The Tax Cuts and Jobs Act 2017

TRO presentation

Joel Mathews, CPA

2/8/2018

Background details

- “The Tax Cuts and Jobs Act”
  - Signed by the president on December 22, 2017
- Why are dates important?
  - Effective date of most changes start January 1, 2018
  - There are some tax elections that start in December 2017
- Sunset Date for law changes 2025
  - Why is this important?

Overview for changes for Individuals

- New tax rates and income brackets
- Increased child tax credit and a “new” family tax credit
- Limits on mortgage interest deductions
- Dollar limit on state taxes, including real estate, local income and sales tax
- Big changes to the “miscellaneous itemized deductions”
- Good news for the AMT tax
- Standard deduction doubles but the Personal exemption goes away

Overview for changes for Business

- New flat corporate tax rate
- Changes in depreciation, including Bonus depreciation at 100%
- Liberal rules for the cash method of accounting
- No more domestic production activities deduction
- New business deduction for Sole Proprietors, Partnerships and S-corporations
- Incentives for US companies to repatriate foreign income
- Estate Tax exclusion is now $11.2 million per person, up from $5.4 million

Individual Tax Rate – Joint Return and Surviving Spouse

Old Law	2018	TCJA new law	2018
Taxable Income	Rate	Taxable Income	Rate
0 – 19,050	10%	0 – 19,050	10%
19,050 – 77,400	15%	19,050 – 77,400	12%
77,400 – 156,150	25%	77,400 – 165,000	22%
156,150 – 237,950	28%	165,000 – 315,000	24%
237,950 – 424,950	33%	315,000 – 400,000	32%
424,950 – 480,050	35%	400,000 – 600,000	35%
Over 480,050	39.6%	Over 600,000	37%

Individual Tax Rate – Head of Household

Old Law	2018	TCJA new law	2018
Taxable Income	Rate	Taxable Income	Rate
0 – 13,600	10%	0 – 13,600	10%
13,600 – 51,850	15%	13,600 – 51,800	12%
51,850 – 133,850	25%	51,800 – 82,500	22%
133,850 – 216,700	28%	82,500 – 157,500	24%
216,700 – 424,950	33%	157,500 – 200,000	32%
424,950 – 480,050	35%	200,000 – 500,000	35%
Over 480,050	39.6%	Over 500,000	37%

Individual Tax Rate – Single

Old Law	2018	TCJA new law	2018
Taxable Income	Rate	Taxable Income	Rate
0 – 9,525	10%	0 – 9,525	10%
9,525 – 38,700	15%	9,525 – 38,700	12%
38,700 – 93,700	25%	38,700 – 82,500	22%
93,700 – 195,450	28%	82,500 – 157,500	24%
195,450 – 424,950	33%	157,500 – 200,000	32%
424,950 – 480,050	35%	200,000 – 500,000	35%
Over 480,050	39.6%	Over 500,000	37%

Individual Tax Rate – Estates and Trusts

Old Law	2018	TCJA new law	2018
Taxable Income	Rate	Taxable Income	Rate
0 – 2,550	15%	0 – 2,550	10%
2,550 – 6,000	25%	2,550 – 9,150	24%
6,000 – 9,150	28%	9,150 – 12,500	35%
9,150 – 12,500	33%	Over 12,500	37%
Over 12,500	39.6%		

The Kiddie Tax is gone

- Unearned income of children over $2,100 would have been taxed at the parents' tax rate
- Now it will be taxed at the rates used for Trusts
- Tax planning potential in this area

TCJA new law	2018
Taxable Income	Rate
0 – 2,550	10%
2,550 – 9,150	24%
9,150 – 12,500	35%
Over 12,500	37%

Standard Deduction & Personal Exemption

Filing status	Old Law for 2018	New law for 2018
Single	6,500	12,000
Head of Household	9,550	18,000
Joint Return / Surviving Spouse	13,000	24,000
Dependent	1,050	1,050
Additional for Blind or Elderly		
single	1,600	1,600
married each	1,300	1,300
Personal Exemption	4,150	gone....

Child Tax Credit and New Family Credit

- The child tax credit will double from $1,000 to $2,000
  - Refundable portion up to $1,400

- New Family Credit
  - For a dependent that is not a child, there is the potential to claim a $500 tax credit

Itemized Deductions – what stays, what goes

- Medical expenses
  - For 2017 and 2018 expenses over 7.5% of your AGI (adjusted gross income)
  - After 2018 this goes to 10% of AGI

- Taxes limited to $10,000
  - Real and personal property tax
  - State and local income tax
  - Sales tax
  - Expect potential technical corrections to put pressure on this….

