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REALITIES
OF THE
TAX CUTS AND JOBS ACT

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act was passed by Congress on December 20, 2017 and signed by the President on December 22, 2017.

The discussions surrounding the first few drafts of the Act have left misconceptions about the Act. We will provide a rundown of some highlights that may affect you, and hopefully lay to rest some concerns you may have.

Agenda

- Individual changes
- Business changes
  - All For-Profit business
  - Partnership-specific business
  - S corporation-specific business
- New pass-through income deduction to individuals

Individual: New Rates & Brackets

- 10%
- 12%
- 22%
- 24%
- 32%
- 35%
- 37%

Individual: Deductions & Exemptions

- Standard deduction increased
  - $24K for married filing jointly
  - $18K for heads of household
  - $12K for everyone else
- Personal exemptions suspended
  - Where other sections of tax code refer to the personal exemption amount, the dollar amount to be used is $4,150 (indexed to inflation)

Individual: Capital Gains

- Present-law tax rates generally retained
- Breakpoints at which those rates apply have now been indexed to inflation
- Inflation is now measured using chained CPI-U (C-CPI-U)

Individual: Child Tax Credit

- Increased to $2,000
- Phase-out income levels are increased (indexed to inflation = no)
- Refundable portion:
  - $1,400 credit per qualifying child (indexed to inflation = yes) up to $2K
  - Earned income threshold decreased

Individual: SALT & Mortgages

- State and Local Taxes (SALT) limited
  - Taxpayer may claim itemized deduction up to $10K for aggregate of state & local property taxes
  - If you tried to pay 2018’s taxes early, no dice. They’re on to you.
- Mortgage interest deduction limited to interest on $750K acquisition indebtedness
- HELOC interest deduction suspended

Individual: Medical & Charitable

- Medical:
  - – Threshold on medical expense deduction lowered to 7.5% of AGI
  - – AMT 10% threshold does not apply
  - – Affects 2017!
- Charitable:
  - – 50% limitation increased to 60%
  - – No longer allowed to deduct contributions in exchange for college athletic event seating

Individual: Miscellaneous Itemized Deductions

- Deduction for itemized miscellany subject to the 2% AGI floor has been suspended
  - Unreimbursed employee business expenses
  - Investment expenses
  - Tax determination expenses
  - Hobby loss expenses

Individual: Alimony

- No longer deductible by payor spouse, executed after December 31, 2018
- No longer included in income of payee spouse, executed after December 31, 2018

Individual: AMT

- Higher exemption amounts
- Higher phase-out amounts
- All amounts indexed to inflation

Individual: Estate and Gift Tax

- Retained
- Base exemption amount increased to $10MM
- Indexed for inflation occurring after 2011
- Expected to be $11.2MM in 2018

Business: New Tax Rates

- Corporate tax rate is 21%
- Corporate AMT is repealed
- Minimum tax credit
  - Refundable in certain cases
  - May offset regular tax liability

Business: Depreciation

- Section 179 expensing
  - Maximum allowed increased to $1MM
  - Phase-out increased to $2.5MM
  - Indexed for inflation
  - Expanded to include improvements to nonresidential real property building systems (with a couple exceptions)
    - Real property election also makes the property eligible for purposes of the investment limitation

Business: Depreciation, continued

- Temporary 100% cost recovery of qualifying assets
  - September 27, 2017
  - New and used property
  - Phased out after 2021
- AMT election to exchange bonus depreciation for a refundable amount is eliminated

Business: Passenger Automobiles

- New base amounts of depreciation caps:
  - $10,000 in year 1
  - $16,000 in year 2
  - $9,600 in year 3
  - $5,760 in years 4 and thereafter
- Higher limits will more truly restrict the effects to true “luxury” vehicles

Business: Qualified Improvement Property (QIP)

- Eliminates separate definitions of qualified leasehold improvement, qualified restaurant, qualified retail improvement
- All grouped under QIP
- Provides general 15-year, straight-line recovery period

Business: New FLMA Credit

- General business credit of 12.5% of wages paid to qualifying employee when on Family and Medical Leave *if* the wages are 50% of what would normally be paid
  - Credit increased by 0.25% for each percentage by which the payment rate exceeds 50%
    - But not above 25% total additional

Business: Accounting Method Changes

- If you satisfy a $25MM gross receipts test, you may:
  - Switch to cash method of accounting
  - Treat inventory as non-incidental materials and supplies, or switch to inventory method that conforms to your book method
  - Be exempt from UNICAP rules
  - Not be required to use the percentage of completion method if completion is expected within 2 years

Business: Other

- NOL carryback period generally eliminated
- NOL deduction generally limited to 80% taxable income
- Domestic production activities deduction (DPAD) repealed
- Like-kind (1031) exchange treatment limited

Pass-Through Income: New Deduction For Individuals

- New deduction reduces taxable income
- Generally 20% of taxpayer's qualified business income (QBI) from:
  - Partnership
  - S corporation
  - Sole proprietorship
- More…

Pass-Through Income: New Deduction

- Qualified Business Income (QBI):
  - Net amount of income, gain, deduction, and loss with respect to the trade or business, but not:
    - Capital gains/losses, dividends, interest income (unless properly allocable to the business)
    - Employee compensation
    - Guaranteed payments to a partner

