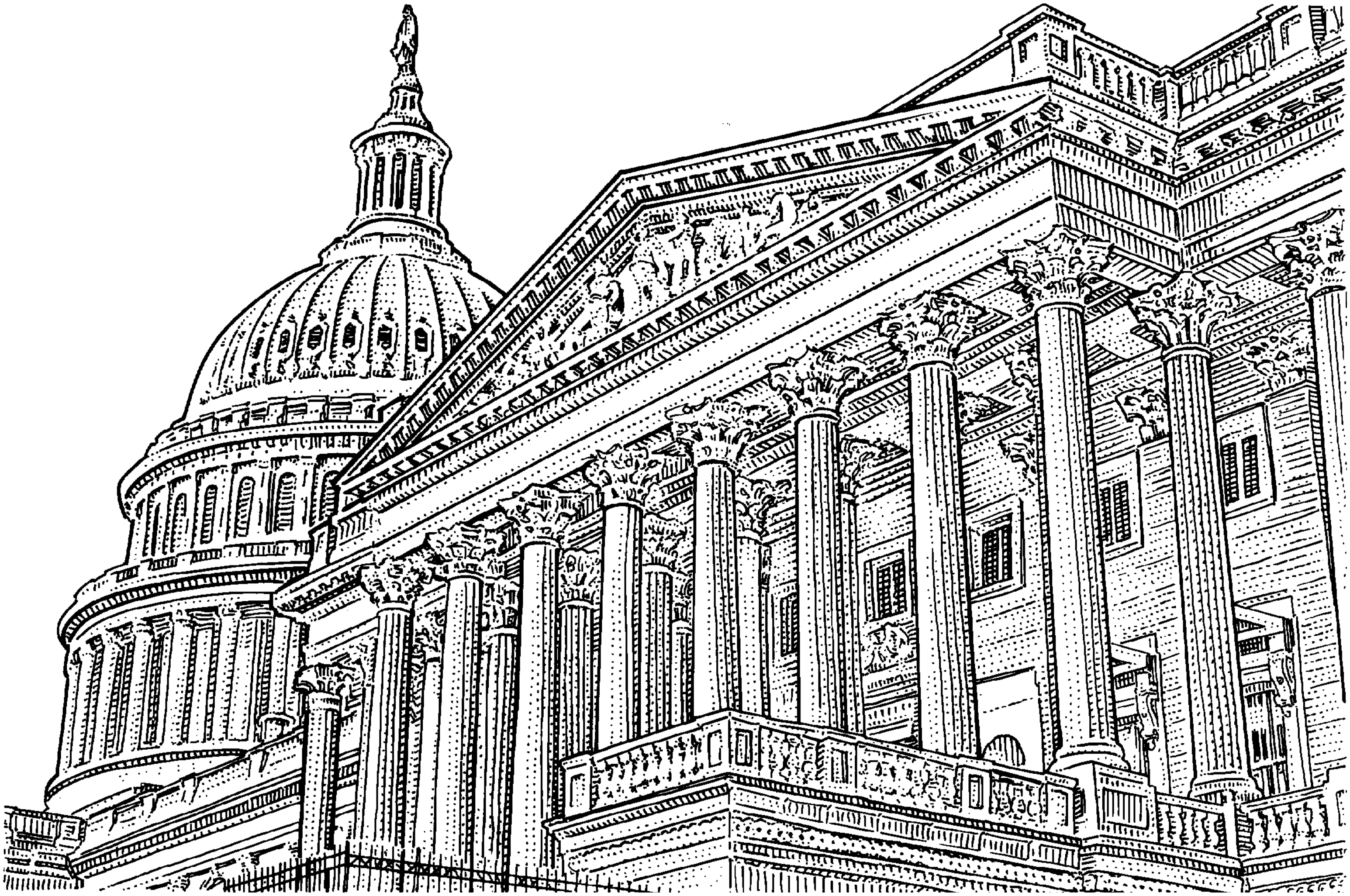

THE WALL STREET JOURNAL.

Guide to the New World of Taxes

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

ACKNOWLEDGMENTS

The lead authors of this book were Laura Saunders, Richard Rubin, Theo Francis and Nick Timiraos, along with co-authors Doug Cameron, Saabira Chaudhuri, Drew FitzGerald, Annie Gasparro, Tom Herman, Ryan Knutson, Laura Kusisto, Peter Loftus, Anna Wilde Mathews, Douglas MacMillan, Sarah Nassauer, Bradley Olson, Louise Radnofsky, Michael Rapoport, Jonathan Rockoff, Ruth Simon, Mike Spector, Andrew Tangel and Anne Tergesen. The news editor was David Marcelis and lead editor was Dave Pettit.

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INTRODUCTION

Congress raced forward to deliver the largest overhaul of the U.S. tax code in three decades. Now, Americans are sorting through what it means for them.

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

Taxpayers received their first look at the impact of the new law when adjustments to payroll withholding appeared in paychecks early in 2018. But full appreciation for the changes will be ongoing—right up until tax time 2019—as Americans make sense of new rules on deductions (affecting mortgage interest, state and local taxes, charitable gifts and more), 529 education-savings plans, the alternative minimum tax, personal exemptions and child-tax credits, among other things.

This book was assembled by the reporters and editors of The Wall Street Journal. In it, they explain what individuals, business owners and professionals need to know about what has changed and what hasn't. The book explains the political and economic context of the tax rewrite, and what it means to corporations and investors. With this book, taxpayers have a guide to this new world of taxes.

Gerard Baker
Editor in Chief
The Wall Street Journal

THE BIG PICTURE

TAX RATES AND BRACKETS

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

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Congress rejiggered tax rates and brackets for 2018 and beyond, but the changes weren't as radical as some proposed. Instead, the major changes affecting many taxpayers stem from other provisions.

As in prior years, the tax code taking effect for 2018 has seven income brackets.

The top rate drops from 39.6% to 37%, and it takes effect at $600,000 of taxable income for married couples rather than about $480,000. For single filers, the top rate takes effect at $500,000 rather than about $427,000.

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.

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.

See the revised tax brackets and rates on the next page.

—Laura Saunders

Rates and Brackets

Overhaul means new rates and thresholds for millions of tax filers.

Single filers

Prior law, for 2018

Taxable Income	Rate
Over $426,700	**39.6%**
$424,951-426,700	**35%**
$195,451-424,950	**33%**
$93,701-195,450	**28%**
$38,701-93,700	**25%**
$9,526-38,700	**15%**
Up to $9,525	**10%**

Current law, for 2018

Rate	Taxable Income
37%	Over $500,000
35%	$200,001-500,000
32%	$157,501-200,000
24%	$82,501-157,500
22%	$38,701-82,500
12%	$9,526-38,700
10%	Up to $9,525

Married, filing jointly

Prior law, for 2018

Taxable Income	Rate
Over $480,050	**39.6%**
$424,951-480,050	**35%**
$237,951-424,950	**33%**
$156,151-237,950	**28%**
$77,401-156,150	**25%**
$19,051-77,400	**15%**
Up to $19,050	**10%**

Current law, for 2018

Rate	Taxable Income
37%	Over $600,000
35%	$400,001-600,000
32%	$315,001-400,000
24%	$165,001-315,000
22%	$77,401-165,000
12%	$19,051-77,400
10%	Up to $19,050

Sources: Internal Revenue Service; Conference Committee

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STANDARD DEDUCTION AND PERSONAL EXEMPTION

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

For many taxpayers, the 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 can 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 tax overhaul raises the 2018 standard deduction to $24,000 per married couple and $12,000 for singles, compared with $13,000 and $6,500, respectively, under prior law for 2018.

As a result, the number of filers who itemize for 2018 is expected to drop by more than half—from nearly 47 million to about 19 million out of about 150 million tax returns, according to the Tax Policy Center.

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. 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 more than 25 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. In prior law, 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 withholding from pay.

The interaction of the new standard deduction, repeal of the personal exemption and expansion of the child credit is complex, and the effects will vary widely compared with prior law. This is in part because the personal exemption was a deduction, while the child credit is a dollar-for-dollar offset of taxes.

Many families with children will come out ahead under the new law for 2018, especially if they took the standard deduction in the past. But some others won't—especially if their children are age 17 or older, according to Roberton Williams of the Tax Policy Center.

—Laura Saunders

CHILD AND DEPENDENT TAX CREDIT

Child credit doubles and becomes available to more families, a move that more than offsets the repeal of the personal exemption in many cases

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Lawmakers expanded the tax credit to $2,000 from $1,000 for each child in a family who is under age 17 at year-end.

More families are also eligible for this credit. The credit now begins to phase out at $400,000 of income for couples and $200,000 for singles, compared with 2017 levels of $110,000 for couples and $75,000 for singles.

For many filers with children under 17, the expanded credit will be a more valuable benefit than the personal exemption was. The personal exemption allowed filers to deduct $4,150 for each household member as of this year, but was repealed as part of the tax overhaul. The exemption was a benefit that phased out for higher earners.

TAX CREDIT VS. PERSONAL EXEMPTION
The new $2,000 child credit will be more valuable to many families with children under 17 than the prior-law $4,150 personal exemption because a tax credit is a dollar-for-dollar offset of taxes. A deduction merely reduces taxable income.

The reason the expanded child credit is more valuable than the personal exemption to many families with children under 17 is that a tax credit is a dollar-for-dollar offset of taxes, while a deduction merely reduces taxable income.

For example, a married couple with three young children and taxable income of about $200,000 last year wouldn't have qualified for the prior child tax credit. The personal exemption could have saved them about $1,100 in tax per child, according to tax specialist Roberton Williams of the Tax Policy Center.