Itemized continued….

- Mortgage Interest deduction
  - After December 15, 2017, only “acquisition debt” of $750,000
    - Prior dollar limit was $1 million
    - If you have a binding contract and you close by April 1, 2018 the $1 million limit applies
  - Home Equity interest
    - Still allowed to buy, build or improve a home, but must be within the acquisition debt limits
    - Tracing of home equity debt to Schedule C, E, F or investment is still allowed.

Itemized still continued…

- Charitable deductions allowed up to 60% of AGI

- No deduction for amounts paid for college athletic seating rights
  - For amounts paid after 12/31/2017

- The “Pease Limitation” is suspended until 2026
  - This was the phase out of itemized deductions when AGI went up
  - If Congress does nothing in 2026, this will come back

Itemized continued…..

- Federally Declared Disasters
  - If you use the standard deduction, you can still claim losses
  - Has to be over $500 (prior law was $100)
  - Penalty free distributions from retirement accounts up to $100,000
    - Spread the income from the distribution over 3 years

- All Miscellaneous deductions subject to 2% of AGI are suspended
  - Unreimbursed employee expenses
  - Allocated tax prep fees
  - Investment expenses, safe deposit box,

Other interesting facts.....

- Alimony is no longer deductible after years after 2018
- Individual mandate penalty goes to zero for years after 2018
- No change to the tax rates for Qualified Dividends and Capital Gains
- Education tax planning – distributions up to $10K from the popular 529 accounts can be used for elementary and high school costs, including religious and private schools
- Roth IRA recharacterization rule is repealed – once you convert an IRA to a Roth IRA, there is no going back.

New Deduction for Business

- General deduction up to 20% of qualified business income
  - Sole proprietor
  - Partnership
  - S corporation

- As with the good, there is always the bad
- Limitations do apply depending on the income of the business
  - 50% of the W-2 wages paid limitation, or
  - 25% of the W-2 wages paid, plus 2.5% of the qualified property limitation

Limit on deducting business interest expense

- Deductible interest expense is limited to 30% of taxable income
- This applies to business with gross receipts over $25 million
- Applies to all, except:
    - Real estate trade or business
    - Businesses with floor plan financing
    - Farming businesses
- All is not lost, as any disallowed interest is carried forward indefinitely

Net Operating Loss

- NOLs can not be carried back after 2017
- NOLs carried forward are no longer limited to 20 years
- For tax years after 12/31/2017 the ability to offset future income is limited to 80% of taxable income
- There are exceptions for farming businesses

Cost Recovery / Bonus Depreciation

- Qualified property can be expensed 100% in the year placed in service
- Prior law restricted this to new property
  - This restriction has been removed, so it can be new or used
- The new law sunsets in 2026, but Congress has a way of extending under pressure….
- Luxury autos do not qualify, but there still is an $8,000 bonus depreciation, along with the $3,150 for a year one $11,150 deduction.

Meal & Entertainment expenses - ???

- No deduction for expenses considered entertainment, amusement or recreation
- Membership dues for clubs, business, pleasure, recreation, etc.
- Amenity that is primarily personal in nature (i.e., on premises gym)
- All meals will be subject to the 50% limitation
  - No more 100%, for the convenience of the employer deductions

New credit for paid family or medical leave

- A business credit of 12.5% of wages paid for family or medical leave if the employee receives at least 50% of normal pay
- The credit can increase up to 25% if the employees receives more than 50%
- Certain qualifications do apply and the maximum leave for calculating the credit is 12 weeks.

Other interesting facts…..

- Moving expense deduction is suspended and reimbursements from an employer are considered W2 income
- No deduction for employee achievement awards like cash, gift cards, etc., unless it is in the employee W2 income
- Like kind exchanges only applies to real estate after 12/31/2017

Tax Planning Opportunities from the New Law

- Revisit the choice of entity, given the new Qualified Business Deduction
- C corporations are taxed at a flat 21%
  - Would your business operations benefit from this?
- Review business debt in light of the 30% limitation on interest expense deduction
- Estate and Trust planning
- With itemized deductions limited, look at other ways to reduce AGI
  - HSA and HRA accounts
  - Charitable distributions from your IRA

Finally: It is February 2018

- Have you written down your 2018 goals?
- Is your 2018 budget written down?

- Definition of "Tax Planning"
  - *action verb* – meeting in person or over the phone, at least two other times in the current year with my CPA to discuss my tax situation
  - …. And the drop off and pick up of my last year's tax return info does not count…..