December 28, 2017

Dear Client:

Congress has enacted the largest tax reform law in thirty years, which will make fundamental changes in the way you, your family and your business calculate your federal income tax bill. We are anticipating future IRS rules and regulations that will provide us guidance as to how the new tax law will be implemented. Most of the changes that affected the individual taxpayer will start in January 1, 2018 and they will be SUNSET back into the law on December 31, 2025. The changes that affected business will be considered PERMANENT unless Congress introduces a new tax law. For now, here is a summary of most of the tax law changes that will affect you starting in 2018 or later.

Changes that will affect Individual Taxpayers

New Income Tax Rates

Seven tax rates will apply for individual taxpayers (single, married filing jointly, head of household, and married filing separately): 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The Act also provides for four tax rates for estates and trusts: 10%, 24%, 35%, and 37%.

The system for taxing capital gains and qualified dividends will not change, except that the income levels at which the 15% and 20% rate apply were altered (and will be adjusted for inflation). For 2018, the 15% rate will start at $77,200 for married taxpayers filing jointly, $51,700 for heads of household, $2,600 for trusts and estates and $38,600 for other unmarried taxpayers. The 20% rate will start at $479,000 for married taxpayers filing jointly, $452,400 for head of household, $12,700 for trusts and estates and $425,800 for other unmarried taxpayers.

Standard Deduction Increased

The standard deduction is increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other taxpayers, all will be adjusted for inflation in tax years beginning after 2018. No changes are made to the current-law related to the additional standard deduction for the elderly and blind.

Personal Exemptions Suspended

It will be suspended until the sunset date, reducing the exemption to zero.

State and Local Tax Deduction Limited

A taxpayer may claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the aggregate of (i) State and local property taxes paid, and (ii) State and local income taxes, (or sales taxes in lieu of income taxes) paid or accrued in the tax year. Foreign real property taxes may not be deducted. In a trade, business or other activity, State and local sales taxes are deductible when paid or accrued. *Prepayment provision.* For tax years beginning after Dec. 31, 2016, in the case of an amount paid in a tax year beginning before Jan. 1, 2018 with respect to a State or local income tax imposed for a tax year beginning after Dec. 31, 2017, the payment will be treated as paid on the last day of the tax year for which such tax is so imposed for purposes of applying the above limits. In other words, a taxpayer who, in 2017, pays an income tax that is imposed for 2018, can't claim an itemized deduction in 2017 for that prepaid income tax.

Mortgage and Home Equity Indebtedness Interest Deduction Limited

The home mortgage interest deduction is modified to reduce the limit on acquisition indebtedness to $750,000 (from prior law limit of $1 million). There will be no home equity loan (HELOC) interest deduction until after Dec 31, 2025. *Refinancing*. The $1 million limitations continue to apply to taxpayers who refinance existing qualified residence indebtedness that was incurred before Dec. 15, 2017, so long as the indebtedness resulting from the refinancing doesn't exceed the amount of the refinanced indebtedness.

Medical Expenses Deduction Threshold Temporarily Reduced

For tax years beginning after Dec. 31, 2016 and ending before Jan. 1, 2019, the threshold on medical expense deductions is reduced to 7.5% for all taxpayers.

Charitable Contribution Deduction Limitation Increased

For contributions made in tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the 50% on Adjusted Gross Income (AGI) limitation for cash contributions to public charities and certain private foundations is increased to 60% of AGI. Contributions exceeding the 60% limitation are generally allowed to be carried forward and deducted for up to five years, subject to the later year's ceiling.

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No Charity Deduction for Amounts Paid for College Athletic Seating Right
No charitable deduction is allowed for any payment to an institution of higher education in exchange for which the payor receives the right to purchase tickets or seating at an athletic event.

Miscellaneous Itemized Deductions Suspended
The deduction for miscellaneous itemized deductions that are subject to 2% floor are suspended.

Deductions for Personal Casualty & Theft Losses Suspended
The personal casualty and theft loss deduction is suspended.

Overall Limitation on Itemized Deductions Suspended
Higher-income taxpayers who itemized their deductions subject to a limitation (high income deduction phase out) on these deductions are suspended.

Alimony Deduction by Payor/Inclusion by Payee Suspended
For any divorce or separation agreement executed after Dec. 31, 2018, or executed before that date but modified after it (if the modification expressly provides that the new amendments apply), alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse.

Exclusion for Moving Expenses Reimbursements and Deduction Suspended
The exclusion for qualified moving expense reimbursements from employees' income and deduction of moving expenses from taxpayer AGI are suspended, except for members of the Armed Forces on active duty (and their spouses and dependents) who move pursuant to a military order and incident to a permanent change of station.