For 2018, the child credit would save such a family $2,000 of tax per child.

DEPENDENTS 17 OR OLDER

But families with dependents 17 and older, such as college students or an elderly parent, generally fare less well under the new regime. The tax credit for each of these dependents is $500.

The new provisions don’t alter existing tax-code rules defining who is a dependent. The changes to these credits expire after 2025.

—Laura Saunders

WITHHOLDING

Employees should refigure paycheck withholding when the IRS posts a new calculator and W-4 form, or risk unwelcome surprises

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More than 90% of workers will see bigger paychecks due to the tax overhaul, according to government estimates. The changes began to show up in early February.

But tax specialists warn that changes to paychecks may not reflect what a taxpayer will owe for tax year 2018, or the size of future tax refunds. So they are advising employees to fine-tune their withholding by filing a new W-4 form. Some who don't do so risk being underwithheld and subject to penalties, while others could receive smaller refunds than expected.

80%
Estimate of filers with a tax cut in 2018

5%
Estimate of filers with a tax increase in 2018

"Individual results are going to vary widely, and people can't assume that paycheck withholding equals their tax bill for 2018," says Mary Hevener, a payroll tax specialist and attorney at Morgan, Lewis & Bockius LLP.

Overall, about 80% of filers will see a tax cut for 2018 and about 5% will see a tax increase, with no change for the rest, according to the Tax Policy Center.

Treasury officials said the new withholding tables have been adjusted to reflect the larger standard deduction, new tax rates, and repeal of the personal exemption. But these tables don't take into account other important tax changes such as the expanded child credit or the new limits on deductions for state and local taxes.

To adjust for their individual circumstances, taxpayers need to fill out a new W-4 withholding form. The IRS expects to post this form in February, along with a new withholding calculator.

In general, employees must pay in at least 90% of what they owe by year-end or risk an interest-based penalty on the underpayment.

—Laura Saunders

TAXES ON INVESTMENT INCOME

Law makes few changes to investment-income taxes, preserving the favorable rates for capital gains and dividends

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Lawmakers didn't change the favorable rates for long-term capital gains and many dividends, and a popular zero tax rate on these types of investment income will continue to exist.

Investment Rates

2018 taxes on long-term capital gains and qualified dividends

Taxable income for...

Single filers	Married, filing jointly	Rate
up to $38,600	up to $77,200	**0%**
$38,601-$425,800	$77,201-$479,000	**15%**
above $425,800	above $479,000	**20%**

Source: Conference Committee

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In 2018, the zero rate will apply 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. These rates and brackets are similar to those in effect for 2017.

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 rate for dividends applies 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 Herbert 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. This income is taxed at regular rates up to 12%, as detailed in the new tax brackets.

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

3.8% SURTAX IS LEFT IN PLACE

Many readers have also asked whether Congress repealed the 3.8% surtax on net investment income. It did not. This levy takes effect at $250,000 of adjusted gross income for most married couples and $200,000 for most single filers.

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 owe the 3.8% surtax because their adjusted gross income is above the $250,000/$200,000 thresholds, while others don't because their income is lower.

NO FIFO RULE CHANGE

Lawmakers also didn't enact a proposed provision for individual investors known as FIFO, for "first-in, first-out." This change would have forced investors selling part of a holding in a taxable account—as opposed to a retirement account—to sell their oldest shares first, raising taxes in many cases.

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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Lawmakers almost repealed the alternative minimum tax, a parallel tax system that is both complex and unpredictable. But in the end they retained it, with some alterations.

5 Million
Number of returns affected by the AMT last year

200,000
Number of returns expected to be affected by the revised AMT

The purpose of the AMT is to limit tax breaks allowed by the regular tax system to ensure that those who get many benefits pay some tax.

Many effects of the new AMT are still unclear. The good news for most current AMT payers is that it will affect far fewer people, said economist Joe Rosenberg of the Tax Policy Center.

The AMT in effect through the end of 2017 affected the filers of about five million returns, with many of them earning between $200,000 and $600,000. Mr. Rosenberg expects the revised AMT to affect the filers of about 200,000 returns, with many of them earning more than $600,000.

Several triggers of the prior AMT—such as state and local tax deductions, personal exemptions and miscellaneous deductions—have been reduced or repealed. In addition, the AMT exemption was expanded.

According to Mr. Rosenberg, the tax breaks that trigger 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 will be gone starting in 2019

Republicans used the tax overhaul to achieve a health-policy aim, repealing 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.

FEWER INSURED

Some projections suggest that the repeal 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.

The individual mandate will be gone starting in 2019. It isn't clear how strictly the administration will enforce the penalty payment for 2018.

—*Louise Radnofsky*

HOME-SELLERS' EXEMPTION

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

---

House Republicans voted to pare back a popular benefit for people selling their primary homes, but in the end lawmakers retained the existing provisions.

Married couples filing jointly can continue to exclude $500,000 of profit on the sale of a primary home from taxes. For single filers, the exemption is $250,000 of profit.

$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 the $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 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*

THE MARRIAGE PENALTY

Some significant problems remain, but issues for many married couples have been reduced or eliminated

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Tax laws are full of confusing oddities for millions of married couples. But the new law includes important changes that should bring relief for many.

On the whole, the new tax law is likely to have reduced or even eliminated the "marriage penalty" for "many taxpayers" and to have increased the size of the "marriage bonus" for many others, starting with the 2018 tax year, says Mark Luscombe, principal federal-tax analyst at Wolters Kluwer Tax & Accounting in Riverwoods, Ill.

But some significant problems remain. "You might hear someone say [the new law] got rid of the marriage penalty. That's not true," says Jackie Perlman, principal tax-research analyst at The Tax Institute at H&R Block. "It's still there. The tax code is replete with all sorts of marriage penalties."

MARRIAGE FRIENDLY
Almost all of the federal taxable-income brackets for 2018 for joint filers are double those for singles, except for certain high-income taxpayers.

Marriage penalties and bonuses have been controversial tax topics for many decades. Here's some background: Thanks to a bizarre combination of various tax provisions, some two-income married couples owe more in taxes than they would have paid on a combined basis if each had remained single. This marriage penalty can be especially painful in certain cases, such as high-income couples where each spouse has roughly the same income.

A BONUS FOR MARRIED COUPLES

But in other cases, the opposite is true: Some married taxpayers wind up owing less than they would have paid on a combined basis if each had remained single. That can happen in cases where one spouse brings home all or most of the family's income.

Stephen W. DeFilippis, owner of DeFilippis Financial Group, a wealth-management and tax firm in Wheaton, Ill., offers this hypothetical illustration: Consider a two-income married couple where each spouse has income of $175,000. Each also has $10,000 of net investment income. The couple lives in a high-tax area and itemizes their deductions. For 2017, he says their marriage penalty was nearly $12,000. For 2018, the penalty would decline to about $5,000.

He warns, however, that the new law won't completely eliminate the marriage penalty for everyone. It is hard to generalize because "there are so many variables," with details hinging on each taxpayer's individual situation.

Several changes in the new law make it more marriage-friendly. For example, almost all of the federal taxable-income brackets for 2018 for joint filers are double those for singles (except for certain high-income taxpayers), says Sidney Kess, senior consultant at Citrin Cooperman and of counsel to the Kostelanetz & Fink law firm.

IN THE PENALTY BOX

Some of the many places the marriage penalty still exists for some two-income couples:

- Federal income-tax bracket structure for very high income taxpayers
- Net investment income tax and additional Medicare tax
- Deductions for state and local taxes
- Net capital losses
- Mortgage interest and home-equity debt limit

The new law also contains other changes, too complicated to explain here, that will bring cheer to more married couples. But as Mr. Kess points out, those changes won't affect returns for the 2017 tax year.

THE PENALTY REMAINS

Even so, the marriage penalty still exists in other cases, Mr. Luscombe notes. For example, the top federal income-tax rate of 37% under the new law applies to singles with taxable income for 2018 above $500,000 and joint filers with income above $600,000. Then there is the net investment income tax, a surtax of 3.8 percentage points on net investment income above a certain threshold, plus an additional 0.9% Medicare tax. The threshold for singles: $200,000. For joint filers, the threshold is $250,000, only $50,000 more. Under the new law, taxpayers who itemize are limited to deducting up to $10,000 of state and local taxes, whether they are single or married filing jointly (up to $5,000 if married filing separately).

Another factor: net capital losses. If your realized capital losses for the year exceed your capital gains, you typically can deduct as much as $3,000 ($1,500 if married filing separately) of your net capital losses against other income. Thus, two singles could deduct as much as $3,000 apiece, or a total of $6,000. But a married couple filing jointly could deduct only $3,000. The new law didn't change that.

Some people may not care about these tax complexities. Mr. DeFilippis recalls warning two clients who were considering getting married that it would cost them dearly in taxes. "They got married anyway," he recalls with a laugh. "Love conquered taxes."

DEBUNKING THE MYTHS

For those who do care, here are a few myths and misperceptions:

Myth: What's all this fuss about a so-called marriage penalty? My wife and I can each file as single, instead of married filing jointly, whichever works out best for us.

Reality: No, you and your wife can't file as "single," says Mr. DeFilippis. You can choose "married filing separately," but that "will usually result in paying more tax," says Mr. DeFilippis, who is an enrolled agent, which means a tax specialist authorized to represent taxpayers in cases involving all levels of the Internal Revenue Service. For more details on filing-status complexities, such as qualifications for "head of household" status, see IRS Publication 17 under "filing status."

However, there can be other factors worth considering. For example, consider filing separately if you fear your spouse is hiding taxable income or lying about other items, such as credits or deductions. If you file separately, "you're responsible only for the tax return which you are signing," Mr. DeFilippis says.

