertainty over trade, aggravated by tariffs imposed by Mr. Trump in 2018, might dull the business-investment boost the large cut in the corporate-tax rate was designed to spur.

3%
U.S. economic output expansion for the 12-month period ended Sept. 30, 2018

Lower individual rates and fewer breaks for households are designed make the economy more efficient and put more money in the pockets of people to decide on their own whether to spend or save. Revamping tax laws governing profits earned abroad is designed to bring home corporate funds parked overseas and encourage new investments to happen in the U.S.

U.S. economic output expanded by 3% for the 12-month period ended Sept. 30, 2018, up from a gain of 2.3% a year earlier.

Economists expected the tax cut to boost the gross-domestic-product growth rate for a year or two, but they also expected GDP to accelerate because Congress approved a two-year, $300 billion federal spending boost.

Goldman Sachs Group Inc. revised up its growth forecasts for 2018 and 2019 by 0.8 percentage point and 0.5 percentage point, respectively, to 3.1% and 2%. Roughly half of the boost came from the estimated effects of the tax cut, and half came from the federal spending increase.

MIXED HISTORICAL EVIDENCE

It is less clear whether tax cuts can raise the economy's growth rate over a longer period of time. For that to happen, the tax cuts will need to spur an increase in business investment. Goldman still sees long-run potential growth at 1.75%.

History offers mixed evidence. Economic growth advanced solidly in the 1960s and 1980s after Democrats and Republicans lowered individual and corporate rates, but growth languished in the 2000s after two rounds of tax cuts. Moreover, a tax increase on top income earners in the early 1990s didn't hamper a burgeoning economic boom.

$1 Trillion

Increase in budget deficit over coming decade attributable to tax cut, as estimated by independent budget analysts

The Trump administration says sustained growth rates of 3% or more are possible after a decade of near 2% growth. To get there, the economy must overcome significant headwinds that include an aging workforce full of retiring baby boomers and sluggishness in worker productivity that economists are struggling to understand. A December 2017 Wall Street Journal survey of private-sector economists showed that nine out of 10 professional forecasters expect the tax bill law to boost the U.S. growth rate in the next two years, but with most seeing a modest increase. Forecasters are split on long-term effects, with nearly half saying growth will eventually return to or fall below the pace that prevailed before the tax cut took effect.

If the tax cut doesn't deliver the long-term growth Republicans have promised, larger deficits are likely. Independent budget analysts that evaluated the bill for Congress say the cuts will drive deficits higher by $1 trillion over a decade even after accounting for the benefits of stronger growth.

CORPORATE OPTIMISM

For months leading up to passage of the tax cuts, and for several weeks after, markets rocketed higher. "For the first time in several decades, tax reform enables us to competitively consider investment in the U.S.," Amgen Inc.'s Chief Financial Officer David Meline said in a conference call with analysts after the tax cut. Three-quarters of its $3.5 billion in capital spending over the next five years will be in the U.S., up from about half in recent years, he said.

But markets' optimism turned to concern in the fourth quarter of 2018, when rising worries over a global growth slowdown and higher interest rates buffeted investors. Stock markets ended the year down for the first time since 2008. Nearly half of U.S. corporate finance chiefs surveyed by Duke University in December 2018 predicted the U.S. economy would be in recession at the end of 2019, while four in five predicted a recession would have begun by the end of 2020.

One issue is whether Washington and Beijing can avoid escalating trade tariffs that have the potential to raise costs and revamp global supply chains.

Companies take time to plan their investment decisions, "but then if you see the price of steel goes up, you see the price of machinery goes up, it makes it less and less compelling to build those factories," former Trump economic adviser Gary Cohn told CNBC in January 2019. "My view is that investment will come when there is more and more clarity in what our trade relationships are with countries around the world."

The market softness in 2018 showed the difficulty in teasing out how much corporate optimism is due solely to tax cuts and how much is due to broader economic trends. Walmart Inc., for example, announced it would raise starting pay for hourly workers to $11 in February 2018. But it has done that before. The pay increase follows two others, in 2015 and 2016, when the retailer boosted starting wages to $9 and $10 an hour, respectively.

