NORTHERN TRUST

TAX REFORM: WHAT THE LAW WILL BE IN 2018

This piece summarizes current law and what the law will be beginning in 2018 with a view toward what matters most to you. In a last minute amendment to the bill, the short title of the "Tax Cuts and Jobs Act" was removed without replacement. For ease of reference, we will refer to the new law as the "Major 2017 Tax Act."

Wealth Planning Insights
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5 THINGS YOU NEED TO KNOW ABOUT THE MAJOR 2017 TAX ACT

- Individual and corporate tax changes are effective January 1, 2018, but many individual provisions expire December 31, 2025.
- Estate, gift and generation-skipping transfer ("GST") taxes remain in effect with double the basic exclusion and GST exemption amounts.
- Individual ordinary income tax rate reductions include lowering the top marginal rate to 37%, but the individual alternative minimum tax ("AMT") remains in effect with a higher exclusion amount.
- Qualifying pass-through entity and sole proprietor business income for individuals (and estates and trusts) generally has a 20% deduction.
- Corporate income tax rates are reduced to 21% (from 35%) and the corporate AMT is repealed.

A FEW THINGS YOU SHOULD CONSIDER

State Tax Payments

If you itemize your income tax deductions and do not pay the AMT, consider making your fourth quarter 2017 state estimated income tax payment due in January by December 31 to obtain the benefit of an itemized deduction on your 2017 federal income tax return. Also, if you live in a county that bills real estate taxes in arrears, consider making 2017 real estate tax payments otherwise billed in 2018 in 2017.

Why? *Because under the pending tax bill, federal income tax deductions for state and local taxes will be limited to $10,000 for taxpayers who itemize their deductions. (See Figure 1 for a summary of deductions that are changing or are being eliminated.) Beware, however, that you may not claim an itemized deduction in 2017 on a pre-payment of 2018 state income tax.*

Charitable Deductions

Making deductible charitable contributions, including donor advised fund contributions, in 2017 that you would otherwise make in 2018 may be beneficial.

Why? *For a few reasons. Some taxpayers who itemize deductions in 2017 will use a standard deduction in 2018 under the pending tax bill and will lose the tax benefit directly related to a charitable contribution they have in 2017 with an itemized deduction. The standard deduction amount is slated to be $24,000 for a married couple in 2018. Even if you will itemize in 2018 under the pending tax bill, the tax benefit of a charitable contribution in 2017 may be greater if you expect to be in a lower tax bracket next year, either because of tax reform or otherwise. (The higher your marginal tax rate, the more a deduction is worth.)*

Think About Basis When Planning Gifts

When planning gifts to family, keep basis, income tax and gift, estate and generation-skipping transfer taxes (transfer taxes) in mind.

Why? *Lifetime gifts of appreciated assets keep their basis in the hands of the donee (carryover). Transfers at death receive a new fair market value basis. With fewer families expected to be subject to transfer taxes, at least while the higher basic exclusion and GST exemption are in effect, the tax planning related to gifting may change.*