Another reason to file separately might be if the lower-earning spouse has very high medical expenses, Mr. Luscombe says.

Myth: My wife and I didn't get married until last December. So I was single for nearly all of last year and should be able to file as a single or jointly, whichever is better.

Reality: That may sound logical, but the IRS says you typically are considered married for the entire year if you were married as of Dec. 31.

Myth: OK, we'll avoid a marriage penalty by getting divorced each December to enable each of us to file as singles—and then remarry each January.

Reality: Nice try, but that won't work either, the IRS says. If you get divorced "for the sole purpose of filing tax returns as unmarried individuals, and at the time of divorce you intend to and do, in fact, remarry each other in the next tax year, you and your spouse must file as married individuals in both years," IRS Publication 17 says.

—Tom Herman

ESTATE AND GIFT TAX

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

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Beginning in 2018, the estate- and gift-tax exemption—a combined amount that applies to an individual's gifts made during life or assets left at death—is doubling to nearly $11.2 million per individual or $22.4 million per married couple. The exemption is also adjusted for inflation.

This increase is set to lapse after 2025.

1,700
Number of estates expected to owe tax in 2018

5,300
Number of estates expected to owe tax in 2017

The number of estates the tax will apply to is expected to drop sharply as a result. According to estimates by the Tax Policy Center, about 1,700 estates are expected to owe that tax for 2018 out of about 2.7 million U.S. deaths. For 2017, an estimated 5,300 estates owed the tax.

NO CHANGE REGARDING CAPITAL-GAINS TAX

One thing the tax overhaul didn't change: 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 John 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.

John's estate won't owe capital-gains tax on the $95 of growth in each share of stock. Instead, the shares go into John's 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 EXEMPTIONS ARE '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 John dies in 2018 leaving an estate of $2 million to his heirs other than his wife Susan, she could claim the $9.2 million of John's unused exemption for her estate.

The law also allows any taxpayer to give annual gifts to anyone—a neighbor, friend or relative or even a 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. It's expected to take effect despite lower inflation adjustments mandated by the overhaul that will affect other inflation adjustments for 2018.

Above that amount, taxable gifts are subtracted from an individual's lifetime estate- and gift-tax exemption.

These annual gifts aren't deductible from income tax, but they do gradually remove assets from the giver's estate, and the total can add up. 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.

'BUNCHING' GIFTS

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, a college-savings specialist in Chicago.

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

—Laura Saunders

DEDUCTIONS

STATE AND LOCAL TAX DEDUCTIONS

Tax overhaul caps the deduction for state and local taxes at $10,000 per return

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In a landmark change, lawmakers put a cap on deductions for state and local taxes, which are often referred to as SALT. In prior law, these deductions were unlimited for individuals, although many people who owed the alternative minimum tax lost the benefit of some or all of these write-offs.

For 2018, taxpayers can deduct property and income or sales taxes, but only up to $10,000 per return.

For example, say that Don is a single filer who owes $6,000 of state income tax and $6,000 of local property tax. For 2017, he can deduct the $12,000 total of these taxes. But for 2018, the deduction is capped at $10,000 per return.

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

EFFORTS TO PRESERVE DEDUCTIBILITY

Lawmakers in some states are considering strategies to preserve the deductibility of state and local taxes. One proposed fix would, in effect, convert these levies to charitable contributions that could be deducted on the federal return, while another would change part of the state income tax into a payroll tax that is deductible by the employer. It isn't yet clear whether these strategies are legally viable or will take effect.

The new cap will also affect many married couples who file jointly more than it will affect singles, as the $10,000 limit is per return and not per person.

Some Wall Street Journal readers have asked whether two spouses can each file separately for 2018 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.

SHOULD COUPLES FILE 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.

CONFUSION OVER PREPAID PROPERTY TAXES

Others are confused about whether prepayments of state and local property taxes for 2018 are deductible on 2017 tax returns. The new law specifically bars deductions for 2017 of state income-tax payments if they are earmarked for 2018 taxes, but it doesn't explicitly address property-tax prepayments.

Many residents rushed to prepay property taxes for 2018 before the end of 2017. But late in the year, the IRS issued a warning saying that some property-tax prepayments might not be allowable on 2017 returns.

Thomas Barthold, chief of staff of Congress's Joint Committee on Taxation, said publicly in early February that lawmakers didn't consider whether to bar deductions for prepayments of 2018 property taxes, in part because some locales have fiscal years.

The law in this area can be confusing and local practices vary, so tax specialists advise seeking local guidance. Some believe that prepayments of property taxes aren't deductible if they are estimates that are subject to change.

Others disagree. According to Lawrence Axelrod, an attorney at Ivins, Phillips & Barker in Washington, taxpayers and their preparers have good authority for claiming a deduction on a 2017 return for "a good-faith estimate of 2018 property taxes paid in 2017. But the prepaid taxes shouldn't extend beyond 2018."

—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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There are new curbs on deductions for mortgage interest, both indirect and direct.

For 2018, millions fewer filers will benefit from deducting mortgage interest on Schedule A because of the near-doubling of the standard deduction to $24,000 for married couples and $12,000 for singles. Instead, they will opt for the expanded standard deduction.

16 million vs. 40 million

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

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 in prior years. For 2018 they won't, because it is to their advantage to take the $24,000 standard deduction instead.

The Tax Policy Center estimates that the number of returns claiming the mortgage-interest deduction for 2018 will drop to 16 million from almost 40 million because of the change.

NEW LIMIT ON ELIGIBLE MORTGAGE DEBT

Lawmakers also made important changes for those who do take the mortgage-interest deduction. 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.

But for new buyers, the $1 million limit fell to $750,000 for a first and second home.

For example, if Charles already has a $750,000 mortgage on a first home and a $200,000 mortgage on a second home, then he can continue to deduct the interest on both on Schedule A.

What if Charles already has one home with a $750,000 mortgage and wants to use a new $200,000 mortgage to buy a second home this year? In this case, he couldn't deduct the interest on the second loan, according to a spokesman for the National Association of Realtors, or NAR.

IMPACT ON MORTGAGE REFINANCING

When it comes to refinancings, the NAR says it believes homeowners can refinance mortgage debt up to $1 million that existed on Dec. 14, 2017, and deduct the interest. But the new loan often can't exceed the amount of the mortgage being refinanced.

So 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.

The changes also suspend deductions for interest on home-equity loans through 2025—unless the proceeds of the loan are used to make substantial improvements to the home, and the combined total of the first mortgage and the home-equity line of credit or second mortgage doesn't exceed $750,000, according to the NAR.

—*Laura Saunders*

CHARITABLE-DONATION DEDUCTIONS

Tax 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 will drop by more than 50% as a result of the tax overhaul, according to estimates from the Tax Policy Center.

The nonprofit group expects 16 million filers to take advantage of the deduction for tax year 2018, down from 36 million for tax year 2017.

16 Million
Returns deducting charitable donations for 2018

36 Million
Returns deducting charitable donations for 2017

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. 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 listing deductions separately.

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.

For tax year 2017, this couple will want to itemize deductions on Schedule A because the $20,000 total exceeds the $12,700 standard deduction. But for tax year 2018, they will want to take 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 in tax year 2018.

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 bunch smaller gifts into one large 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 70 1/2 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. For more on this option, see "Retiree Tax Issues" on page 38.

—*Laura Saunders*

MEDICAL-EXPENSES DEDUCTION

After considering ending it, lawmakers retained the 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

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 if they exceed 7.5% of income.

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.

In 2019, the threshold rises to 10% of adjusted gross income for all filers, according to Gil Charney, director of the Tax Institute at H&R Block.

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

—*Laura Saunders*

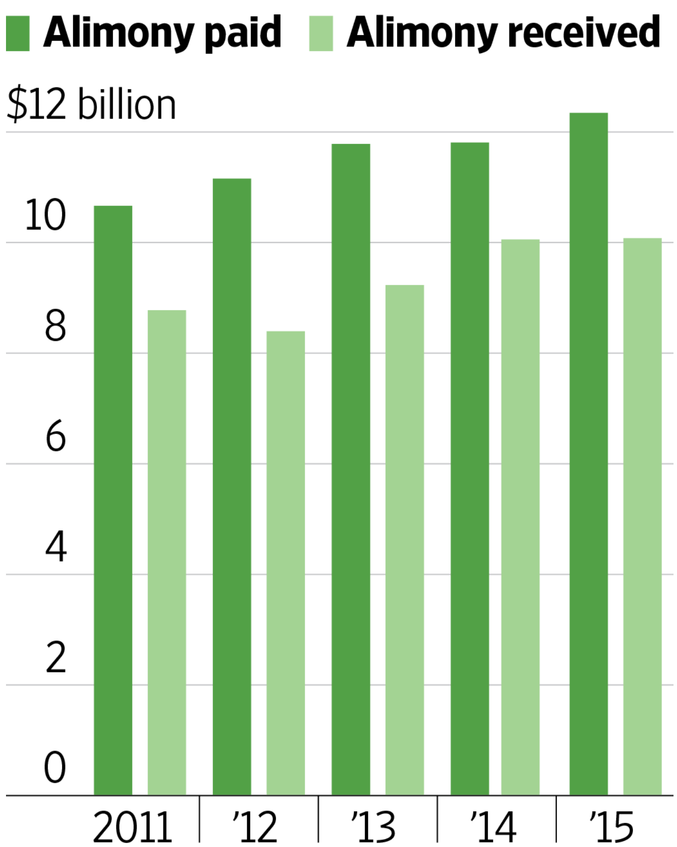
ALIMONY

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

Alimony payments won't be tax-deductible for divorce and separation agreements signed after 2018, a development that is likely to affect the size of future settlements.