"I don't get up in the morning and take my after-tax income and figure out how I'm going to spend it," said Joel Shine, chief executive of Woodside Homes Inc., which builds homes in four Western states. "That's driven more by whether you see opportunities to drive expansion in your product areas."

In December 2018, Apple Inc. announced a $1 billion, 5,000-person Texas project, part of an earlier promise to invest $30 billion and create 20,000 U.S. jobs over five years. The tax law offered Apple and other multinational companies a measure of certainty and made it easier to use their foreign profits in the U.S.

"There are large parts of this that are part of the tax reform," CEO Tim Cook told ABC News in January 2018, "and there's large parts of this that we would have done in any situation."

HOUSING MARKET'S WINNERS AND LOSERS

The housing market illustrates how the GOP tax bill created winners and losers. Stronger job growth and consumer confidence should boost overall housing demand, particularly from nearly five in six households who should enjoy stronger purchasing power as their after-tax income rises.

But some changes—such as caps on the deductibility of state and local income and property taxes—made housing less affordable in expensive metro areas situated in high-tax states, such as New York, San Francisco and Washington, D.C.

The fiscal stimulus also influenced interest-rate policy in 2018 because it convinced more officials at the U.S. Federal Reserve of the need to keep lifting interest rates.

The upshot is that high-end housing markets saw a notable pullback in housing demand in 2018, with inventories of homes for sale rising after several years of declines. Higher after-tax housing costs and rising interest rates robs sellers of the strong pricing power they had enjoyed for several years, when rates were lower.

Fed officials raised their short-term benchmark rate four times in 2018, to a range between 2.25% and 2.5% in December 2018 from a range between 1.25% and 1.5% one year earlier. That was up from a baseline projection of three interest-rate increases before the tax cut passed.

In January 2019, amid rising market volatility and the risks of slower growth abroad, the Fed signaled it was moving to the sidelines until it could see more evidence of stronger demand and inflation.

More stimulus also could lead to bigger deficits later. Goldman and J.P. Morgan expect deficits to rise from $664 billion in the fiscal year ended September 2017—or around 3.4% of GDP—to $1 trillion, or 5% of GDP, in 2019. Larger deficits, in turn, could push up borrowing costs further and also leave the government with less capacity to fight the next downturn.

The economy, in other words, is enjoying an upswing now, but may pay a price for it down the road.

—Nick Timiraos; with contributions by Theo Francis and Richard Rubin

WHAT INVESTORS NEED TO KNOW

Companies are beginning to understand how the tax rules could reshape their operations

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A little more than a year on, companies are only just gearing up to put the 2017 tax overhaul to work.

For investors, that means it is time to keep a close watch on whether—and how—companies begin to adjust their operations to the new tax reality.

Much of the biggest change in the first year was on paper. First came the dramatic charges to earnings from accounting adjustments and big one-time tax bills. Then, as the Treasury Department and the Internal Revenue Service began issuing sheaves of guidance and new regulations to implement the tax law, companies calculated—and sometimes recalculated—the impact on their financial statements.

Many of the new tax rules remain in preliminary form. But the outlines are firm enough that companies are beginning to understand how they could reshape operations and refashion existing plans.

What remains unclear is just how they will take advantage of this new landscape. The changes are complex enough—most of the rules governing international tax are wholly new, for example—and interlocking enough that there are few rules of thumb: What works for one company may not for another.

Still, understanding some basics about the tax legislation can help investors evaluate new disclosures in the months and years ahead. Here is a closer look at some of those basics:

FOREIGN PROFITS

The tax law's shift to a type of territorial tax system has the potential to pay off for multinational companies for years to come. Under the former tax system, when companies committed to reinvesting foreign profits outside the U.S., they could avoid paying U.S. tax on the profits indefinitely. Now, new payments from foreign affiliates to U.S. parent companies should generally go untaxed by the U.S., with exceptions meant to discourage multinationals from artificially shifting profits to tax havens.