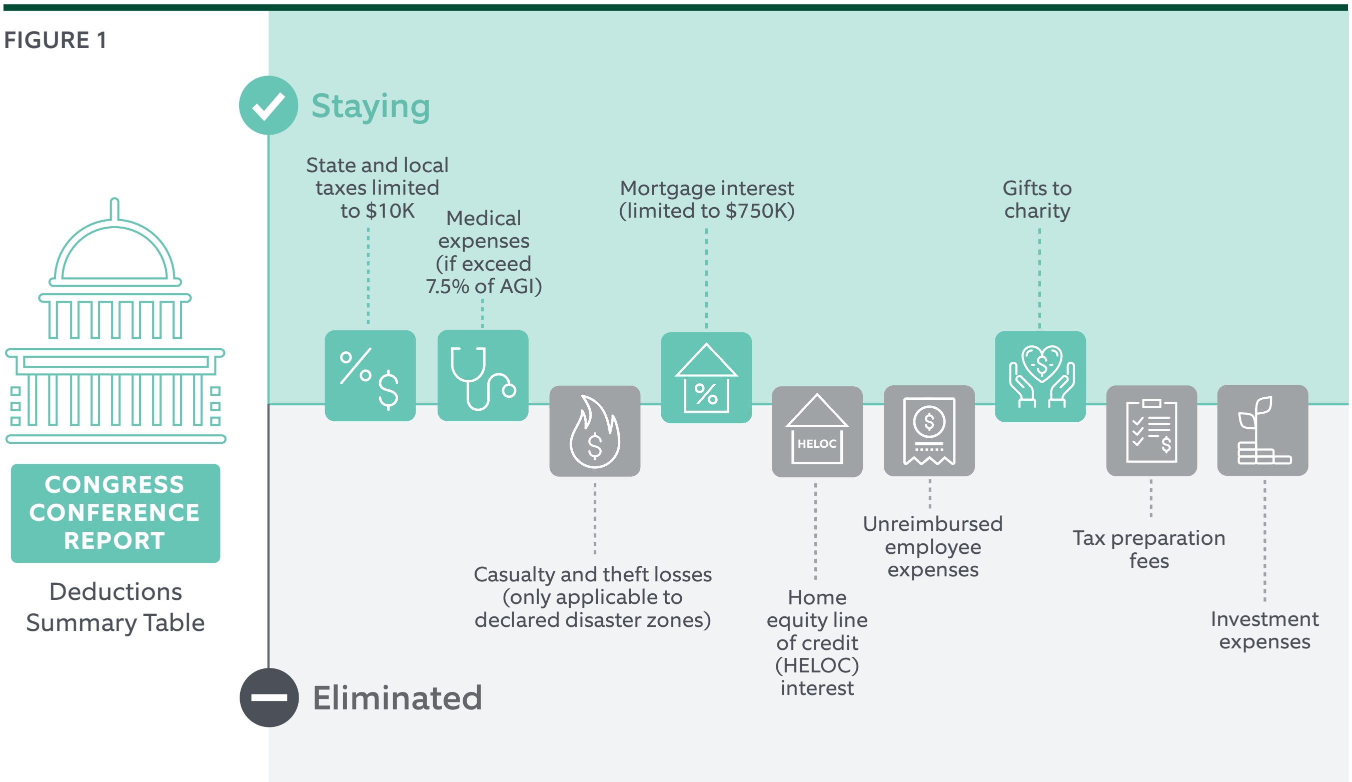
Plan Now for 2018

Plan to review and update your wealth plan with your legal, tax and financial advisors in the New Year.

Why? *Changes in the basic exclusion and GST exemption amounts for gift, estate and generation-skipping transfer taxes can have a material effect on how your estate plan will operate. Changes in the tax treatment and rates for pass-through entities (partnerships, limited liability companies and S-corporations), sole proprietorships and corporations may impact decisions regarding the choice of entity and tax elections for passive and active business owners.*

Remember, each person's tax situation is unique and you should confer with your tax and legal advisors regarding any year-end or new-year tax-related decisions in your circumstance.

FIGURE 1



A SUMMARY FOR YOU

The following tables provide a summary organized in three parts:

- Estate, Gift and Generation-Skipping Transfer Taxes
- Individual and Pass-Through Business Income Tax
- Corporate Income Tax