Mismatch

The amount of alimony taxpayers said they paid is greater than the amount ex-spouses said they received.



Source: Internal Revenue Service
THE WALL STREET JOURNAL.

At the same time, future alimony recipients won't have to report the payments as income. This means that the tax treatment of alimony will be similar to that of child support.

Deductions will still be allowed for alimony paid as a result of agreements signed in 2018 and before. Divorcing couples considering alimony payments should be aware of this deadline.

In many cases, the change will be negative for both members of the couple because the payer and the payee typically are in very different tax brackets, divorce specialists say.

For example, say that high-earning Spouse A agrees to make alimony payments of $100,000 annually for 10 years to Spouse B. In the current system, Spouse A might save about $37,000 of tax per year due to the deduction, while Spouse B—who is in a lower tax bracket—might owe $15,000 of tax on the $100,000 of alimony received.

But if that couple were to divorce next year, Spouse A might be more likely to push to pay lower alimony to Spouse B because the lack of a deduction makes such payouts more expensive.

The move "changes the economics of many divorces," said 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.

ONE BENEFICIARY: THE IRS
The IRS could spend less time policing a large tax gap between amounts deducted by alimony payers and what is reported by alimony recipients.

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.

HELP WITH CASH FLOW

The alimony deduction is especially important when the paying spouse is short of liquid assets to fund a settlement or pay support—since it reduces the overall cost of the payment. "The deduction helps with cash flow," said Elena Karabatos, a matrimonial lawyer in New York.

Tax specialists say the write-off has also been an important bargaining chip if divorcing couples are considering a lump-sum settlement, which isn't tax-deductible. Recipients tend to favor such settlements in order to receive the money sooner, but for payers it means missing out on a series of deductions, which gives both parties an incentive to agree on a lower lump-sum amount. Ms. Marzano-Lesnevich said $1 million of alimony due over 10 years could thus turn into a lump-sum payment of about $500,000.

With no alimony deduction, the ability to negotiate a much-lower lump-sum payment will shrink.

ALIMONY

The repeal of the alimony deduction for divorces concluded after 2018 does have one beneficiary: the Internal Revenue Service. The IRS could spend less time policing a large tax gap between amounts deducted by alimony payers and what is reported by alimony recipients.

—Laura Saunders

OTHER DEDUCTIONS

Many write-offs are being curtailed, including for unreimbursed employee travel expenses

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Lawmakers also ended or imposed new limits on many other write-offs.

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; tax-preparation fees; certain investment advisory fees; and many more.

$250

Maximum amount teachers can still deduct for classroom-supply expenses

People often found the miscellaneous-expenses deduction hard to qualify for, because total eligible expenses had to exceed 2% of income.

Also on Schedule A, lawmakers ended the deduction for casualty and theft losses other than for major disasters. This deduction often came with significant limits.

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.

—Laura Saunders

RETIREMENT AND EDUCATION

RETIREMENT SAVINGS

Tax law changes timeframe of 401(k) loan repayments, ends savers' ability to 'undo' Roth IRA conversions

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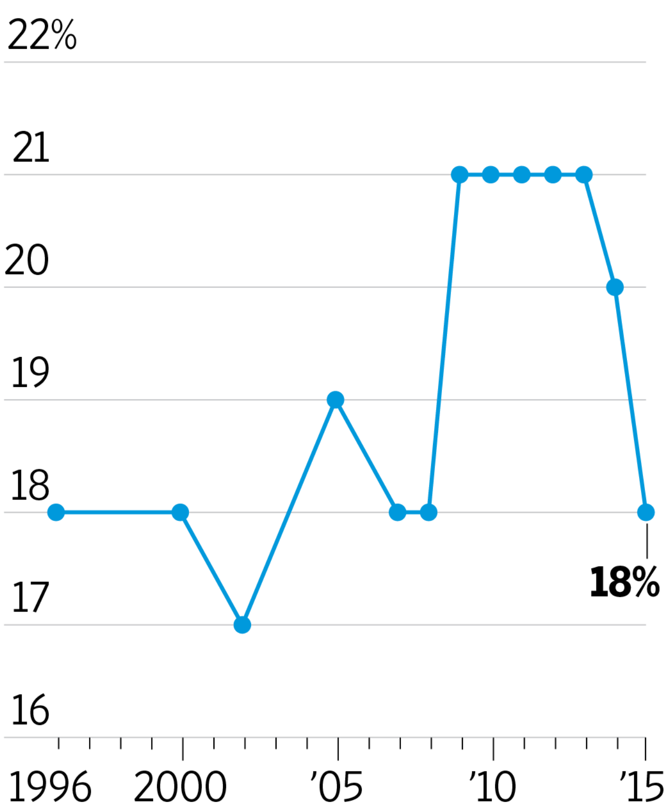
Lawmakers backed off a controversial proposal to lower the amount Americans can contribute before taxes to 401(k) and similar retirement-savings plans. But they did make other changes affecting savers who have these plans.

Plan Withdrawals

Percentage of eligible 401(k) participants with loans outstanding



Sources: Investment Company Institute; Employee Benefit Research Institute

THE WALL STREET JOURNAL.

Savers who leave a company with a 401(k) loan outstanding will 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.

Oct. 15, 2018
Deadline to undo 2017 Roth IRA conversions

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.

The IRS has confirmed that people have until Oct. 15, 2018, to undo 2017 Roth IRA conversions.

—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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One key change of the tax overhaul will be positive for many retirees: the near doubling of the standard deduction to $12,000 for individuals and $24,000 for married couples who file jointly.

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

Congress also retained the "additional standard deduction" for people age 65 and older in the new law. It is $1,600 for singles and $1,300 for each spouse in a married couple for 2018.

As a result of these changes, many retirees will see an 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. Prior law for 2018 would have given them 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, 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.

ADDITIONAL STANDARD DEDUCTION

People age 65 and older are eligible to take the additional standard deduction:

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

NO CHANGES TO IRA CHARITABLE TRANSFERS

There is also no change to charitable transfers from individual retirement accounts, or IRAs. This popular benefit allows retirees 70 1/2 or older to donate IRA assets up to $100,000 directly to 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. The donor can still take the standard deduction and receive a tax break for giving to charity.

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.

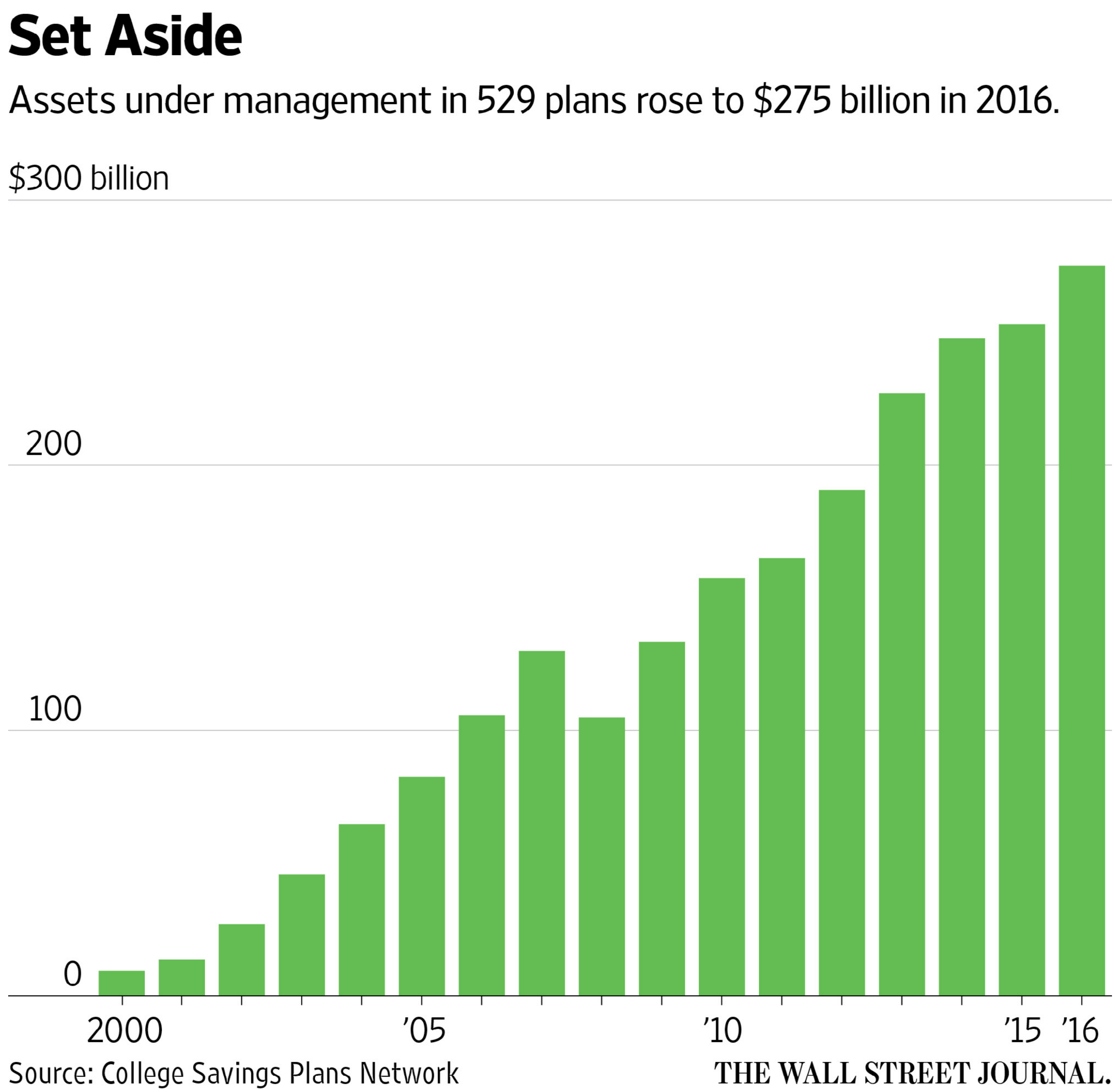
—*Laura Saunders*

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

So-called 529 accounts have gotten a lot more flexible. But there's 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 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 the latest data from the College Savings Plans Network, assets in 529 plans grew to $275 billion in 2016 from $106 billion a decade earlier.

