



TAX CUTS & JOBS ACT

Monica J. Stern, CPA

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TAX CUTS & JOBS ACT

MOST COMPREHENSIVE REFORM
SINCE 1986

Formal name of the act is:

Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018

Original name violates the Byrd amendment.

- ▶ Families with children
- ▶ Families without children
- ▶ Retirees
- ▶ Single individuals
- ▶ Small to large businesses, regardless of entity type
- ▶ Employers
- ▶ Employees

THE ACT AFFECTS EVERYONE!

TAX

DEDUCTION/EXEMPTION

- ▶ Deductions or exemptions save money by applying the income tax rate for the tax bracket to the deduction or exemption
- ▶ Exemption of \$4,050 for someone in the 25% bracket is a savings of \$1,013

TAX CREDIT

- ▶ Tax credits are not dependent on a tax bracket and save money dollar for dollar
- ▶ A tax credit of \$2,000 is worth \$2,000 and is a savings of \$2,000

TAX CREDITS ARE WORTH MORE THAN
TAX DEDUCTIONS OR EXEMPTIONS

Tax Rates – 2017 MFJ

- ▶ 10% less than \$18,650
- ▶ 15% \$18,651 to \$75,900
- ▶ 25% \$75,901 to \$153,100
- ▶ 28% \$153,101 to \$233,350
- ▶ 33% \$233,351 to \$416,700
- ▶ 35% \$416,701 to \$470,700
- ▶ 39.6% above \$470,700

Tax Rates – 2018 MFJ

- ▶ 10% less than \$19,050
- ▶ 12% \$19,051 to \$77,400
- ▶ 22% \$77,401 to \$165,000
- ▶ 24% \$165,001 to \$315,000
- ▶ 32% \$315,001 to \$400,000
- ▶ 35% \$400,001 to \$600,000
- ▶ 37% above \$600,000

TAX RATES GENERALLY ARE LOWER

2017 Exemptions

- ▶ For self, spouse and each dependent, \$4,050 deducted from income
- ▶ Reduces to zero with adjusted gross income MFJ of \$384,000

2018 Exemptions

- ▶ Does not exist – removed from return

EXEMPTIONS DISAPPEAR



2017 Child Tax Credit

- ▶ \$1,000 credit for each child 16 and younger
- ▶ Begins reducing at \$110,000 adjusted gross income MFJ

2018 Child and Family Tax Credit

- ▶ \$2,000 credit for each child 16 and younger
- ▶ \$500 credit for all other dependents (but not self or spouse) including children 17 and older
- ▶ Begins reducing at \$400,000 adjusted gross income MFJ

INCREASED CHILD AND FAMILY TAX CREDIT

Standard deduction - 2017

- ▶ Single \$ 6,350
- ▶ Head of household \$ 9,350
- ▶ Married filing joint \$12,700

Standard deduction – 2018

- ▶ Single \$12,000
- ▶ Head of household \$18,000
- ▶ Married filing joint \$24,000

STANDARD DEDUCTION NEARLY
DOUBLES

Itemized Deductions - 2017

- ▶ Medical, if over 7.5% of Adjusted Gross income
- ▶ State income tax, sales tax, property tax, unlimited
- ▶ Home mortgage interest, on up to \$1,000,000 of debt
- ▶ Home equity mortgage interest on up to \$100,000 of debt

Itemized Deductions – 2018

- ▶ Same
- ▶ Limited to \$10,000 total
- ▶ Same for existing mortgages, up to life of original loan; new mortgages limited to \$750,000 of debt for deductible interest portion
- ▶ None allowed

CHANGES TO ITEMIZED DEDUCTIONS

Itemized Deductions - 2017

- ▶ Charitable contributions – deduction for up to 50% of adjusted gross income
- ▶ Miscellaneous deductions – investment expense, tax preparation fees, employee business expenses, safe deposit box, union dues, etc.

Itemized Deductions - 2018

- ▶ Charitable contributions – deduction for up to 60% of adjusted gross income; no college athletic seating rights allowed as charitable deductions
- ▶ Miscellaneous deductions – eliminated entirely

CHANGES TO ITEMIZED DEDUCTIONS

Itemized Deductions - 2017

- ▶ Overall limitation on itemized deductions for AGI over \$313,800 MFJ – this often reduced the charitable contributions and home mortgage interest allowed.

Itemized Deductions - 2018

- ▶ Eliminated – all itemized deductions are allowed in full without regard to income.

CHANGES TO ITEMIZED DEDUCTIONS

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Time to renegotiate expenses that your employer requires you to pay:

- ▶ Mileage
- ▶ Supplies
- ▶ Dues
- ▶ Meals
- ▶ Travel
- ▶ Home office expenses
- ▶ Moving expenses (however, reimbursement is taxable!)

**TIP FOR EMPLOYEES WHO ARE NOT
REIMBURSED FOR ALL BUSINESS EXPENSES**

Alimony - 2017

Alimony is deductible by payor and taxable to recipient

Alimony - 2018

For divorces prior to 12/31/2018, no change. For divorces after 12/31/2018, no deduction by payor and not taxable to recipient.

**BIG CHANGES TO ALIMONY
PAYMENTS**

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No significant changes to capital gains tax rules.

