Tax Reform
For Individuals and Business

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Top Tax Reform Changes
For Individuals:

1 – New tax rates and brackets

2 – New Standard Deductions

3 – Limitations on Itemized Deductions

4 – Other significant changes for individuals

For Business:

1 – Corporate tax rates

2 – New 20% business income deduction

3 – Depreciation and Section 179 expensing deductions

4 – Other significant changes for business

2018 Tax Rates and (Top of) Brackets

Tax Cut & Jobs Act	Single	Married Filing Jointly	Married Filing Separately	Head of Household	Prior rates for comparison
10%	$ 9,525	$ 19,050	$ 9,525	$ 13,600	10%
12%	$ 38,700	$ 77,400	$ 38,700	$ 51,800	15%
22%	$ 82,500	$165,000	$ 82,500	$ 82,500	25-28%
24%	$157,500	$315,000	$157,500	$157,500	28-33%
32%	$200,000	$400,000	$200,000	$200,000	33%
35%	$500,000	$600,000	$500,000	$500,000	33-39.6%
37%	Over $500,000	Over $600,000	Over $500,00	Over $500,000	39.6%

2018 Capital Gains

0%	$ 45,000	$ 77,200	$ 51,700	$ 51,700	0-15%
15%	$425,800	$479,000	$239,500	$452,400	15-20%
20% ≥	$425,800	$479,000	$239,500	$452,400	20%

2018 Standard Deduction and Personal Exemption Comparison

Filing Status	2018 Deduction Amount	Prior Deduction Amount
Single & MFS	$12,000	$6,350
Married Filing Jointly	$24,000	$12,700
Head of Household	$18,000	$9,350
Personal Exemption	Repealed	$4,050

- Changes to Itemized Deductions:
  - SALT Deduction limited to $10,000 in property and personal state income taxes
  - Mortgage Interest limited to $750,000 acquisition indebtedness, home equity indebtedness repealed
  - Miscellaneous deductions subject to 2% rule - repealed
  - Pease limitation repealed (limited deductions for higher income taxpayers)

Significant Changes For Individuals

- Child Tax Credits increased to $2,000. New phase-out begins at $400,000
- Education Provisions:
  - Section 529 Plans have expanded qualified distributions to include public or private K-12 schooling ($10,000 annually)
  - Student Loan debt forgiveness – no longer taxable to student
  - Other provisions for student loan interest deductions, and education credits were retained
- Alimony paid deduction repealed, Alimony received non-taxable
- Moving expense deductions repealed (except Military)
- Alternative Minimum Tax (AMT) exemption increased
- Estate tax exemptions doubled while retaining basis step-up (through 2025)

Corporate Tax changes (Regular C Corporation)

- 21% Corporate tax rate

Corporations have determined income tax liability by applying a graduated rate that that topped out at 35%. For tax years beginning in 2018, the graduated tax rate structure is eliminated and corporate taxable income is taxed at a 21 % flat rate. This rate is permanent.

- Alternative Minimum Tax (AMT) is repealed for Corporations
- Dividends-Received deductions have been reduced. 70/80 now 50/65
- Cash method taxpayer limit raised to $25 million
  - Sec 263A no longer needed if under $25 million
  - Completed contract method allowed

Qualified Business Income (QBI) Deduction

- Definition of the deduction (IRC 199A):
  - 20% deduction for partnerships, S Corporations, and sole proprietorships
  - Income must be effectively connected with a U.S. trade or business. What does "effectively connected" mean?
  - Excludes investment income (interest, dividends, capital gains)
  - Excludes earned income (salaried, guaranteed payments)
  - Deduction phased-out for owners of service businesses: medical services, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services(not real estate broker). However, architects and engineers are allowed the deduction.

- **BUT – What is "Qualified Business Income"?**

Qualified Business Income (QBI) Deduction (continued)

- Limitations are phased in for taxpayers with taxable income in excess of $315,000-$415,000 (MFJ):
  - Limited to 50% of W-2 compensation paid by the entity during the tax year
  - OR limitation based on 25% of the taxpayers W-2 expense aggregated with 2.5% multiplied by the unadjusted basis of entity assets.
  - The alternate rule provides a deduction for interests in entities that are capital intensive, but do not have significant wage expenses (***e.g. real estate partnerships***). As this limitation is based on unadjusted basis, depreciation does not affect the amount of the deduction.
- Deduction <u>is not</u> in Adjusted Gross Income (above the line)
- Deduction <u>is</u> allowed for both regular and AMT taxable income

Depreciation:

Property Class Lives for Assets Used in Residential Rental Activities:

Computers, Office equip	5 Years
Appliances, Carpets, Furniture	5 Years
Office Furniture, Fixtures	7 Years
Land Improvements: Fences, sidewalks, parking lots	15 Years
Buildings	27.5 Years

New Bonus Depreciation:

First year Bonus Depreciation percentage is **100%** percent for property placed in service through 2022 for classes < than 20 Years. Both residential and non-residential rental property. Bonus depreciation **has been expanded to include USED property** (formerly only new property was allowed).

Depreciation (continued):

Expansion of Section 179 expensing (non-residential rental or active trade or business):

A taxpayer may now expense up to $1,000,000 of property. It is subject to phase out if the taxpayer places over $2,500,000 of property in service during the tax year.

- Expands the definition of qualified tangible personal property and qualified real property to include:
  - Tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging
  - Improvements to non-residential real property placed in service after the date such property was first placed in service:
    - Roofs, Heating, ventilation, and air-conditioning, fire protection, alarm, and security systems

Qualified Improvement Property(non-residential rental or active trade or business):

This new category consolidates the Qualified Leasehold Improvement, Qualified Restaurant, and Qualified Retail Improvement property classes

- 15 Year general recovery period **
- Section 179 expensing eligible

Significant Changes For Business

- Elimination of Code Sec 199 Domestic Production Activities Deduction (DPAD)
- 5 Year Amortization of Research and Development (R&D) expenditures
- Like-kind (1031) Exchanges are limited to real property
- Entertainment expenses are non-deductible
- Net Operating Losses – limited to 80% of taxable income, excess can carried forward only (no carryback)
- Business interest deductions are limited to 30% of taxable income (Exception for small businesses with gross receipts less than $25 million
- Partnerships - Technical terminations are eliminated
- Transportation fringe benefits are non-deductible, lobbying costs are non-deductible, employee achievement awards are taxable

Thank you!

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