Most 529 plans are offered by states, and almost all states have them. Savers dissatisfied with their own state's investment offerings or fees can go elsewhere, although investment options are limited in most states, said Mark Kantrowitz, a college-savings analyst from Chicago.

PAYING FOR K-12 EDUCATION

A big change in the new 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. At the same time, though, private schools will likely want to know about families' 529 savings and may take that information into account when making financial-aid decisions for the 2019-20 school year, according to a spokeswoman for the National Association of Independent Schools.

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 New York has warned account owners that such withdrawals could have state-tax consequences and that it is still evaluating the new law.

TRANSFERS TO 529 ABLE ACCOUNTS

In another significant change, the overhaul also enables 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 don't limit the person's access to Medicaid and Social Security income, or SSI benefits.

Like 529 plans, 529 ABLE plans 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.

$15,000

Amount that may be transferred per year from a regular 529 to a 529 ABLE account

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: 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.

But the assets of a regular 529 plan needn't go to the state at death. So under the new rules, said Mr. Kantrowitz, someone could fund a 529 account for a disabled person and transfer money from it as needed to a 529 ABLE account. 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 break should check their state plans to make sure that 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

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Many changes related to education seemed to be on the horizon as the tax overhaul took shape. But, in the end, aside from adjustments related to 529 plans, Congress put aside most other education changes that been approved by the House of Representatives.

One important change 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: Loans that are forgiven due to death or disability are no longer taxable.

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

—Laura Saunders

FOR BUSINESS OWNERS

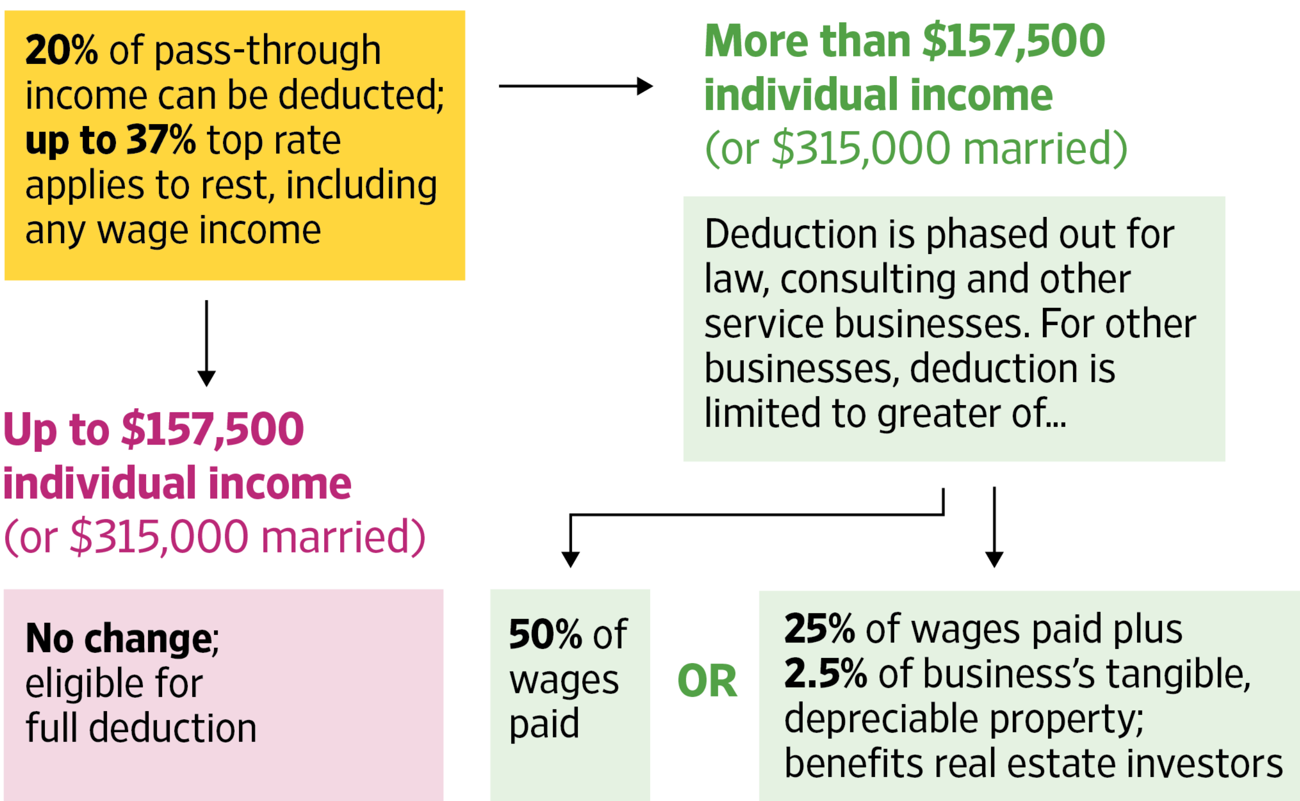
PASS-THROUGH INCOME

Owners of pass-through businesses get a break—
but figuring out who is eligible isn't easy

The overhaul created a new deduction of 20% of net income for many pass-through business owners, effectively lowering their top rate to 29.6% from 37%. Lawmakers made the change as a boon to firms that won't benefit from the cut in the top corporate rate to 21% from 35%.

A Pass-Through Primer

How different types of businesses will be affected by the tax overhaul's rules on 'pass-through' business income.



Note: Trusts are now eligible for pass-through treatment. THE WALL STREET JOURNAL.

So-called pass-through businesses include millions of partnerships, limited-liability companies, S corporations and sole proprietorships that don't pay corporate taxes or dividends. Instead, their net income flows directly to the owner's personal return and is only taxed once, at the owner's individual rate.

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

Pass-through owners can claim the 20% deduction if their taxable income is under $315,000 for joint filers or $157,500 for single filers. Above that, 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, investment advisers 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 is under:

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

ADVISERS SORT THROUGH COMPLEXITY

Phase-outs, exceptions and gray areas in these limits make this new tax break highly complex, and tax advisers are struggling to figure it out.

For example, tax specialists say the owner of a chain of tanning salons should qualify for the new tax break, while someone who earns the same amount from a group of dermatology clinics won't.

A high-earning chef who owns her restaurant can expect to get the new deduction—unless she is a celebrity chef. In that case, she may not be able to qualify because the write-off isn't available to owners earning above the limit if the business's principal asset is the "reputation or skill" of its employees or owners.

Tax specialists are looking to the IRS for guidance on these and other issues raised by the new pass-through deduction.

—Michael Rapoport and Ruth Simon

DEBT INTEREST PAYMENTS

New tax law puts cap on amount of debt interest cost that most companies can deduct

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Heavily indebted companies will face 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 the next 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 exceptions for previously issued debt. Companies that borrowed in the past will face new limits immediately.

The law doesn't make any exceptions for previously issued debt, so companies that borrowed in the past will be facing the stringent new limits immediately.

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.

NO IMPACT ON SMALL FIRMS, CAR DEALERS

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 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

Tax law allows companies to immediately write off 100% of equipment purchases, an extraordinary—albeit temporary—perk

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

That is 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 and output.

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. They are newly available to firms 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.

SMALL COMPANIES AND REAL ESTATE FIRMS

Many small companies had already been getting 100% deductions for capital investments, under what is known as Section 179 of the tax code. The new 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 PATH OF TAX OVERHAUL

Republicans pin re-election hopes on new law, while Democrats seek to campaign on tax plan's flaws

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Republicans seized full control of Congress and the White House in the 2016 election, and then used that power to pass the most far-reaching rewrite of the U.S. tax code since 1986.

Donald Trump

The $1.5 trillion tax cut was nearly a decade in the making, but it became possible only because Republicans had the reins—and then deployed their political and procedural muscle to push a bill through Congress without a single Democratic vote. They are now hanging their re-election campaigns on the new law.

The political victories of 2016 and the political prospects for 2018 shaped the tax bill through 2017 and propelled it over the finish line, right at the moment when Republicans needed something they could label as a "win." They had the votes and the will to do it. President Donald Trump helped set the contours, and Republican legislators filled in the details.

Stung by a failed midyear attempt to repeal parts of the Affordable Care Act, Republicans regrouped in the fall on tax policy, which they realized was a safer ground for intraparty consensus. They decided that inaction on taxes wasn't tenable and that bipartisan compromise was neither possible nor worth much effort.

GET IT DONE YESTERDAY

Instead, they used the process known as budget reconciliation to let them pass the tax bill with simple majorities rather than a 60-vote supermajority in the Senate that would have required support from Democrats. It came with some constraints, including the requirement that the tax cut not cost the government anything beyond a decade. To fit inside that box, Republicans set the individual tax cuts to expire after 2025.

That sunset date and the partisan nature of the law's passage make it inherently unstable. Democrats are already running campaigns to unravel it. And those expirations—such as an expanded deduction for medical expenses that expires at the end of 2018—will force Congress to return to tax policy soon. For now, though, it is the law.