All told, companies over the next decade can expect to save $223.6 billion in the form of reduced taxes on foreign profits, according to congressional estimates.

$571.3 Billion
Amount shifted by U.S. companies to their U.S. operations from foreign subsidiaries through late September

And that probably underestimates the value of other benefits to companies. With taxes on foreign income greatly reduced, executives say they will have readier access to their cash and more flexibility in how they spend it.

Through late September, U.S. companies shifted $571.3 billion to their U.S. operations from foreign subsidiaries, far more than in past years but still only a portion of the estimated more than $2 trillion they had accumulated overseas over the years. And the transfers slowed sharply during the year: By the third quarter, repatriations from foreign units fell below foreign profits—meaning they were once again accumulating profits outside the U.S.

What remains less clear is where and how companies are going to spend it. So far, much appears to have gone to share buybacks. S&P 500 companies set three consecutive quarterly records for share repurchases, reaching $203.8 billion in the third quarter, according to S&P Dow Jones Indices. Dividends, too, set a record in 2018, at $456.3 billion.

How much firms plowed into capital expenditures is less clear. Most companies have been slow to tie new U.S. investment to the tax overhaul. Biotech firm Amgen Inc. said in early 2018 that it would spend three quarters of its five-year, $3.5 billion capital program in the U.S., up from 50% previously. Apple Inc. announced, to much fanfare, a $1 billion, 5,000-person Texas project as part of its earlier commitment to invest $30 billion and create 20,000 U.S. jobs over five years. Overall, federal data suggest, capital spending surged early in 2018 before slipping back to more typical growth trends.

Better access to foreign profits appears to also be affecting corporate borrowing demand, Bank of America Corp. Chief Financial Officer Paul Donofrio told investors early this year. “Tax reform has increased cash flow and repatriation has also increased cash available for debt paydowns,” he said in a mid-January conference call. He said the company’s expectations for loan growth in the near term hasn’t changed.

$1.35 Trillion
Estimated tax savings of U.S. companies through 2027 from the lowering of the corporate-tax rate to 21% from 35%, before considering tax breaks eliminated by the same legislation.

Multinational firms previously borrowed heavily to pay dividends, buy back shares and invest in the U.S., because it was cheaper than using foreign profits and incurring U.S. taxes in the process.

Now, there are signs those companies are reducing their debt loads, freeing up yet more future income and cash for operations or returning capital to shareholders. Boilermaker A.O. Smith Corp. said in late October that it had repatriated almost $300 million, which went to repurchasing shares and paying down floating-rate debt.

The biggest winners remain those companies that had accumulated huge troves of cash parked overseas—primarily tech and pharmaceutical firms, but also some large industrial, financial and consumer-products companies.

LOWER RATES FOR MOST

Most of the tax benefits for U.S. companies have remained right here at home. Reducing the corporate tax rate to 21%, Congress estimated when the law was passed, would save companies $1.35 trillion in taxes through 2027 before considering tax breaks eliminated by the legislation. Companies stand to save another $40 billion over the decade thanks to the elimination of the corporate alternative minimum tax. The corporate AMT previously limited the degree to which many companies could reduce their domestic taxes with deductions and credits.

Those benefiting the most are domestic-focused companies and others that used to pay close to the old 35% statutory tax rate. Organic- and natural-foods distributor United Natural Foods Inc., which has been a big supplier to Amazon.com Inc.'s Whole Foods supermarket chain, said its effective tax rate for continuing operations declined to 16.6% in the quarter ended Oct. 27, from 41.8% a year earlier. Darden Restaurants Inc. reported an effective tax rate of 8.5% in the six months ended Nov. 25, down from 23.1% a year earlier, and said it expects a full-year tax rate of 10% to 11%. Mutual-fund firm T. Rowe Price Group Inc. recently said it expects its 2019 effective tax rate to fall between 23.5% and 26.5%, down from closer to 34% before the tax overhaul.

Companies with hefty foreign operations—and especially those depending more on income from intellectual property, or which shifted patents and profits to low-tax foreign havens—have seen their tax bills shrink less, or even rise. Many tech and pharmaceutical giants fall into this category.

