ACORN
TAX PLANNING

The Tax Cuts and Jobs Act Summary **January, 2018**

Many tax laws were changed for 2018 based on the Tax Cuts and Jobs Act passed in late December. Below are a handful of these changes that you should be aware of, but please understand that this is not a comprehensive list. We aim to highlight the sections that affect most individuals and businesses. Most of these changes went into effect on January 1, 2018. Tax returns filed during the spring of 2018 (for the 2017 tax year) are generally not affected.

Individuals

- The standard deduction amounts were almost doubled to $24,000 for married taxpayers and $12,000 for single taxpayers. Those who currently itemize will have fewer expenses to deduct and a higher standard deduction to cross, resulting in fewer individuals who will itemize starting in 2018.
- In the past, taxpayers claimed personal exemptions for themselves, their spouse and each qualifying children or relative, with each exemption reducing taxable income by over $4,000. Going forward, personal exemptions have been eliminated and partially replaced by a higher child tax credit of $2,000 for those 16 and younger. The phase out level of the child credit almost tripled (beginning at $200k for single filers and $400k for joint filers) and accordingly many more taxpayers will now qualify for this credit. A $500 credit for children 17 and older or for non-child dependents will take place.
- The tax rates across all income tax brackets have been reduced. The old marginal tax rates were 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The new brackets are set at 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- Home mortgage interest is now limited to a total loan balance of $750,000, which can include interest on a second home. Existing loans prior to 12/31/2017 are grandfathered in under the old law. Home equity loan interest will not be allowed as a deduction moving forward unless the loan proceeds were used to improve the primary residence, and there is no grandfather provision for this clause.
- All personally deducted taxes, real estate, state income, personal property and sales tax are capped at a total allowable amount of $10,000. The real estate tax limit only applies to

personally used property – any business property (including rental properties) will be able to deduct real estate taxes in full with no cap.

- All miscellaneous itemized deductions are now eliminated and can no longer be deducted. Items that fall under this category include employee business expenses, investment management fees, tax preparation fees, and personal casualty and theft losses (except for losses in certain federally declared disaster areas).
- The deduction for charitable contributions is expanded so that taxpayers may contribute up to 60% of their adjusted gross income, rather than 50%.
- Above-the-line adjustments that have remained the same include: educator expense deduction (K-12 educators can deduct up to $250 per year for unreimbursed classroom supplies), student loan interest (up to $2,500), health savings account deduction, IRA deduction, and deduction for self-employed taxpayers (SE tax, SE health insurance, SE qualified retirement plans).
- Moving expense are no longer allowed as a deduction and any reimbursements received from an employer for direct moving expenses is now taxable.
- Starting with divorce agreements entered into after 12/31/2018, alimony will no longer be deductible to the payer nor income to the recipient. Alimony already being paid is not affected by this change.
- Medical expenses are retained as a deduction and the threshold for deducting them is reduced to 7.5% from 10%.
- The phase out of itemized deductions that hits higher earning taxpayers is now eliminated.
- Favorable tax rates on capital gains rates and qualified dividends does not change, and the additional net investment income of 3.8% that hits those with taxable income over $250,000 also remains.
- The individual alternative minimum tax remains, but has been scaled down dramatically as the exemption amounts were increased substantially and the phase out of those exemptions does not start until taxable income on a joint return is $1 million. Fewer people will go into it as the main drivers for that tax were high tax deductions on Schedule A and exemptions; taxes have been severely limited and exemptions eliminated.
- The individual mandate requiring all Americans to carry minimum health insurance has been eliminated, but not until 01/01/2019.
- The so called “kiddie tax,” which is the tax on unearned income earned by children under 18, is revamped so that this income is taxed using the tax rates for estates and trusts. This will increase both the amount of tax paid and the number of children who will pay it as the exemption amount for estates and trusts is only $300.
- The exemption for estate and gift taxes has been doubled to $11 million per person. Since that exemption is portable, a married couple now has a $22 million estate tax exemption, meaning far fewer estates will be subject to the tax. The rules for stepping up the cost basis of assets that are inherited by heirs remain in place.

- 529 college savings plans have been retained and enhanced. Funds in those plans can now be used to pay for elementary, middle and high school education, capped at $10,000 per student per year.
- Education credits for college costs remain intact, although the deduction (not the credit) that was allowed for tuition payments has expired and was not renewed by this bill.

Businesses

- C Corporation tax rates have been dramatically reduced. The old rules had graduated rates of 15%, 25% and 35% with the top rates of 35% being assessed on all income over $100,000. The new law reduced the corporate tax rate to a flat 21%.
- Bonus depreciation, which allows all asset purchases for certain class life assets (5 year property, 7 year property, etc.) to all be written off in the year of purchase, has been greatly enhanced. The old law allowed a 50% write off in the year of purchase and only applied to new assets, not used ones. The new law allows a 100% write off and applies to both new and used assets. This rule applies to asset classes all the way up to 20 year lives, which covers all assets except for buildings, although it does cover any improvements done to buildings. This provision can also be used for rental properties as well. The only drawback is that it has to be used for all assets in that class life, you cannot pick and choose which assets within the class life to use it for.
- Section 179, which is another mechanism to write off assets in the year of purchase, has also been enhanced by doubling the dollar limitation to $1 million from the previous limit of $500,000. The advantage of Section 179 expensing is that it is on an asset-by-asset-basis; you do not have to choose it for a class life and can pick which specific assets to use it on regardless of their lives.
- Depreciation on vehicles not weighing 6,000 pounds has also dramatically increased. The old laws allowed no more than $3,160 of depreciation in year 1, $5,100 in year 2, $3,050 in year 3, and $1875 in years 4 and longer. The new law increased those amounts to $10,000 in year 1, $16,000 in year 2, $9,600 in year 3 and $5,760 for years 4 and longer.
- A new 20% tax deduction is created for pass through businesses. A pass through business is an LLC, partnership, S corporation or sole proprietor. There are limitations on the use of this deduction based on taxable income and the type of business, those limitations are complicated and need to be looked at on a case by case basis. In general, if the business is not a service business in the fields specifically listed in the bill and the W2 wages paid are at least 20% of the total taxable income of the business, the deduction will be allowed.
- Business entertainment is eliminated as a deduction. Meals are still allowed at 50% of the meal cost, but any entertainment, including sporting events, concerts, golf outings, etc. are not allowed to be deducted. The associated meals that are part of the entertainment can be deducted, but none of the costs for the entertainment, including the travel costs to get there.

- Firms that provide paid family or medical leave to employees will get a new credit for doing so, equal to 12.5% of the wages paid during the period of leave. This credit is temporary, however, only in place in 2018 and 2019.
- The cash method of accounting is now allowed for any business with average annual gross receipts of $25 million or less. Companies that have switched methods of accounting are precluded from switching back to their old method until 5 years using the new method has passed.
- Like kind exchanges can no longer be used for business personal property, they can only be used for exchanges of real estate.