- ▶ Long term (1 year holding) are taxed a 0% or 15% or 20% for those in the top bracket

Alternative minimum tax

- ▶ Increased exemption level
- ▶ Deductions that trigger the tax have been limited
- ▶ Far fewer people at lower levels will pay alternative minimum tax

CAPITAL GAINS/ALTERNATIVE MINIMUM
TAX

Affordable Care Act Shared Responsibility 2017

Individuals must report and pay a “shared responsibility payment” for lack of ACA qualified insurance, unless an exception applies

Affordable Care Act Shared Responsibility 2019

Repealed for 2019 and future

This likely will change – public opinion on the ability to get and keep health insurance may overrule.

AFFORDABLE CARE ACT CHANGES

Qualified Business Income Deduction – 2017

Doesn't exist – individuals pay marginal tax rate on all business income from sole proprietorships, partnerships and S-Corporations

Qualified Business Income Deduction - 2018

Allows smaller businesses to come closer to rates paid by larger corporations. Not as generous as corporate rates.

20% of net income can be deducted for small businesses that are not “specified service businesses”.

NEW QUALIFIED BUSINESS INCOME DEDUCTION

2017

Businesses allowed to write off certain equipment and building improvements

- ▶ 100% write-off for certain items up to \$510,000 (section 179)
- ▶ 50% write-off for new items (bonus)

2018

Businesses allowed to write off more categories of equipment and building improvement.

- ▶ 100% write-off for certain items up to \$1,000,000 (section 179)
- ▶ 100% write-off for new or used items after 9/27/2017 (bonus)

INCREASED DEDUCTIONS FOR EQUIPMENT AND BUILDING IMPROVEMENTS FOR BUSINESSES

2017

Businesses and employees allowed to deduct entertainment expenses

- ▶ Business meals
- ▶ Sports, golf, theater or other business entertainment allowed
- ▶ Club dues allowed if used to conduct active business

2018

Businesses will have limits and employees may not deduct at all

- ▶ Business meals allowable if not solely for entertainment (employees – no deduction)
- ▶ No deduction
- ▶ No deduction

**BUSINESS MEALS AND ENTERTAINMENT
(WATCH FOR FURTHER CLARIFICATION)**

Effective for State Tax Credit Donations on or after 08/27/18:

- ▶ Full state tax credit is allowed
- ▶ No Federal tax deduction for the gift amount for which a tax credit was received

FEDERAL DEDUCTION FOR STATE TAX CREDITS

Lower rates, except in bottom tier, which sees an increase

Rate is a flat 21%

Incentives to move foreign money back to the US

Goal – stimulate the economy and create jobs

CORPORATE TAX INCENTIVES

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Examples:

Joint return with \$80,000 of income. Claimed standard deduction in 2017 and 2018

- ▶ With two children age 16 and under, savings is \$2,394
- ▶ With two children age 17 or older, savings is \$1,394
- ▶ With no children, savings is \$1,609

WHAT DOES IT ALL MEAN?

Examples:

Joint return with \$80,000 of income. Itemized deduction in 2017 of \$16,000, standard deduction in 2018

- ▶ With two children age 16 and under, savings is \$1,899
- ▶ With two children age 17 or older, savings is \$899
- ▶ With no children, savings is \$1,114

WHAT DOES IT ALL MEAN?

Examples:

Joint return with \$180,000 of income. Itemized deduction in 2017 of IRS averages for 2015

- ▶ Medical \$11,305, none deductible in either year due to income
- ▶ Taxes \$11,052 deductible in 2017; \$10,000 deductible in 2018
- ▶ Interest \$8,905 fully deductible in both years
- ▶ Charity \$4,155 fully deductible in both years
- ▶ Miscellaneous \$600 deductible in 2017; none deductible in 2018

Taxpayer itemizes deductions in 2017 at \$24,712, but in 2018 uses standard deduction

WHAT DOES IT ALL MEAN?

Examples:

Joint return with \$180,000 of income. Itemized deduction in 2017 of IRS averages for 2015

- ▶ With two children age 16 and under, savings is \$2,051
- ▶ With two children age 17 or older, savings is \$1,051
- ▶ With no children, savings is \$2,076

WHAT DOES IT ALL MEAN?

The Tax Policy Center estimates:

- ▶ 8 out of 10 filers will pay less tax
- ▶ 5 out of 100 will pay more tax

Causes:

- ▶ High state property/income tax
- ▶ Limited mortgage interest
- ▶ Employee business expenses

WHO WILL PAY MORE IN TAX?

2017

Estates are taxed when value at death exceeds \$5,490,000

Income taxes will be paid by estate or heirs on Traditional IRA accounts or 401 (k) accounts or annuities

2018

Estates are taxed when value at death exceeds \$11,200,000

Same

INCREASE IN ESTATE EXEMPTIONS



Taxpayers over age 70 ½ can direct up to \$100,000 of their IRA accounts to charity each year.

- ▶ Transfer directly to charity
- ▶ Amount is excluded from income
- ▶ Increase standard deduction makes this provision attractive
- ▶ Can reduce the taxation of social security benefits

QUALIFIED CHARITABLE DISTRIBUTIONS
FROM IRA ACCOUNTS

Consider donating appreciated stock

- ▶ No capital gains tax
- ▶ Full deduction for value of the stock on the date donated

STOCK DONATION TIP

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For 2018 and beyond – DO NOT ASSUME
YOU KNOW THE RULES!

The State may or may not conform and
we likely won't know during this legislative
session.

Consult your tax advisor before making
any tax decision.

CONSULT YOUR TAX ADVISOR

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