Crucial decisions that might have divided the GOP at other times—such as ending a tax break for college athletics or limiting deductions for business interest—barely registered in the seven-week sprint from the bill's release to the law's signing.

By the time Republicans finished the tax bill in December 2017, the prevailing sentiment inside the party was: Get it done yesterday. The idea of dragging the tax debate into the 2018 election year was a non-starter.

REPUBLICANS' BEST ARGUMENT

"The best deadline we could find was the end of the year. I kept trying to use other deadlines, but those deadlines didn't work very well," House Speaker Paul Ryan (R., Wis.) said in a December interview. "We put a real deadline that I thought would work, and we got on the same page and we drove it."

Paul Ryan

Now, party leaders see the tax cut—and the wave of corporate bonus announcements that followed it—as their best argument in the 2018 midterm elections. Many workers started to see the tax cut in February paychecks, and the tax law is getting more popular, though most Americans still oppose it.

Democrats see potential political victories in the tax law, too. They plan to spend the 2018 campaign pointing to the benefits for corporations and high-income households and arguing that the bill is tilted toward the wealthy. And they are highlighting flaws that already have Republicans talking about passing a subsequent bill to fix mishaps, such as a provision that gives owners of farmer-owned cooperatives an unintended benefit over other firms.

BUDGET-DEFICIT WORRIES

Democrats also complain that the cuts will add to government budget deficits over the decade, contrary to Republican protestations during Barack Obama's presidency about rising government debt. Official projections show the law will increase economic growth, but that growth will cover only about one-quarter of its costs.

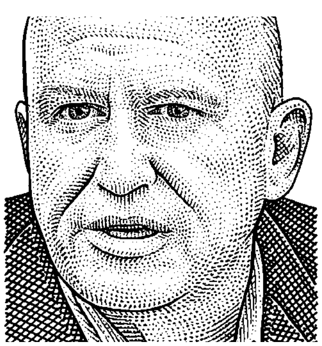
"Our children and grandchildren will be forced to foot the bill for tax cuts given to those at the very top and big corporations," Rep. Richard Neal (D., Mass.) said in a statement when the final bill passed in the House. "This legislation will have long-term, wide-ranging negative impacts on Americans' economic security."

The Democratic model, consciously or not, echoes the Republican response to the Affordable Care Act. None of them voted for it and they used their opposition to regain control of the House of Representatives in 2010.

The 2010 and 2017 models share another trait: Lawmakers were ready to take advantage of a majority knowing it might not last.

MIDDLE OF THE PARTY

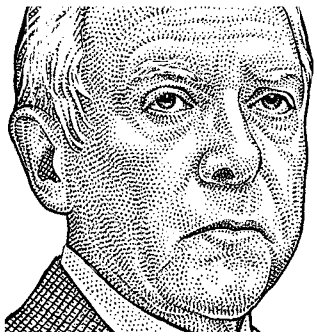
Although the final details were hammered out quickly, the Republican tax law was the product of years of preparation in the party. Broadly, the tax law is similar to what a President Jeb Bush or a President Mitt Romney might have signed, and that is a testament to the common purpose Republicans found in the tax code.


Kevin Brady

During the Obama administration, Republicans developed their own consensus around lower tax rates for individuals, corporations and so-called pass-through businesses that pay taxes through individual returns.

They talked about which breaks they were willing to keep and which they might jettison. They kicked around bold ideas, including the border-adjustment plan House Republicans unveiled in 2016 that would tax imports and exempt exports and flat taxes proposed by presidential candidates.

The result hewed to the middle of the party, with enough rate cuts for "supply-siders" who see lower rates stimulating growth, enough corporate benefits for



Orrin Hatch

business allies and a revenue target acceptable to the handful of members still concerned about budget deficits.

STAYING OUT OF THE WAY

Mr. Trump did shape the law broadly. He insisted on a very low corporate tax rate. He wanted 15% and got 21%. And he insisted on a middle-class tax cut, and most households will get tax cuts at least in the next few years.

Beyond that, the administration stayed out of the way of congressional tax writers, especially in the final weeks. In the House, that was Ways and Means Chairman Kevin Brady (R., Texas) and his team. In the Senate, it was Finance Chairman Orrin Hatch (R., Utah) and a core group of others who wooed wavering senators and cut the deals: Pat Toomey of Pennsylvania, Rob Portman of Ohio, Tim Scott of South Carolina, John Thune of South Dakota and John Cornyn of Texas.

If they regain control of Congress, Democrats will try to start carving back the tax law in 2019, and any Democrat running to succeed Mr. Trump in 2020 will have a tax agenda, too. Republicans will look to consolidate their gains and make as many of the tax cuts permanent as possible.

—Richard Rubin

THE ECONOMIC IMPACT

Economists expect a boost in next two years, but longer-term effects are less clear

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

A large cut in the corporate-tax rate is designed to spur investment and hiring by businesses. 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.

0.3 Percentage Point

Increase in 2018 U.S. economic growth attributable to tax cut, as forecast by Goldman Sachs

Economists expect the tax cut to give a boost to the gross-domestic-product growth rate in the coming year or two. Goldman Sachs Group Inc. has revised up its growth forecasts for 2018 and 2019 by 0.3 percentage point and 0.2 percentage point, respectively, to 2.6% and 1.7%. Economists there also expect stronger demand, primarily from increased consumption, to push unemployment down from its 4.1% rate in January to 3.5% by the end of 2018 and 3.3% in 2019, which would be the lowest level since the 1950s.

MIXED HISTORICAL EVIDENCE

It is less clear whether tax cuts can raise the economy's growth rate over a longer period of time. 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.

The Trump administration says growth of 3% or more is 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 Wall Street Journal survey of private-sector economists showed nine out of 10 professional forecasters expect the tax bill 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.

$1 Trillion

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

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. That bulked up household 401(k) plans, making consumers more inclined to spend money. It also bolstered CEO confidence. Scores of large businesses announced bonuses for some of their workers or plans to increase investments.

"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.

Still, it isn't easy to tease 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. 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.

“It is too early to quantify the benefits,” Rockwell Automation Inc. CEO Blake Moret told investors after the tax cut. He said the tax overhaul would increase how much it can invest, while giving the company greater flexibility to do so, though it doesn’t alter the firm’s overall priorities.

“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.”

HOUSING MARKET’S WINNERS AND LOSERS

The housing market illustrates how a GOP tax bill creates 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—could make housing less affordable in expensive metro areas situated in high tax states, such as New York, San Francisco, and Washington, D.C.

The tax cut could also influence interest-rate policy depending on how officials at the U.S. Federal Reserve judge its potential influences over investment and hiring decisions.

The overhaul could boost growth two ways: by raising demand or raising supply. In the short run, by giving businesses and consumers more money, it could spur demand for equipment, homes and other goods. In the long run, by encouraging people to work more and businesses to invest more, it could permanently raise the economy’s supply capacity by increasing the number of workers and their productivity.

If Fed officials conclude the tax cut is boosting demand without increasing the economy’s supply capacity, they might raise interest rates more aggressively than planned to avoid a substantial pickup in inflation. The economic backdrop already has the Fed raising rates, with the economy in the ninth of year of expansion and the unemployment rate, at 4.1%, down to a 17-year low.

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

WHAT INVESTORS NEED TO KNOW

A breakdown to help you understand which companies are likely to gain and lose in the months and years ahead

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For Washington, the federal tax overhaul is done. For companies around the globe, it is only beginning. And for investors, it's time to understand just how the changes are sweeping through the companies and industries in their portfolios.

We're seeing the effects already. First came the dramatic charges to earnings from accounting adjustments and big one-time tax bills. But even as those fade, companies of all sizes will continue grappling with tax-law changes that have the potential to reshape operations, upend years of planning and even alter how they pay top executives.

So much change—and so quickly—creates a minefield for investors. But understanding some basics about the tax legislation can help investors evaluate new disclosures and moves in the coming weeks, months and years. Here's a closer look at some of those basics:

FOREIGN PROFITS

The tax law's shift to a type of territorial tax system will pay off for multinational companies for years to come. Indeed, in contrast to the former threatened 35% U.S. tax on profits earned abroad, payments from foreign affiliates to U.S. parent companies now will generally go untaxed by the U.S., with relatively limited 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. 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. Biotech firm Amgen Inc. said in early February that it would spend about three-quarters of its five-year, $3.5 billion capital program in the U.S., up from 50% previously, in part to build a $300 million plant.

Better access to foreign profits also could have big repercussions for corporate debt. Multinational firms often borrowed heavily to pay dividends, buy back shares and invest in the U.S., because it was cheaper than bringing the money home. Now, those companies could reduce their debt loads, freeing up yet more future income and cash for operations or returning capital to shareholders.

“I am pleased, obviously, to be able to access the cash more easily and not have to go through the debt market to be able to make these choices,” Microsoft Corp.’s chief financial officer, Amy Hood, told investors in a Jan. 31 conference call.

The biggest winners: Companies with huge troves of cash that were parked overseas—primarily tech and pharmaceutical firms, but also large industrial, financial and consumer-products companies.

LOWER RATES FOR MOST

Most of the tax benefits for companies will be right here at home. Congress estimates that by reducing the corporate tax rate to 21% the Internal Revenue Service will collect $1.35 trillion less from companies through 2027.

Congress also scrapped the corporate alternative minimum tax, which put a floor on how low companies could bring their domestic taxes with deductions and credits. Ending the corporate AMT is likely to save companies $40 billion over the next decade.

