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TAX CUTS AND JOBS ACT

The new tax reform law, commonly called the "Tax Cuts and Jobs Act" (TCJA), is the biggest federal tax law overhaul in 31 years, and it has both good and bad news for taxpayers.

Below are highlights of some of the most significant changes affecting individual and business taxpayers. Except where noted, these changes are effective for tax years beginning ***after*** December 31, 2017.

Individuals

- Drops of individual income tax rates ranging from 0 to 4 percentage points (depending on the bracket) to 10%, 12%, 22%, 24%, 32%, 35% and 37% — through 2025
- Near doubling of the standard deduction to $24,000 (married couples filing jointly), $18,000 (heads of households), and $12,000 (singles and married couples filing separately) — through 2025
- Elimination of personal exemptions — through 2025
- Doubling of the child tax credit to $2,000 and other modifications intended to help more taxpayers benefit from the credit — through 2025
- Elimination of the individual mandate under the Affordable Care Act requiring taxpayers not covered by a qualifying health plan to pay a penalty — *effective for months beginning after December 31, 2018*
- Reduction of the adjusted gross income (AGI) threshold for the medical expense deduction to 7.5% for regular and AMT purposes — *for 2017 and 2018*
- New $10,000 limit on the deduction for state and local taxes (on a combined basis for property and income taxes; $5,000 for separate filers) — through 2025. Please note that if you are ***not*** in the AMT, it makes sense to pay your 2nd installment of property taxes and state income tax before year-end.
- Reduction of the mortgage debt limit for the home mortgage interest deduction to $750,000 ($375,000 for separate filers), with certain exceptions — through 2025
- Elimination of the deduction for interest on home equity debt — through 2025
- Elimination of the personal casualty and theft loss deduction (with an exception for federally declared disasters) — through 2025
- Elimination of miscellaneous itemized deductions subject to the 2% floor (such as certain investment expenses, professional fees, and unreimbursed employee business expenses) — through 2025
- Elimination of the AGI-based reduction of certain itemized deductions — through 2025
- Elimination of the moving expense deduction (with an exception for members of the military in certain circumstances) — through 2025

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- Expansion of tax-free Section 529 plan distributions to include those used to pay qualifying elementary and secondary school expenses, up to $10,000 per student per tax year
- AMT exemption increase, to $109,400 for joint filers, $70,300 for singles and heads of households, and $54,700 for separate filers — through 2025. For 2017, the AMT exemption is $84,500 for joint filers, $54,300 for singles and heads of households, and $42,250 for separate filers.
- Doubling of the gift and estate tax exemptions, to $10 million (expected to be $11.2 million for 2018 with inflation indexing) — through 2025. Note that generation skipping exemptions also increased to $10 million ($11.2 million for 2018 with inflation indexing). Please contact us and your trust and estate planner to determine if your plan should be changed and consider additional gifts.
- New 20% qualified business income deduction for owners of flow-through entities (such as partnerships, limited liability companies, and S corporations) and sole proprietorships — through 2025. For more detail, please see our client memo - Pass-through-Income-Under-The-New-Tax-Bill.
- For post-2018 divorce agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.
- Roth IRA conversions can no longer be "unwound"

Businesses

- Replacement of graduated corporate tax rates ranging from 15% to 35% with a flat corporate rate of 21%
- Repeal of the 20% corporate AMT
- Doubling of bonus depreciation to 100% and expansion of qualified assets to include used assets — *effective for assets acquired and placed in service* ***after September 27, 2017*** *and* ***before January 1, 2023***. The 100% figure is to be reduced to 80% for property placed in service after Jan. 1, 2023, 60% in 2024, 40% in 2025, 20% in 2026, and 0% in 2027 and afterward.
- Doubling of the Section 179 expensing limit to $1 million and an increase of the expensing phaseout threshold to $2.5 million. Note that Section 179 property will include roofs, heating, ventilation, and air conditioning property, fire protection and alarm systems, and security systems.
- Increasing of depreciation limitation for luxury auto to $10,000 for the first year, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years. Currently, the limitation is $3,160 for the first year, $5,100 for the second, $3,050 for the third, and $1,875 for the fourth and later years.
- Self-created property, such as patents, inventions, model, design, or secret formula, will not be treated as a capital asset.
- New disallowance of deductions for net interest expense in excess of 30% of the business's adjusted taxable income. Note that this limitation is only for businesses with gross receipts greater than $15 million.
- New limits on net operating loss (NOL) deductions to 80% of taxable income

- The requirement to capitalize overhead expenses based on gross receipts increases from $10 million to $25 million.
- Cash method of accounting is now allowed for business with revenue up to $25 million if it (1) treats inventories as non-incidental materials and supplies, or (2) uses the cash method of accounting for inventories for financial statement purposes.
- Elimination of the Section 199 deduction, also commonly referred to as the domestic production activities deduction or manufacturers' deduction — *effective for tax years beginning after December 31, 2017, for noncorporate taxpayers and for tax years beginning after December 31, 2018, for C corporation taxpayers*
- New rule limiting like-kind exchanges to ***real property*** that is ***not*** held primarily for sale. Exchanges of personal property, collectibles, aircraft, franchise rights, rental cars, trucks, heavy equipment, and machinery will no longer be permitted beginning in 2018.
- New tax credit ranging from 12.5% to 25% of the amount paid for employee family and medical leave if the payment is at least 50% of the wages normally paid to an employee — through 2019
- Disallowance of deductions for entertainment, amusement, or membership dues. However, deduction for 50% of food and beverage expenses associated with operating a trade or business would be retained.
- Deductions associated with providing any qualified transportation fringe benefit to employees will be eliminated
- Disallowance of lobbying expenses deduction
- Research and Development, New Markets, and Low-Income Housing credits preserved
- The new law requires research or experimental expenditures to be capitalized and amortized over five years
- 20% credit claimed over five years for qualified rehabilitation expenditures with respect to certified historic structures.
- Tax credit bonds issuance repealed
- Qualified Opportunity Zones – Allows governors to nominate a certain number of low-income community population census tracts as qualified opportunity zones. The bill provides temporary deferral of capital gains that are reinvested in a qualified opportunity fund, and permanent exclusion of capital gains from the sale or exchange of an investment in the qualified opportunity fund.
- Sale or exchange of a partnership interest totaling more than 50% in a twelve-month period will no longer result in a technical termination requiring the filing of two separate returns
- For tax years beginning after Dec. 31, 2017, a three-year holding period would be required for a profits interest granted to a sponsor in order to obtain long-term capital gain treatment

This list is not complete but contains the most common provisions and those that affect the most taxpayers. Please contact us for a detail analysis if you have any questions regarding the TCJA or how its various provisions may impact you and your business.

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