ACCELERATED DEPRECIATION

The new tax law gives companies a big break when they buy stuff. This break—full and immediate depreciation for purchases—applies to a variety of tangible assets, including factory equipment, machinery and vehicles acquired after late September 2017 and phasing out after 2022 for most purchases. Previously, such deductions were spread over longer time-periods.

There is a twist: The accelerated depreciation applies not only to new assets, but to used assets as well. Still, don't expect a dramatic, direct impact on profits for publicly traded companies. From a financial-accounting perspective, companies have long had to book full deductions on equipment purchases upfront.

But from a cash perspective, it is a big change that can mean significantly less taxes paid in the wake of big purchases. It helped boost equipment sales early in 2018.

The tax break can also help corporate acquisitions, too, to the extent the acquisition involves tangible assets. For deals structured as asset purchases, buyers can get as much as a 21% discount on the cash purchase price thanks to the new depreciation rules. Acquiring a partnership is automatically treated as an asset purchase, while the same treatment can apply to acquiring other pass-through entities, such as S corporations or divisions of C corporations.

That has big implications for companies that acquire smaller local or regional competitors.

Stock acquisitions, such as when one public company acquires another, don't qualify. But acquiring a division of a public firm can be structured as an asset purchase that qualifies for the immediate deduction. And note that regulated utilities don't get the new capital-expensing treatment; they gave it up to keep existing interest-deduction rules, which changed for most companies.

VANISHING BREAKS

Some existing tax breaks vanished or shrank sharply, including one for domestic manufacturers (saving the federal government $98 billion over 10 years) and one for pharmaceutical companies developing "orphan" drugs for rare conditions ($32.5 billion). Like-kind exchanges—where two companies trade similar assets and postpone any tax impact—are now limited to real-estate swaps (saving Uncle Sam $31 billion in forgone revenue). And some fringe-benefit deductions were scaled back ($41.2 billion).

Mostly, however, companies view these minuses as a small price for significantly lower tax rates and the new territorial tax system.

INTEREST DEDUCTIONS

For some companies, that change to interest-expense deductions can be substantial.

Previously, companies could generally deduct the interest they paid each year. Now they may deduct no more each year than 30% of a figure similar to Ebitda, or earnings before interest, taxes, depreciation and amortization, plus the value of interest income. Surplus interest expense can be carried forward indefinitely, however, and no longer expires. Auto and other vehicle dealers have special rules, and real estate and regulated utilities generally aren't affected.

Many companies haven't been seriously affected by this change, but highly leveraged companies can feel a pinch. One analysis found that the health-care sector had the biggest proportion of public companies in 2016 with interest payments in excess of the threshold, at more than 75%, followed by energy, at about 70%, and business-equipment firms, at 45%. By contrast, about a third of chemical companies paid more interest than they could deduct under the new rules. Starting in 2022, the interest-deduction limit is slated to get more strict and affect more companies.

The legislation also reined in the degree to which companies may use net operating losses to reduce future taxes—and eliminated the ability to get retroactive refunds. That could make it tougher for companies to recover from unexpected downturns or other setbacks, bankruptcy experts say.

GUARDRAILS

The U.S. will continue to tax some foreign earnings of U.S. companies.

Complex provisions attempt to prevent U.S. firms from abusing the new tax law by artificially shifting income to ultra-low-tax havens overseas. Rules to implement these guardrails have been proposed, but still must be finalized. One, the base erosion and anti-abuse tax, or BEAT, applies to large companies with at least $500 million in gross receipts and significant cross-border transactions with related entities. For the provision to raise a company's taxes, at least 3% of a firm's tax deductions must stem from cross-border payments to foreign affiliates. (The threshold is 2% for banks.)

Companies to which the BEAT applies must effectively calculate an alternative tax amount without deductions for cross-border payments—then pay that new tax if it is higher than a modified version of their ordinary figure. Certain kinds of deductions aren't stripped out, including for cost of goods sold—so a manufacturer doesn't trigger the additional tax solely because it imports parts from a foreign affiliate.