Education 529 College Fund Expanded Use
The nontaxable distributions for "qualified higher education expenses" will expand to include tuition at an elementary or secondary public, private, or religious school, up to a $10,000 limit per tax year.

Student Loan Discharged on Death or Disability
Certain student loans discharged on account of death or total and permanent disability of the student are excluded from gross income after Dec. 31, 2017 but before Jan 1, 2026.

Repeal of the Rule Allowing Recharactization of ROTH IRA Conversion to IRA
The rule that allows a recharactizaiton of ROTH IRA back to an IRA has been repealed.

Repeal of Obamacare Individual Mandate
For months beginning after Dec. 31, 2018, the amount of the individual shared responsibility payment is reduced to zero.

Alternative Minimum Tax (AMT) Retained, with Higher Exemption Amounts
For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the AMT exemption amount increases to $109,400 for married taxpayers filing a joint return, $70,300 for all other taxpayers (other than estates and trusts). The phaseout thresholds are increased to $1 million for married taxpayers filing a joint return and $500,000 for all other taxpayers (other than trusts and estates). The exemption and threshold amounts are indexed for inflation.

Estate and Gift Tax Retained, with Increased Exemption Amount
For estates of decedents dying and gifts made after Dec. 31, 2017 and before Jan. 1, 2026, the Act doubles the base estate and gift tax exemption amount from $5 million to $10 million. The $10 million amount is indexed for inflation occurring after 2011 and is expected to be approximately $11.2 million in 2018 ($22.4 million per married couple). The language in the Act does not mention generation-skipping transfers, but because the generation-skipping transfer tax exemption amount is based on the basic exclusion amount, generation-skipping transfers would appear to have an increased exclusion amount.

Kiddie Tax Modified
The taxable income of a child attributable to earned income is taxed under the rates for single individuals, and the taxable income of a child attributable to net unearned income is taxed according to the tax rates applicable to trusts and estates (see above).

Child Tax Credit Increased
The child tax credit is increased to $2,000, and other changes are made to phase-outs and refundability during this same period. The income levels at which the credit phases out are increased to $400,000 for married taxpayers filing jointly ($200,000 for all other taxpayers) and are not indexed for inflation.

Changes that Affect Businesses

Business Corporate Taxes

For tax years beginning after Dec 31, 2017, the corporate tax rate is a flat 21 percent. The bill makes the new rate permanent. The maximum corporate tax rate currently tops out at 35 percent (with 4 % surcharge on lower tax bracket).

Passthrough Income Deduction

For tax years after 2017 and before 2026, individuals will be allowed to deduct 20% of "qualified business income" from a partnership, S corporation, or sole proprietorship, as well as 20% qualified real estate investment trust (REIT) dividends, qualified cooperative dividends and qualified publicly traded partnership income. The 20% deduction is limited to 50% of the W2 wages paid with respect to the business.

The deduction does NOT apply to specified service businesses (i.e. physicians, dentists, accountants, attorneys, financial and brokerage services.) where the taxpayer has taxable income in excess of $315,000 for married individuals filing jointly ($157,500 for other individuals).

Bonus Depreciation

A 100% first-year deduction is allowed for qualified property acquired and placed in service after Sept 27, 2017 and before Jan 1, 2023. A 20% phase down schedule will be instituted after Dec 31, 2022. It also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Section 179 Expensing

For property placed in service in the tax years beginning after Dec 31, 2017, the maximum amount of a taxpayer may expense under Section 179 is increased to $1 million, and the phase-out threshold amount is increased to $2.5 million.

Business Use Vehicle Deduction

For passenger automobiles placed in service after Dec 31, 2017, the maximum amount of allowable deprecation is increased to: $10,000 for the year in which the vehicle is placed in service, $16,000 for second year, $9,600 for third year, and $5,760 for the fourth and following years until costs are fully recovered. For passenger automobiles eligible for first year bonus deprecation, the maximum first year depreciation allowance remains at $8,000.

Domestic Production Activities Deduction Repealed

The domestic production activities deduction for qualified production activities income is repealed.

Employer's Deduction for Fringe Benefits Expenses Limited

The meal & entertainment expenses are considered separately. The deduction for entertainment expenses are disallowed. The current 50% limit on the deductibility of business meals is in effect and expanded to meals provided on the premises of the employer. The deductions for employee transportation benefits (i.e.: parking and mass transit) are denied.

For tax years beginning after Dec 31, 2025, an employer's deduction for expenses associated with meals provide for the convenience of the employer on the employer's business premise are also being disallowed.

Most sincerely,

Proctor Company