ESTATE, GIFT AND GENERATION-SKIPPING TRANSFER TAXES

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
Wanting to leave an inheritance to your loved ones	The top estate tax rate is 40%. The basic exclusion amount is $5 million per individual, adjusted for inflation ($5.49 million in 2017).	The top estate tax rate remains 40%. The basic exclusion amount is doubled to $10 million per individual, adjusted for inflation.	Effective January 1, 2018 Expires December 31, 2025	**Moderate**
Wanting to leave an inheritance to your grandchildren	The top generation-skipping transfer tax rate is 40%. The GST exemption amount is $5 million per individual, adjusted for inflation ($5.49 million in 2017).	The top generation-skipping transfer tax rate remains 40%. The GST exemption amount is doubled to $10 million per individual, adjusted for inflation.	Effective January 1, 2018 Expires December 31, 2025	**Moderate**
Wanting to give money to those you care about while you are still around to see them enjoy it	The top gift tax rate is 40%. The basic exclusion amount is $5 million per individual, adjusted for inflation ($5.49 million in 2017).	The top gift tax rate remains 40%. The basic exclusion amount is doubled to $10 million per individual, adjusted for inflation.	Effective January 1, 2018 Expires December 31, 2025	**Moderate**

INDIVIDUAL AND PASS-THROUGH BUSINESS INCOME TAX

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
A married individual	Marginal income tax rates and brackets are as follows: $0 to $18,650 **10%** $18,651 to $75,900 **15%** $75,901 to $153,100 **25%** $153,101 to $233,350 **28%** $233,351 to $416,700 **33%** $416,701 to $470,700 **35%** $470,701+ **39.6%**	Proposed marginal income tax rates and brackets are as follows: $0 to $19,050 **10%** $19,051 to $77,400 **12%** $77,401 to $165,000 **22%** $165,001 to $315,000 **24%** $315,001 to $400,000 **32%** $400,001 to $600,000 **35%** $600,001+ **37%**	Effective January 1, 2018 Expires December 31, 2025	**Moderate**
An owner or investor in a pass-through entity or sole proprietorship	Business income derived by individuals (and trusts and estates), including from pass-through entities like LLCs and S-corporations, is subject to a top income tax rate of 39.6%, plus potential payroll taxes.	An individual taxpayer (and trusts or estates) may deduct up to 20% of domestic qualified business income from a pass-through entity. For certain high-income tax payers, this deduction is limited to a level based on a percentage of wages paid by the business, and is phased out completely for specified service businesses. Personal service corporations organized as C-corporations, rather than pass-through entities, are taxed at 21%.	Effective January 1, 2018 Expires December 31, 2025	**Significant**

INDIVIDUAL AND PASS-THROUGH BUSINESS INCOME TAX (CONTINUED)

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
Someone who pays the alternative minimum tax (AMT)	The AMT is in effect. The exemption amount for 2017 is \$54,300 (single) or \$84,500 (married).	The AMT exemption amount is increased to \$70,300 (single) or \$109,400 (married).	Effective January 1, 2018 Expires December 31, 2025	**Moderate**
Invested in municipal bonds	Private activity bond interest is tax-exempt. Interest on bonds issued to retire outstanding debt also is tax-exempt.	Advance refunding bond interest is taxable. Private activity bond interest is tax-exempt.	Effective January 1, 2018 No expiration date	**Moderate**
An owner of investment property who wants to exchange it for similar investment property on a tax-deferred basis (a "Section 1031 exchange")	Property that is (1) held for productive use in a trade or business or (2) held for investment can be exchanged for property of a "like kind." No gain is recognized on the exchange. Instead, gain is deferred until the replacement property is sold. Under current law, taxpayers can exchange not only like-kind real estate, but also like-kind personal property (cars, airplanes, etc.).	Section1031 exchanges are limited to real property that is not held primarily for sale. Personal property is not eligible.	Effective January 1, 2018 No expiration date	**Significant**

INDIVIDUAL AND PASS-THROUGH BUSINESS INCOME TAX (CONTINUED)

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
An individual or a family	Every individual receives a personal exemption. The exemption is $4,050 in 2017. A married couple would claim two personal exemptions ($8,100 in 2017). A typical family of four would claim four personal exemptions ($16,200 in 2017).	Personal exemptions are repealed.	Effective January 1, 2018 Expires December 31, 2025	**Significant**
An individual or a family with deductions	An individual or married couple evaluates whether their itemized deductions, added together, are greater than the standard deduction; the individual or couple will then claim their itemized deductions or the standard deduction, whichever is greater. The standard deduction for 2017 is $6,350 for single taxpayers and $12,700 for married taxpayers filing jointly.	The standard deduction is increased to $12,000 for single taxpayers and $24,000 for married taxpayers filing jointly.	Effective January 1, 2018 Expires December 31, 2025	**Significant**