Although meant primarily to prevent companies from "stripping" U.S. profits by transferring them to foreign units without paying U.S. tax, the measure is snaring plenty of big service companies, including Western Union Co., Accenture PLC and Willis Towers Watson PLC.

The other primary guardrail, dubbed the global intangible low-taxed income tax, or GILTI, serves to set a floor on the tax companies pay on foreign income, whether to U.S. or foreign tax authorities. In effect, multinational firms that pay less than a minimum 10.5% to foreign jurisdictions on foreign income must make up the difference to the IRS. That minimum tax is applied to foreign income over a threshold based on the company's foreign tangible assets. The idea: Income over that threshold is more likely to be generated by patents, trademarks and other intellectual property easily stashed in low-tax havens.

Some companies have been struggling with GILTI and warning that its interactions with pre-existing tax laws mean they may pay the U.S. even though they are already paying substantial foreign taxes.

Investors can expect guardrails to mostly affect large companies that have successfully pushed their tax rates down by housing intellectual property in low-tax jurisdictions such as Ireland or Luxembourg. Foreign firms are particularly wary of the BEAT. Foreign banks, too, face exposure, although the rules put forward by the Treasury late last year provided a measure of relief.

The legislation's international provisions also offer a tax cut for U.S. firms that sell their goods or services overseas, generating what the law dubs foreign-derived intangible income. The provision provides a deduction for foreign sales of U.S. produced goods and services above a threshold based on the company's tangible assets, effectively bringing tax on that income down to 13.125%.

Few companies have yet disclosed how they expect the provision to affect them, however, and the effective tax rate on such income rises to 16.4% in 2025. That, plus the risk of challenges from foreign countries calling the measure an unfair trade subsidy, leave it unclear how likely companies are to change their operations to benefit from the provision.

Glassmaker Corning Inc. says its tax rate will rise to between 20% and 22%, from a core rate of about 17% in 2017, in part because of the international provisions.

Foreign firms are particularly wary of the BEAT. Swiss chemical manufacturer Clariant International Ltd. says it expects to pay millions more in taxes to the U.S. because of it, though the company also expects to benefit from the lower U.S. corporate tax rate.

—Theo Francis

THE OVERHAUL AND YOUR INDUSTRY

How a deep cut in the corporate tax rate and other changes affect businesses

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Most U.S. companies stand to benefit from the new tax law, which lowers the corporate tax rate to 21% from 35%. The biggest beneficiaries are corporations that get most of their revenue from domestic operations, such as banks, retailers and telecommunications companies.

The benefits will vary for other sectors, depending on how much revenue they generate overseas, what kind of deductions they take, and how their industry was affected by changes to the tax code for individuals.

Here is a look at some of the industries.

BANKS

Banks have been among the biggest beneficiaries of the tax overhaul, reaping billions of dollars in savings after the corporate tax rate was cut to 21% from 35%.

In the past, banks had tended to pay more in taxes than big companies in other sectors, since so much of their business is centered in the U.S. That means the big drop in the tax rate benefited them even more.

J.P. Morgan Chase, Bank of America and Wells Fargo all had effective tax rates in the high teens or low 20s during 2018, excluding one-time items—a sharp drop from the past, when the biggest banks' tax rates tended to be in the high 20s or low 30s.

That meant the banks kept much more of the earnings they generated. Together, the four biggest national banks—J.P. Morgan, BofA, Wells Fargo and Citigroup—saved more than $11 billion in 2018 by paying taxes at their new lower effective rates, according to an analysis by The Wall Street Journal.

Some of those profits flowed back to bank employees. Some banks said they would give $1,000 bonuses to many employees, raise their minimum wage to $15 an hour or higher, or both.

Banks had to go through some pain first to reach those benefits. Within weeks after the tax overhaul was enacted, many big banks recorded big upfront charges to their 2017 earnings that the new law required them to take immediately, largely to write down the value of their deferred tax assets and record one-time taxes on their earnings from outside the U.S. Citigroup took the biggest hit, $22.6 billion, but other banks had sizable charges as well—$4.4 billion at Goldman Sachs, and $2.9 billion at BofA.