The biggest winners here will be banks, restaurants and others with primarily U.S. operations that have typically been paying something close to the old 35% statutory corporate tax rate. Organic- and natural-foods distributor United Natural Foods Inc., a big supplier to Amazon.com Inc.’s Whole Foods supermarket chain, says it expects to see its effective tax rate decline to 28% from just over 39% (including state taxes). Darden Restaurants Inc. expects to pay 18%, down from 20% to 24%, while mutual-fund firm T. Rowe Price Group Inc. says it expects a tax rate of 24% to 27%, down from about 36%.

By contrast, thanks to the exceptions still being worked into the rules covering foreign income, companies can be expected to benefit less, or even see their taxes rise, if they depend more on foreign operations or intellectual-property income—

especially firms that have shifted patents and profits to low-tax havens outside the U.S.

Many tech and pharma giants fall into this category. International Business Machines Corp. has told investors to expect an effective tax rate of 14% to 18%, up from 6.5% in 2016. Other firms boasting low tax rates could pay up as well. Industrial conglomerate Eaton Corp., which makes truck transmissions and electrical equipment, says it expects an effective tax rate of 14% to 16% going forward, up from as low as 7.7% in recent years.

ACCELERATED DEPRECIATION

Companies get a big break when they buy stuff, at least for the next five years.

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 the asset's expected useful life.

There's a twist: The accelerated depreciation applies not only to new assets, but to used assets as well.

Don't expect a dramatic, direct impact on profits. From a financial-accounting perspective, companies have long had to book full deductions on equipment purchases up front.

But from a cash perspective, it's a big change that can mean significantly less taxes paid in the wake of big purchases. Moreover, the September 2017 start date means retroactive windfalls at some firms. Already, there are signs that it is boosting equipment sales—and possibly hastening industrial automation.

Corporate acquisitions could boom, 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. There could be more deals like catering giant Aramark's acquisitions of hotel-procurement firm Avendra and of uniform-rental firm AmeriPride Services Inc. Both deals were recent and qualified as asset purchases. Aramark says it expects to save nearly $500 million in taxes on the deals.

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 (see below).

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). 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

A more substantive cut for some companies will be the limit on tax deductions for interest paid on debt.

Previously, there was no explicit limit on how much interest companies could deduct 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.

Many companies won't notice this change, but highly leveraged companies could 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.Similarly, 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 reason the U.S. will continue to tax some foreign earnings of U.S. companies: Complex provisions prevent U.S. firms from abusing the new tax law by artificially shifting income to ultra-low-tax havens overseas. U.S. Treasury and IRS officials are still drafting rules to implement these "guardrails." 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 limit 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's 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.

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.

Many details remain unclear, but investors can expect guardrails to mostly affect large companies—including many in the tech and pharmaceutical industries—that have successfully pushed their tax rates down by housing intellectual property in low-tax jurisdictions such as Ireland or Luxembourg.

Other sectors could be affected as well. Foreign bank profits are likely to be dented by the provisions, warns Blair Fleming, head of the U.S. investment-banking unit of Royal Bank of Canada's RBC Capital Markets division.

An industrial conglomerate, meanwhile, Illinois Tool Works Inc., says it expects the international provisions to contribute about 2 percentage points to its overall effective tax rate of 25% to 26% going forward. Glassmaker Corning Inc. says its tax rate will rise to between 20% and 22%, from 17.3% last year, 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.

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.

—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 an industry-by-industry look:

AIRLINES

U.S. airlines received a multi-pronged tailwind from the tax overhaul, even though some of the biggest carriers won't pay cash taxes for years after running up billions of dollars in losses over the past two decades when much of the industry was in bankruptcy protection.

Delta Air Lines estimates the lower corporate tax rate will reduce its annual bill by $800 million when it starts paying cash taxes in 2019 or 2020 after burning through its balance of accumulated losses. American Airlines Group—the world's largest carrier by revenue—estimates its effective tax rate will have dropped to 24% from 38% when it too starts paying in the next several years.

The most immediate benefits come from an expected rise in business travel as U.S. companies invest their own savings in expansion, though Delta CEO Ed Bastian said on a conference call in January that the forecast bump in traffic had yet to materialize.

American, Southwest Airlines and some other carriers have also used the lower tax rate to give employees cash bonuses of $1,000, an olive branch in an industry where labor relations are notoriously volatile.

Southwest, one of the few carriers to pay cash taxes, has already announced plans to use the savings to accelerate aircraft purchases from Boeing.

—Doug Cameron

ALCOHOL

Beyond the shrinking of the corporate tax rate, the beer, wine and spirits sectors are in line to benefit from a temporary cut in excise tax.

A two-year provision in the new tax law reduces the excise tax rate to $2.70 from $13.50 per "proof gallon"—a measurement of volume that takes into consideration alcohol content—that booze makers must pay on the first 100,000 gallons of distilled spirits produced or imported annually. For the next 22 million or so gallons, the rate would rise to $13.34, after which it would keep the current rate. After two years, the excise-tax rate on the first 100,000 proof gallons will go back to $13.50.

Diageo, the world's largest spirits maker, in January said it expected to benefit from the lower corporate-tax rate in the U.S., where it gets 40% of its profits. The company said it expected its overall tax rate to fall to 20% from 21% for the fiscal year ended June.

Different excise-rate reductions and credits also would apply to wine and beer makers. The biggest winners are smaller brewers, vintners or distillers because of their relatively low volumes.

Robert Cassell, co-founder of Pennsylvania based New Liberty Distilling, estimates the tax cuts would give him an extra $50,000 to $80,000 a year to hire people and buy more equipment at his two distilleries in County Mayo, Ireland, and Kensington, Pa. "This is like found money," he said.

The law marks the first cut to federal taxes for alcohol makers since the Civil War, according to Frank Coleman, public affairs head for the Distilled Spirits Council, which has led lobbying efforts for spirits makers in the U.S.

Industry watchdog Alcohol Justice urged Americans to lobby Congress not to pass the alcohol tax cuts, saying economic harm from excessive alcohol consumption costs $249 billion annually, including 88,000 deaths, alcohol-related car crashes, violence, chronic illness and lost productivity.

—Saabira Chaudhuri

AUTOS

Auto makers are breathing a sigh of relief as tax law preserves an income-tax credit of up to $7,500 for electric cars. The initial tax-overhaul bill in the House of Representatives had eliminated it.

Car companies are plowing billions of dollars into developing battery-powered vehicles and view the credit as key to spurring consumers to buy the advanced technology, which typically boosts vehicle prices thousands of dollars above gasoline-powered cars and trucks. In addition, low gasoline prices currently make electric and plug-in hybrid vehicles tougher sells.

Auto makers and their Washington allies argued losing the credit would make it more difficult to meet stringent environmental regulations requiring them to sell electric cars, and broadly curb emissions and increase fuel economy.

"This credit supports innovation and job creation while helping drivers access advanced vehicle technology," said Genevieve Cullen, president of the Electric Drive Transportation Association, a Washington group representing auto makers and other companies promoting battery-powered vehicles.

—Mike Spector

BANKS

Banks are expected to be among the biggest beneficiaries of the tax overhaul, though they are taking a step back in order to take two steps forward.

Within weeks after the tax overhaul was enacted, many big banks recorded big upfront charges to earnings that the new law required them to take immediately. But going forward, they are expected to be helped greatly by the new reduction in the corporate tax.

In the past, banks have tended to pay more 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, to 21% from 35%, will benefit them even more. Previously, banks in the S&P 500 paid an effective 25% tax rate, compared with 18% for information-technology firms, according to S&P Global Market Intelligence.

At the biggest banks, effective tax rates have tended to be in the high 20s or low 30s, but some say they expect their effective rates to drop now to the low 20s or even the teens. J.P. Morgan Chase, Bank of America and Wells Fargo have all said they see their 2018 effective tax rates at around 19% or 20%.

Banks had to go through some pain first to reach those benefits, however. Many big banks took big charges to their 2017 earnings 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 billion, but other banks had sizeable charges as well--$4.4 billion at Goldman Sachs, and $2.9 billion at BofA.

But now that they are past that, some banks, like BofA, Goldman and Morgan Stanley, say they expect their lighter tax bills to boost their financial performance. Goldman analysts estimated in December that the tax-rate and other provisions of the tax overhaul would boost large banks' earnings by about 13% in 2018.

BofA says it expects a boost of more than 1.5 percentage points to its return on tangible common equity and more than 0.1 point on its return on average assets, assuming all of the benefits from the tax changes flow to the bottom line. Goldman says it expects its lower tax rates to have a direct effect in driving earnings growth and return on equity.

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

—*Michael Rapoport*

DRUGS

The tax overhaul paves the way for drug companies to bring back tens of billions of dollars in profits held overseas and remove or reduce taxes on those earnings going forward.

Drugmakers also avoided some of the biggest threats posed by the legislation like the undoing of the research-and-development tax credit, which survived untouched.

One big beneficiary has been AbbVie, maker of the arthritis drug Humira. The company said it expects its effective tax rate to drop to 9% for 2018 from 18.9% in 2017 as a result of the new tax law.

Pfizer said its effective tax rate would drop to 17% from 23%. Other big drug companies based in the U.S. said they expect their effective tax rate to drop by a few percentage points.

U.S.-based drugmakers have kept billions of dollars in profits overseas to avoid losing a big chunk due to taxes.

With the tax change, Wall Street analysts expect companies to bring back much of their overseas cash, and use it to buy rivals and buy back shares.

The repatriation could lead to some big acquisitions in the drug industry, as well as make targets out of small and midsize drug companies with products that could fit into the portfolios of big firms looking for ways to spend their cash.