INDIVIDUAL AND PASS-THROUGH BUSINESS INCOME TAX (CONTINUED)

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
An individual or family who itemizes deductions	The "Pease limitation" says that taxpayers lose the benefit of up to 80% of their itemized deductions if their income exceeds $261,500 (for individuals) or $313,800 (for married taxpayers).	The "Pease limitation" is repealed.	Effective January 1, 2018 Expires December 31, 2025	**Significant**
Someone who pays state and local taxes and itemizes deductions (rather than claiming the standard deduction)	State and local income or sales taxes plus property taxes are deductible.	The itemized deduction for state and local taxes is limited to $10,000.	Effective January 1, 2018 Expires December 31, 2025	**Significant**
Someone who saves for education expenses using a 529 plan	529 plans are designed for saving for qualified higher education expenses.	529 plans are expanded to provide for K-12 education expenses, with a $10,000 annual per beneficiary limit on these distributions.	Effective January 1, 2018 No expiration date	**Significant**

INDIVIDUAL AND PASS-THROUGH BUSINESS INCOME TAX (CONTINUED)

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
A homeowner who pays mortgage interest and itemizes deductions (rather than claiming the standard deduction)	Interest on up to $1 million of debt on a principal residence and a second residence is deductible. Interest on $100,000 of a home equity line of credit ("HELOC") is deductible.	Interest on up to $750K of debt on a principal residence and a second residence is deductible. Interest on a HELOC is not deductible.	Effective January 1, 2018 Expires December 31, 2025 Mortgage debt incurred before December 15, 2017 is grandfathered under the existing rules, as are certain homes under contract before December 15, 2017.	Significant
A philanthropist who makes cash contributions to public charities	Cash contributions to public charities are deductible up to 50% of adjusted gross income ("AGI").	Cash contributions to public charities are deductible up to 60% of AGI.	Effective January 1, 2018 Expires December 31, 2025	Moderate
An investor who pays investment fees and expenses	Investment fees are deductible, but only if they exceed 2% of AGI (the "2% AGI floor").	Investment fees are no longer deductible.	Effective January 1, 2018 Expires December 31, 2025	Significant
An individual with significant medical expense	Medical expenses are deductible, but only if they exceed 10% of AGI.	Medical expenses are deductible if they exceed 7.5% of AGI for 2017 and 2018 for regular tax and the AMT.	Effective January 1, 2017 Expires December 31, 2018	Moderate

INDIVIDUAL AND PASS-THROUGH BUSINESS INCOME TAX (CONTINUED)

IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
Paying penalties for not having adequate health insurance ("shared responsibility payments")	An individual who fails to maintain adequate health insurance for any given month is subject to a penalty. For 2017, the monthly penalty was a maximum of $272 per individual and $1,360 for a family of five or more.	There are no shared responsibility payments.	Effective January 1, 2019 No expiration date	**Significant**
An investment manager whose compensation includes a preferred return ("carried interest")	Capital assets held for more than one year generate long-term capital gain income when they are sold. The top tax rate is 23.8%, including the net investment income tax.	For capital assets held in connection with a carried interest, the bill imposes a three year (not one year) holding period requirement before the gain on the capital asset is taxed at the reduced 23.8% rate, including the net investment income tax.	Effective January 1, 2018 No expiration date	**Significant**