But once past that, the lighter tax bills boosted the banks' financial performance, and will keep doing so in 2019. Wells Fargo, for instance, has said it expects its effective tax rate to be about 18% in 2019, excluding any unanticipated items.

One thing the lower tax rate won't do any longer, however, is contribute to banks' year-over-year earnings growth. In 2018, the banks' growth rates benefited from comparing current periods with the new lower tax rate against year-ago periods with the old higher tax rate—and banks derived a big portion of their growth from those savings.

—Michael Rapoport

DRUGMAKERS

Multinational drug companies were big beneficiaries from the tax overhaul because they generate a good chunk of their sales outside the U.S. and had been keeping billions of dollars overseas to avoid having to pay U.S. taxes on the sums. They now have an opportunity to repatriate that money at a preferential rate.

With taxes falling, drug-company profits have soared, according to a Wall Street Journal review of securities filings for the first nine months of 2018.

Drugmakers' income-tax expenses fell 24% to $10.97 billion during that period. This helped boost their combined net income by 8.8% to $59.97 billion, despite a 1% decline in total sales.

AbbVie Inc., maker of the world's top-selling drug Humira, reported one of the biggest drops in its income-tax expense. It said its tax rate, adjusted to exclude certain items, dropped to 8.7% for the entirety of 2018 from 18.9% in 2017 as a result of the new tax law.

The changes helped fuel a 43% increase in AbbVie's net income to $7.51 billion. The company also repurchased $9.96 billion of its shares in the first nine months of 2018, versus $905 million a year earlier.

Overall, the 10 biggest U.S. drug makers by sales together bought back about $52.4 billion of their own shares in the first nine months of the year, more than double the $21.7 billion they repurchased in the year-earlier period, according to the Journal analysis.

Amgen Inc. boosted its repurchases by one of the largest amounts, to $15.67 billion from $2.37 billion. The company also chose to build a new plant in Rhode Island rather than overseas due to the tax changes, it told the Journal in December 2018.

The surge in buybacks prompted criticism from Democratic lawmakers, who faulted drugmakers for using savings from the tax overhaul to buy back shares rather than lower drug prices.

Drug companies responded to lawmakers' criticism by saying they had used their tax savings in a variety of ways beyond share buybacks, such as boosting employee compensation, investing in U.S. facilities and making donations, while also cutting the prices of some drugs.

—Jonathan Rockoff and Peter Loftus

REAL ESTATE

The tax-code overhaul that partially wiped out decades-old perks designed to encourage homeownership is slowly beginning to reshape the housing market and give an extra push to those considering fleeing high-tax states.

By almost doubling the standard deductions for individual and joint tax filers, the law blunts the advantage of the mortgage-interest deduction. The overhaul also capped the deduction for state and local taxes at $10,000, a blow to homeowners in high-tax states.

Taken together, the changes diminish significantly the perks of homeownership built into the tax code. Zip codes for areas that rely most heavily on the state and local tax deduction saw home values grow nearly a percentage point more slowly in December than zip codes that rely least on the deduction, according to data from Zillow provided to The Wall Street Journal. That is a shift from November 2017, before the tax overhaul passed.

Despite the changes, U.S. home prices are still growing. But they are expected to be about 4% lower in the summer of 2019 than if there had been no change to the tax code, according Moody's Analytics. In pricier markets in states like New Jersey, New York, Illinois and Pennsylvania, prices could be as much as 10% lower than they otherwise might have been, Moody's said.

—*Laura Kusisto*

RETAILERS

As an industry that pays one of the highest average corporate-tax rates, retailers have been one of the largest beneficiaries of the new tax legislation, which lowered the rate to 21%.

Retailers have mostly U.S.-based operations and little manufacturing or research and development, so they don't usually benefit from deductions on those activities.

The tax cut could have significant effects on an industry spending heavily to fight Amazon.com and adapt to shifting consumer habits. Traditional retailers have generally paid higher taxes than online retailers like Amazon.

