

STAHLBERG, TAYLOR, & ASSOCIATES

# Tax Cuts and Jobs Act

Tax Reform in 2018

12/29/2017

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The Tax Cuts and Jobs Act as passed by both Chamber of Congress and signed into law by President Donald Trump makes changes to tax law that impacts both individuals and businesses. Below you will find a discussion on some of the major changes included in the Tax Cuts and Jobs Act. The letter is not intended to be exhaustive, but is meant to be a broad overview that includes changes that will impact the majority of people or businesses. Furthermore, the analysis presented in the letter is not that of the IRS and may change with the release of regulations and interpretations by the IRS. This preliminary analysis is for planning purposes to aid our clients during 2018. The changes made by the Tax Cuts and Jobs Act primarily impact tax years beginning after December 31, 2017.

## Individuals

### Tax rates

The Tax Cuts and Jobs Act retains 7 tax brackets at 10 percent; 12 percent; 22 percent; 24 percent; 32 percent; 35 percent; and 37 percent. See below for break out of income tax brackets.

Single Filers		Joint Filers	
Tax Rate	Taxable Income	Tax Rate	Taxable Income
10%	\$0 to \$9,525	10%	\$0 to \$19,050
12%	\$9,525 to 38,700	12%	\$19,050 to \$77,400
22%	\$38,700 to \$70,000	22%	\$77,400 to \$165,000
24%	\$70,000 to \$160,000	24%	\$165,000 to \$315,000
32%	\$160,000 to \$200,000	32%	\$315,000 to \$400,000
35%	\$200,000 to 500,000	35%	\$400,000 to \$600,000
37%	\$500,000 and above	37%	\$600,000 and above

Head of Household	
Tax Rate	Taxable Income
10%	\$0 to \$13,600
12%	\$13,600 to \$51,800
22%	\$51,800 to \$82,500
24%	\$82,500 to \$157,500
32%	\$157,500 to \$200,000
35%	\$200,000 to \$500,000
37%	\$500,000 and above

### Alternative Minimum Tax

The Tax Cuts and Jobs Act modified the Alternative Minimum Tax on individuals. The Alternative Minimum Tax on individuals will have an exemption of \$109,400 for joint filers (\$54,770 if marries filling separate) and \$70,300 for single filers. The phase out of

deductions was also increased; starting at \$1 million for joint filers and \$500,000 for single filers.

## Deductions and Adjustments to Income

### **Moving Expenses**

The Tax cuts and Jobs Act repeals deductions for moving expenses, except for those in the armed forces on active duty for the tax years 2018 through 2025. The Act also repeals employer provided moving expense reimbursement exclusion, except for members of the armed forces on active duty.

### **Alimony Payments**

The deduction for alimony paid is repealed as well as the inclusion of alimony payments for the recipient under the Tax Cuts and Jobs Act. The amendment will only be applicable to agreements executed after December 31, 2018 along with those agreements that are modified after 2018.

### **Casualty Loss**

The deduction for casualty loss is repealed, except for in federally declared disaster areas. Additionally, the threshold amount for casualty losses was increased in the Act. A casualty loss will now be reduced by \$500. Previously, casualty losses were reduced by \$100 dollars and 10 percent of adjusted gross income.

### **Medical Deduction**

The medical expense deduction was left in place, but the threshold for the deduction was reduced from 10 percent of adjusted gross income to 7.5 percent of adjusted gross income for tax years 2017 and 2018.

### **State and Local Taxes**

The state and local tax deduction is limited to \$10,000. The provision in the act allows a taxpayer to claim an itemized deduction of up to \$10,000 for state and local property taxes in combination with state and local income taxes or sales tax.

### **Mortgage Interest**

The bill limits the home mortgage interest deduction to interest on the first \$750,000 of home mortgage debt. The home mortgage limitation applies to the total home mortgage debt on first and second homes. However, the deduction of interest on home equity lines of credit is suspended.

The new lower limits do not apply to home mortgage debt that was incurred on or before December 15, 2017. Additionally, the \$1 million limitation for joint filers and the \$500,000 limitation on home mortgage debt continues to apply to taxpayers who refinanced home mortgage debt that that was incurred before December 15, 2017, so long as that refinance of existing debt does not result in an increase in home mortgage debt.