About a third of the 30 U.S. companies with the most cash abroad come from the drug industry, according to Credit Suisse. That is because drug companies do a lot of business overseas and have shifted intellectual property there to take advantage of lower tax rates.

The tax plan would remove many of the incentives to employ such tax-lowering tactics, exposing more company income to U.S. taxes, said Robert Willens, a Columbia University Business School professor who runs his own tax-and-accounting services firm.

—Jonathan Rockoff and Peter Loftus

HEALTH INSURERS

Health insurers, an overwhelmingly domestic industry, will reap enormous benefits from the tax law's sharp cut to the corporate rate. Several big insurers have unveiled details about how their tax rates will change, and the upshot for their 2018 earnings projections, as well as their plans for the windfall.

UnitedHealth, the biggest U.S. insurer, said the tax overhaul would boost its earnings roughly 16% in 2018, and said it would invest a portion of the proceeds in initiatives including artificial intelligence, data analytics, health-information records and improving its relationship with customers.

Anthem and Cigna also reflected a projected increase in 2018 earnings, and both said they would invest some of the money in various initiatives intended to spark future growth.

However, the insurers noted that the full benefit of the tax cut will be diluted somewhat by regulatory issues. UnitedHealth flagged a premium revenue cutback for 2018 that was partly tied to how the new tax change interacts with the way insurers handle an existing health-insurance tax that is part of the Affordable Care Act, as well as the ACA's requirements that a certain minimum share of premiums go toward health-care expenses.

Both Cigna and Humana have said that their workers would see financial benefits from the tax overhaul. Humana made changes including raising its minimum hourly wage in the U.S. to $15. Cigna said it would raise its minimum wage to $16 an hour, and it will also bolster workers' 401(k) program and spend an additional $15 million on salary increases on top of the cost of the minimum-wage increase.

Analyst Ana Gupte of Leerink Partners LLC suggested that insurers are likely to find a variety of outlets for the additional cash, including share repurchases, dividends, investing to grow their businesses and merger activity, which would come on top of a fast pace of managed-care deals already under way.

Many nonprofits in the industry, a category that includes most Blue Cross Blue Shield insurers, also will see a drop in their tax bills, but not as large. The nonprofit Blue insurers do generally pay federal taxes, analysts said, but often at lower rates than their for-profit competitors.

Over time, the tax-cut windfall could shrink, as the extra margin could be trimmed as insurers use it to push down rates in competitive markets. But UnitedHealth said it believed the benefits would be sustainable.

Another aspect of the tax legislation could increase the challenges for some insurers, by ending the ACA's penalty for not having insurance coverage. Insurers generally believe that the upshot would be to shrink enrollment in ACA plans, particularly among healthy people who don't receive federal subsidies to help with their premiums. That could lead to an increase in premiums, adding to the instability in a market that has already faced years of upheaval, insurance officials say.

Because the mandate repeal doesn't take effect until 2019, insurers would have time to raise rates to account for the extra risk, or withdraw from the ACA market, as many have already done.

—Anna Wilde Mathews

MANUFACTURERS

The new tax law will make the U.S. more attractive as a base for manufacturing, tax experts and company executives said.

Provisions aimed at changing the domestic tax rate and the rules on foreign profits could generally favor domestic manufacturers that export from the U.S. or companies with production in the country, they said. But the tax bill could have mixed effects for U.S.-based companies with overseas operations.

U.S. manufacturers are likely to benefit from the ability to immediately write off the costs of equipment purchases. Executives at manufacturers said the new, more generous write-offs, along with a lower corporate tax rate, are prompting them to speed up capital-spending plans or buy more equipment than previously planned.

Economists say the new tax law could hasten the long-term trend of automation in U.S. factories. Among the bigger companies that say they are planning to either build new plants or spend more on factory equipment this year because of the tax law: aluminum producer Novelis Inc., paint and coatings maker PPG Industries Inc. and diaper- and tissue-maker Kimberly-Clark Corp.

Within the food manufacturing sector, Oreo-maker Mondelez International said that because it earns most of its revenue internationally, it already had a relatively low tax rate. The company doesn't accumulate much cash overseas, so it won't be repatriating material amounts of money either. The overall impact on Mondelez's effective tax rate in 2018 "is basically zero," said Chief Financial Officer Brian Gladden.

U.S. food companies also have been investing in their businesses to reformulate recipes and develop new, trendier brands. The elimination of the corporate alternative minimum tax will make it easier for them to claim tax credits for research and development spending. However, experts say that breaking out R&D costs for tax purposes and amortizing those expenses over several years would be complicated and costly for food companies, which typically don't calculate their expenses that way.

"That's one of the hidden traps that are going to affect food manufacturing," said Bill Marx, a tax partner at Grant Thornton LLP who specializes in food and beverage companies.

—Andrew Tangel and Annie Gasparro

OIL & GAS

Corporate-tax cuts will be a boon to oil-and-gas producers in a variety of ways, but the rate reduction isn't expected to be as meaningful for big companies such as Exxon Mobil or shale drillers, as it will be for refiners.

Like other multinational corporations, oil giants such as Exxon and Chevron will be able to bring profits made abroad back into the U.S. at a lower tax rate, according to Niloufar Molavi, the global oil and gas leader for PricewaterhouseCoopers.

That is one of a number of changes with the legislation that signals a transition to "territorial taxation," where large U.S. companies with global operations wouldn't necessarily have to pay domestic tax on activity abroad for which they already paid tax to another country, she said.

U.S. refiners such as Valero Energy, which came close to paying the full corporate tax rate, have said they will reap billions from the policy change. Valero announced a tax benefit of $1.9 billion for 2017, and Marathon Petroleum said it will have a tax benefit of $1.5 billion due to the change to deferred tax liabilities.

The law also has provisions that continue to provide breaks to energy partnerships whose earnings are taxed once they are paid out to investors. Often called master-limited partnerships, or MLPs, many companies with that structure operate pipeline assets around the country.

—Bradley Olson

REAL ESTATE

The National Association of Realtors, one of the largest and wealthiest lobby groups in the U.S., is among the biggest losers in a tax-code overhaul that wiped out decades-old perks designed to encourage homeownership.

By almost doubling the standard deductions for individual and joint tax filers, the legislation blunts the advantage of the mortgage-interest deduction. The legislation also caps 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. At least 23 million fewer U.S. homeowners will be incentivized to buy a home under the new rules, according to home-search website Zillow. The share of homeowners who are likely to itemize and therefore able to take advantage of the mortgage interest deduction is expected to decline to about 14% from about 44%, according to Zillow.

U.S. home prices 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 fall by as much as 10%, Moody's said.

—Laura Kusisto

RETAILERS

As an industry that pays one of the highest average corporate-tax rates, retailers are set to be one of the largest beneficiaries of the new tax legislation, which lowers 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. According to data from PricewaterhouseCoopers, retailers paid an average tax rate of 30.6% in 2016, the highest of any industry tracked by the consulting firm.

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 would have eaten away at earnings and resulted in higher costs that retailers said would have to be passed to consumers.

Since the bill 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 expect it would add to profits in the coming fiscal year.

—Sarah Nassauer

TECHNOLOGY

The drop in the corporate tax rate to 21% from 35% is expected to boost the profits of most companies, but for some tech giants the benefit of the lower rate could be partially offset by one-time mandatory levies on their huge overseas cash stockpiles.

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 will now generally pay no U.S. taxes on future overseas profits.

But there is a catch: All companies will be forced to pay a one-time tax on the overseas profits they have accumulated so far, 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 must generally book this tax as a one-time charge in the final quarter of 2017. Apple in January said it would pay $38 billion in taxes and return the majority of its overseas cash to the U.S.

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: For instance, 95% of networking giant Cisco Systems' accumulated foreign profit last year was in cash and cash equivalents, versus 22% for retailer Walmart.

Tech giants generally enjoy low effective tax rates because a portion of their profits accumulate in low-tax foreign jurisdictions. 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 pay 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. EBay said its effective tax rate will rise to as much as 22%, far above the 13% average for the company over the 10 years ended 2016. For eBay, the benefit of the lower statutory rate "is largely offset by the global minimum tax and other foreign taxes," CFO Scott Schenkel said on a Jan. 31 call with analysts.

And while tech companies have easier access to their billions of dollars in overseas cash, most of them don't sound eager to spend it. Executives at Google parent Alphabet, Amazon.com, IBM, Microsoft and PayPal Holdings all said they didn't plan to make changes to how they spend cash.

—Douglas MacMillan

TELECOMMUNICATIONS

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

AT&T in January said the new tax code would hand it about $3 billion in extra cash in 2018. Verizon Communications estimated its annual cash savings between $3.5 billion and $4 billion.

AT&T had thrown its weight behind the tax push, promising a $1 billion capital spending boost in 2018 if the legislation passed. The company raised its spending estimates accordingly and gave more than 200,000 employees $1,000 bonuses while pumping more cash into their medical plans. Verizon said it will pay down some of its $117 billion debt load, donate some cash to charity and hand out 50 shares each to most of its 155,000 workers.

The bill's overall 21% corporate tax rate, down from 35%, lopped billions of dollars off telecom companies' federal obligations. 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 reported a nearly $17 billion gain for the same reason.

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 nearly a decade ago. This bill extends and expands that stimulus measure for the next five years, 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 over the next five years. The percentage would decline after then and expire in 2027.

AT&T Chief Executive Randall Stephenson last year said he would rather see overall corporate taxes fall than get an extension to the depreciation write-off, arguing that the lower corporate rate would help most businesses.

Telecom companies ended up getting both benefits. Taking out a big depreciation expense in one year, instead of in small amounts over time, frees up more cash for executives to invest at a return.

—Drew FitzGerald and Ryan Knutson