Most retailers pushed hard in favor of the Republican tax plan since beating back a border-adjusted tax idea included in early proposals that would have imposed taxes on imported goods. The majority of retailers sell large amounts of imported products, so any such tax could have eaten away at earnings and resulted in higher costs that retailers said would have to be passed to consumers.

Since the tax overhaul passed, retailers including Walmart, Home Depot and Lowe's have announced investments in wages, parental leave benefits and one-time bonuses for hourly workers, saying the timing of some of those efforts are linked to the new tax law. Both Lowe's and Home Depot said the new tax code would eat into profits at first, related to the companies' plans to repatriate offshore earnings, but it added to profits in the following fiscal year.

—Sarah Nassauer

TECHNOLOGY

The drop in the corporate tax rate to 21% from 35% boosted the profits of most companies, but those gains were partially offset by one-time mandatory levies on the huge overseas cash stockpiles they accumulated under the old system.

The tax overhaul gave incentives for American businesses to bring their estimated $2.5 trillion in offshore profits back to the U.S. Where they once paid up to 35% on profits brought to the U.S., they may not have to pay much in additional U.S. taxes on future overseas profits.

But there was a catch: All companies were forced to pay a one-time tax on the overseas profits they have accumulated, at 15.5% on cash and liquid assets and 8% on other assets, including factories and equipment. The tax is due regardless of whether they bring it home or not, though companies may choose to pay it over eight years. Businesses generally booked this tax as a one-time charge in the final quarter of 2017. Apple said it would pay $38 billion in taxes and return the majority of its overseas cash to the U.S. over time.

The taxes companies pay on these profits will vary somewhat, depending on both the size of the profits and how they have been invested. Technology companies tend to have a larger amount of liquid assets as a share of their overseas stockpile than other industries.

Tech giants had enjoyed low effective tax rates because a portion of their profits accumulated in low-tax foreign jurisdictions. Many tech companies had been able to shift intellectual property abroad and then book their non-U.S. profits with minimal foreign taxes. The old system them encouraged them to keep those profits abroad.

Tech firms paid an average tax rate of 24% over the 10-year period through 2016, below the 29% average tax rate for all companies in the S&P 500 for that period and lower than any other industry, according to an analysis of corporate filings by Zion Research Group.

Companies that paid the lowest effective rates may be punished by the new rules, which set a minimum 10.5% tax on wide swaths of future offshore profits. Congress created that minimum tax to prevent tech companies and others that exploit intellectual property from avoiding all U.S. taxes by putting profits abroad.

—Richard Rubin

TELECOMMUNICATIONS

Because most telecommunications carriers' revenue comes from domestic operations, the reduced corporate tax rate is saving many of them billions of dollars each year. Another provision that allows companies to immediately write off the full value of their capital investments through 2022 also offers them big near-term savings.

The law's overall 21% corporate tax rate, down from 35%, lopped billions of dollars off telecom companies' federal obligations in 2018. AT&T booked a more than $20 billion paper gain at the end of 2017 after the tax law slashed its deferred tax liabilities. Verizon Communications reported a nearly $17 billion gain for the same reason.

Both companies told investors their cash tax payments would be higher this year than in 2018, though their effective tax rates still sit in the low-to-mid-20s.

Bonus depreciation, a tax benefit that allows businesses to write off the falling value of machinery and equipment upfront rather than over time, gave a windfall to companies like AT&T and Verizon when it was added to the tax code a decade ago. The law extends and expands that stimulus measure, giving big capital spenders an extra break from an already slimmer corporate tax bill.

Network operators are among the biggest beneficiaries of bonus depreciation because of the amount of gear needed to keep their systems up to date. The depreciation write-off will hit as wireless companies ramp up spending on new hardware designed to support fifth-generation, or 5G, networks.

The tax law boosts the amount of spending that companies can immediately write off to 100% from 50% for purchases made through 2022. The percentage would decline after then and expire in 2027.

—Drew FitzGerald and Sarah Krouse

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