### **Miscellaneous Itemized Deductions**

For tax years beginning after December 31, 2017 and ending before January 1, 2026 the deduction for miscellaneous deductions subject to a 2 percent floor is suspended under the Tax Cuts and Jobs Act. Miscellaneous deductions subject to a 2 percent floor include, but are not limited to, the following: unreimbursed employee expenses, tax preparation fees, expenses for the production or collection of income (Example: personal investment fees), safe deposit box expenses, and hobby expenses.

### **Deduction Limitation**

For Tax year beginning after December 31, 2017 and before January 1, 2026 the limitation on itemized deductions has been suspended.

### **Individual Standard Deduction**

The individual standard deduction is increased to \$12,000 for single filers; \$24,000 for joint filers; and \$18,000 for head of household filers. The individual standard deduction will be linked to a consumer price index for inflation. The increased standard deduction will expire after December 31, 2025 but the indexing for inflation does not.

### **Personal Exemption**

The Tax Cuts and Jobs Act suspends the personal exemption. The suspension of the person exemption is for tax years after December 31, 2017 and before January 1, 2026.

### **Child Tax Credit**

The Tax Cuts and Jobs Act implements a larger credit for the Child Tax Credit and increases the refundable portion of the credit. The child tax credit was increased to \$2,000 with up to \$1,400 of the credit being refundable for children under the age of 17 during the taxable year. The child's Social Security Number must be on the return to be eligible for the Child Tax Credit. In addition to the larger credit, The Child Tax Credit has also been modified to allow for a non-refundable \$500 credit for non-children dependents. The threshold for the child tax credit was also modified. The phase out amount starts at \$400,000 for joint filers and \$200,000 for single filers. The provision expires after December 31, 2025.

### **Education**

The bill will allow the use of 529 education savings accounts for elementary and secondary schools. Distributions will also be limited to \$10,000 free of tax on an individual basis rather than per account. The use of 529 accounts for elementary and secondary schools along with the \$10,000 tax free distribution per individual is for distributions after December 31, 2017.

### **Individual Mandate**

The Tax Cuts and Jobs Act repeals the federal fine on individuals who do not obtain health insurance. The provision is effective with respect to health coverage status after December 31, 2018. The repeal is permanent.

## Pass-Through Entities

### Qualified Business Income Deduction

Pass through entities such as sole proprietors, partnerships, and S-Corporation's will be allowed a 20 percent deduction of business income, but will still be taxed at the individual rates. The 20 percent deduction without limitation will be available to single filers with taxable income less than \$157,500 and joint filers with taxable income less than \$315,000; these amounts are indexed for inflation. When taxable income is above the threshold of \$157,500 for single filers and \$315,000 for joint filers there are limitations on the deduction. The limitations are the greater of 50 percent of W-2 wages or 25 percent of W-2 wages plus 2.5 percent of assets. A modified 20 percent deduction is available to professional service entities.

### Business Interest Expense

The Tax Cuts and Jobs Act limits the deduction of business interest expense to the sum of business interest income, plus 30 percent of adjusted taxable income (income before considering depreciation, amortization or depletion); plus interest on debt used to purchase motor vehicles held for resale to retail customers. The amount of any business interest not allowed as a deduction may be carried forward indefinitely, but can only be used to offset business interest income from that business. Taxpayers with average gross receipts of \$25 million or less are exempt from the business interest deduction limitations.

### State and Local Taxes

For years beginning after December 31, 2017 and ending before January 1, 2026 State, local, and foreign property taxes along with State and local sales taxes, are deductible when paid or incurred in carrying on a trade or business activity. State and local income taxes are not allowed as a deduction.

### Depreciation

The Tax Cuts and Jobs Act allows for 100 percent expensing through bonus depreciation for capital purchases made after September 27, 2017 and before January 1, 2023. After January 1, 2023 the bonus depreciation amount decreases by 20% annually until it is fully phased out in 2027. The full expensing of capital purchases excludes real estate. The Tax Cuts and Jobs Act also removes the requirement that bonus depreciation is only applicable to new property.

The Act also increases the amount of section 179 expensing that is allowed in a year to \$1 million with the investment limitation for property placed into service increased to \$2.5 million for years beginning after December 31, 2017. The provision also expands the definition of qualified property to include certain qualified real property such as roofs, heating ventilation, air-conditioning property, fire protection, alarm systems, and security systems.