CORPORATE INCOME TAX

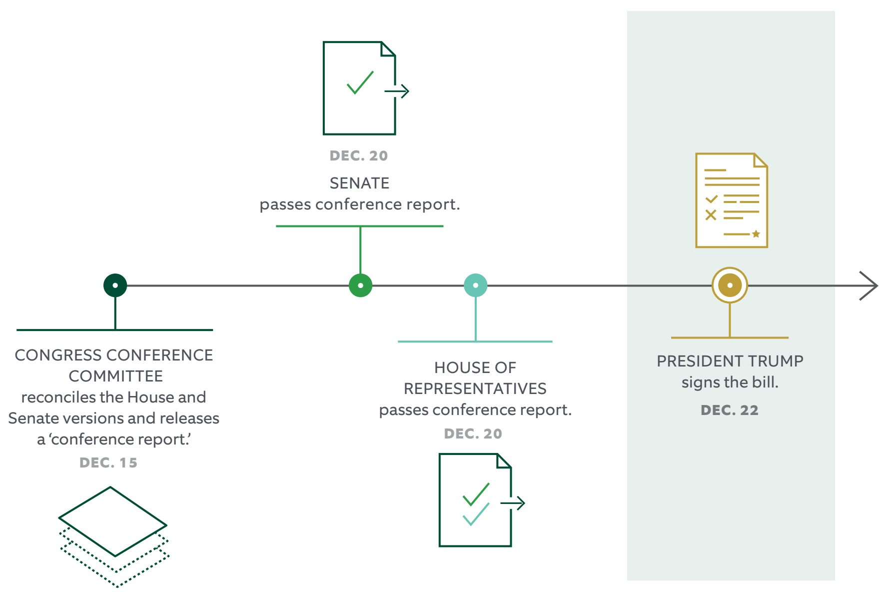
IF YOU ARE...	CURRENT LAW	TAX BILL	EFFECTIVE DATES AND EXPIRATION DATES	CHANGE FROM CURRENT LAW
A C-corporation	The top tax rate is 35%.	There is a flat 21% corporate tax rate. The dividend received deduction is reduced accordingly.	Effective January 1, 2018 No expiration date	Significant
A C-corporation subject to the AMT	The corporate AMT is in effect.	The corporate AMT is repealed.	Effective January 1, 2018 No expiration date	Significant
A U.S. C-corporation receiving dividends from a foreign subsidiary	Worldwide system. Dividends from foreign subsidiaries generally are subject to U.S. income tax.	Territorial system. 100% exemption for dividends from foreign subsidiaries.	Effective January 1, 2018 No expiration date	Significant
A U.S. shareholder of a specified foreign corporation with post-1986 retained earnings abroad	Earnings generally are not taxed in the U.S. until they are repatriated.	Deemed repatriation of accumulated post-1986 offshore earnings held at transition. Cash and cash equivalents tax rate 15.5%. Other assets tax rate 8%.	Effective January 1, 2018 No expiration date	Significant

WHAT IS NOT CHANGING?

Not everything will be different in 2018. Some of the current rules that will remain in effect include:

- The tax basis of appreciated assets gifted during life to family and friends will retain their basis in the hands of the donee. The tax basis of assets at death will be adjusted to fair market value.
- A married person's unused estate tax exclusion amount at death may be used by their surviving spouse.
- Long-term capital gain and qualified dividend individual income tax rates will remain at 0%, 15% and 20%. The 28% tax rate for collectibles also remains in effect.
- The 3.8% net investment income tax will remain in effect for high-income taxpayers.
- Specific lot takedown methodology may still be used by investors as they will not be required to sell their oldest lot of shares first. The proposed "first-in first-out" rule did not make it into the final version of the bill.
- The $250,000 (single) or $500,000 (married) exemption of gain on the sale of a principal residence is still available to homeowners.
- Tax deferred retirement savings in 401k accounts and IRAs will remain available.

THE STEPS TO THE MAJOR 2017 TAX ACT ARE DEPICTED BELOW



CONCLUSION

Now that the ink of the President's signature on the Major 2017 Tax Act is dry, the work on technical corrections and related regulations will begin. We are monitoring developments daily.

FOR MORE INFORMATION

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