Pass-Through Income: New Deduction, continued

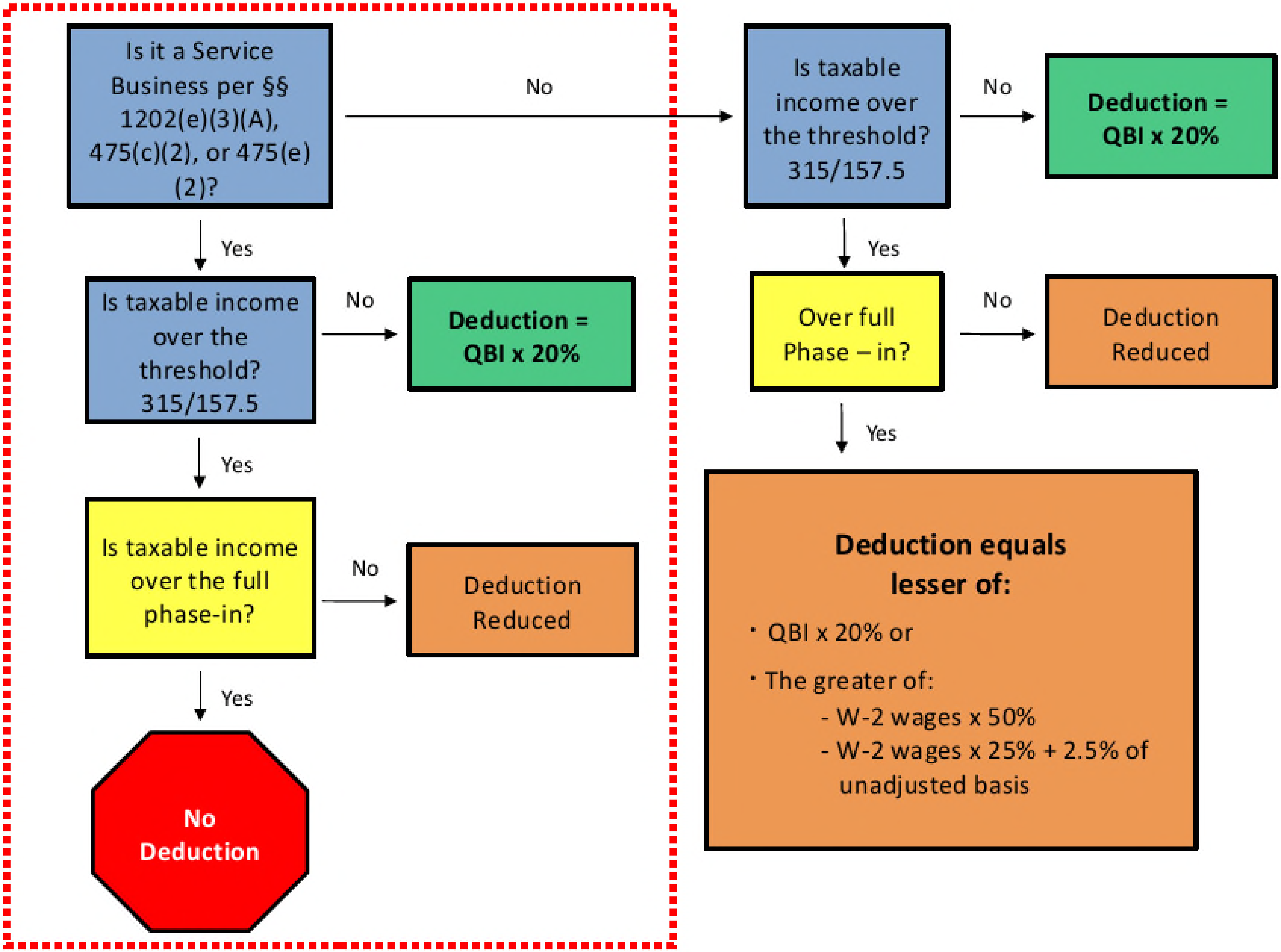
	Non-Service	Service
Taxable income less than $315,000 (MFJ)	**20% deduction**	**20% deduction**
Taxable income greater than $315,000 but less than $415,000	Limitation phased-in	Deduction phased-out
Taxable income greater than $415,000	**W-2/Capital limit applies**	**No deduction**

In general, the deduction is limited if your taxable income is greater than $315K.

Further limitations apply based on business type.

Pass-Through Income: New Deduction, continued

- QBI from service-related businesses is eligible, but *phased out* if taxpayer's taxable income exceeds a threshold amount
  - Service-related businesses are:
    - Health, law, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset is the reputation or skill of one or more employee
  - But are not:
    - Architects or engineers



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Pass-Through Income: New Deduction, continued

- The deduction also cannot *exceed* the lesser of:
  - The Combined QBI Amount, or
  - 20% x (total taxable income – capital gain)
- Combined QBI amount = deduction for each qualified trade or business PLUS 20% of REIT dividends and PTP income

Ross Buehler Falk & Co., LLP thanks you for your attendance.

Questions?

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