## Domestic Production

The Tax Cuts and Jobs Act repeals the deduction for income from domestic production activities for taxable years after December 31, 2017.

## Net Operating Losses

Federal Net Operating Losses will be limited to 80 percent of taxable income for carry back or carry forward years. The new law allows for an indefinite carryforward and no carryback, except for farming and insurance other than life insurance losses. Farming losses may be carried back 2 years and forward indefinitely, while insurance losses may be carried back 2 years and carried forward for 20 years. The Net Operating Loss provision applies at the partner or shareholder level for pass-through entities.

## Like-Kind-Exchange

The Tax Cuts and Jobs Act repeals the like-kind-exchange rules except for real estate that is not held primarily for sale. Under the new law, there is no gain or loss on the exchange of real property held for productive use in a trade or business or for investment if the real estate is exchanged solely for real estate of like kind that is held for productive use in a trade or business or for investment.

## Corporations

### Tax Rates

The Tax Cuts and Jobs Act sets the corporate tax rate at a flat 21 percent starting for tax years beginning after December 31, 2017. The Act repeals the graduated tax rates previously imposed. The new corporate tax rate is made permanent by the Tax Cuts and Jobs Act.

### Alternative Minimum Tax

The Tax Cuts and Jobs Act repeals the Corporate Alternative Minimum Tax. This change is made permanent by The Act.

### Business Interest Expense

The Tax Cuts and Jobs Act limits the deduction of business interest expense to the sum of business interest income, plus 30 percent of adjusted taxable income (income before considering depreciation, amortization or depletion); plus interest on debt used to purchase motor vehicles held for resale to retail customers. The amount of any business interest expense not allowed as a deduction may be carried forward indefinitely. Taxpayers with average gross receipts of \$25 million or less are exempt from the business interest deduction limitations.

## Ordinary and Necessary Expenses

### **Meals and Entertainment Expenses**

Deductions for entertainment expenses are repealed after December 31, 2017.

Entertainment expenses including expenses for facility use in connection with entertainment, which are paid or incurred after 2017, are not a deductible business expense.

### **Commuting Benefits**

The Tax Cuts and Jobs Act repeals the deduction for transportation and commuting benefits.

An employer is no longer allowed a deduction for the expenses paid or incurred for any transportation fringe benefits. An employer cannot deduct expenses paid or incurred after 2017 for providing any transportation, or any payment or reimbursement, to an employee in connection with travel between the employees' residence and place of employment.

## State and Local Taxes

For years beginning after December 31, 2017 and ending before January 1, 2026 State, local, and foreign property taxes along with State and local sales taxes, are deductible when paid or incurred in carrying on a trade or business activity. State and local income taxes are not allowed as a deduction.

## Depreciation

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## Domestic Production

The Tax Cuts and Jobs Act repeals the deduction for income from domestic production activities for taxable years after December 31, 2017.

## Dividends Received Deduction

The Tax Cuts and Jobs Act reduced the dividends received deduction for domestic corporations. The dividends received deduction, which was formerly 70 percent, has been



reduced to 50 percent and the former 80 percent dividend received deduction for 20-percent owned corporations is reduced to 65 percent. The reduced dividend received deduction is effective for tax years beginning after December 31, 2017.

### Net Operating Losses

Federal Net Operating Losses will be limited to 80 percent of taxable income for carry back or carry forward years. The new law allows for an indefinite carryforward and no carryback, except for farming and insurance other than life insurance losses. Farming losses may be carried back 2 years and forward indefinitely, while insurance losses may be carried back 2 years and carried forward for 20 years. The Net Operating Loss provision applies at the entity level for Corporations.

### Like-Kind-Exchange

The Tax Cuts and Jobs Act repeals the like-kind-exchange rules except for real estate that is not held primarily for sale. Under the new law, no gain or loss on the exchange of real property held for productive use in a trade or business or for investment if the real estate is exchanged solely for real estate of like kind that is held for productive use in a trade or business or for investment.

### Estate Taxes

The estate, gift, and generation skipping tax exemption is doubled to approximately \$11.2 million for single filers and \$22.4 million for joint filers in 2018; this amount is indexed for inflation. The Act does not repeal the estate tax, also referred to as the death tax, as previously proposed. The higher exemption on estate tax is applicable to estates of decedent's dying after December 31, 2017 and is set expire after December 31, 2026.