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HOT OFF THE PRESS

“TAX CUTS AND JOBS ACT”

Finally, President Trump and the Republicans, without support from Democrats, enacted today major tax law changes. The final law is over 500 pages with over 500 pages of joint committee explanations. The next few pages are a brief outline of *major changes affecting most individuals and businesses*. IRS needs to put together a lot of regulations, procedures and new forms to implement the law. A lot is left to be seen!

INDIVIDUALS

Tax Rates

The following new tax rates become effective January 1, 2018 until December 31, 2025. The IRS has announced, (Notice 1036), that initial withholding guidance to reflect the Tax Cuts and Jobs Act will be issued in January 2018. Consequently, withholding of federal income taxes should begin to be reduced in February.

Revised Tax Brackets

Rate	Joint Return	Individual Return
10%	\$0 - \$19,050	\$0 - \$9,525
12%	\$19,050 - \$77,400	\$9,525 - \$38,700
22%	\$77,400 - \$165,000	\$38,700 - \$82,500
24%	\$165,000 - \$315,000	\$82,500 - \$157,500
32%	\$315,000 - \$400,000	\$157,500 - \$200,000
35%	\$400,000 - \$600,000	\$200,000 - \$500,000
37%	Over \$600,000	Over \$500,000

New tax brackets have also been established for Head of Household (HOH) and Married Filing Separate (MFS). Present law rates for capital gains and qualified dividends are being retained. The “kiddie tax/young adult tax” is being simplified. The child tax rate will no longer be determined by the parent’s tax rate. Under the new law, the “child’s” unearned income will be taxed using the trust and estate tax rates. As under present law, earned income of the “child” will be taxed using single taxpayer rates.

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Disclaimer: This e-mail represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation.

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Standard Deduction

The standard deduction will increase to \$24,000 for married individuals filing a joint return, \$18,000 for head-of-household filers, and \$12,000 for all other individuals, indexed for inflation (using chained CPI) for tax years beginning after 2018. All increases are temporary and would end after December 31, 2025. It is estimated that the doubling of the standard deduction would effectively eliminate approximately 85% to 90% of individuals from claiming itemized deductions, other than higher-income taxpayers. As a result, for example, married taxpayers filing jointly would need to have allowable mortgage interest, state income and local income property taxes, (up to \$10,000), extraordinary medical expenses, and charitable deductions that exceed \$24,000 to not benefit from the standard deduction.

Exemption

The bill eliminates the deduction for personal exemptions and replaces it with an enhanced child and family tax credit which is discussed below.

Mortgage Interest Deduction

The bill limits the mortgage interest deduction to interest on \$750,000 of “new” acquisition indebtedness (\$375,000 in case of married taxpayers filing separately), in tax years beginning after December 31, 2017, and beginning before January 1, 2026. For acquisition indebtedness incurred before December 15, 2017, the bill allows current homeowners to keep the current limitation of \$1 million (\$500,000 in the case of married taxpayers filing separately).

The bill allows taxpayers to continue to include mortgage interest on second homes, but within these lower dollar caps. However, no interest deduction will be allowed for interest on home equity indebtedness.

State and Local Taxes

The bill limits annual itemized deductions for all nonbusiness state and local taxes, including property taxes, to \$10,000 (\$5,000 for married taxpayer filing a separate return). Sales taxes may be included as an alternative to claiming state and local income taxes.

In high taxed states, like New Jersey & New York, the \$10,000 limit can have a major impact to high middle income and above taxpayers and effectively reduce the benefit of lower tax rates.

Miscellaneous Itemized Deductions

The bill repeals all miscellaneous itemized deductions that are subject to the two-percent floor under current law, including tax preparation fees and unreimbursed employee business expenses.

Medical Expenses

The bill retains the medical expense deduction and lowers the threshold for the deduction to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018.

Family Incentives

The bill temporarily increases the current child tax credit from \$1,000 to \$2,000 per “qualifying child” with up to \$1,400 of that amount refundable. The bill also raises the adjusted gross income phaseout of the credit thresholds, starting at adjusted gross income of \$400,000 for joint filers (\$200,000 for all others).

The credit is further modified to provide for a \$500 nonrefundable credit for “qualifying dependents” other than “qualifying children.”

Education

The bill retains the student loan interest deduction. The education tax credits will remain as is. The bill retains the current law provisions for the exclusion from income for interest on U.S. savings bonds used for higher education.

The bill does not renew the above-the-line deduction for qualified tuition and related expenses that expired at the end of 2016.

In addition to higher education expenses, Section 529 plan distributions after December 31, 2017 can be used for tuition at an elementary or secondary public, private or religious school up to \$10,000 per year.

Alimony

The bill repeals the deduction for alimony payments by the payor and their inclusion in the income of the recipient. The provision will apply only to divorce or separation instruments executed after December 31, 2018.

Retirement

The bill generally retains the current rules for 401(k) and other retirement plans. However, the bill would repeal the rule allowing taxpayers to recharacterize Roth IRA contributions as traditional IRA contributions to unwind a Roth conversion.

Federal Estate Tax

The bill does not repeal the estate tax, but rather doubles the estate and gift tax lifetime exclusion to approximately \$11 million per person (adjusted for inflation) for estates of decedents dying and gifts made after December 31, 2017, and before January 1, 2026. The generation-skipping transfer (GST) tax exemption is also doubled. The current 40% tax rate remains, as well as the ability for married couples to utilize the combined \$22 million exclusion.

Alternative Minimum Tax (AMT)

The bill retains the AMT for individuals with modifications. The bill temporarily increases (through 2025) the exemption amount to \$109,400 for joint filers (half this amount for MFS and \$70,300 for others, except trusts and estates). It would also raise the exemption phase-out levels to \$1 million for joint filers (\$500,000 for others). These amounts are all subject to annual inflation adjustment.

Affordable Care Act (ACA)

The bill repeals the ACA mandate to have medical insurance or pay an individual “shared responsibility” penalty. This change is effective for penalties assessed after 2018. The bill does not change the mandate for 2017 so all 2017 tax returns will not be considered complete and accurate if the taxpayer does not report full-year coverage, claim a coverage exemption, or report a shared responsibility payment on the return.

BUSINESSES

Corporate Taxes

The bill provides for a permanent 21-percent flat corporate tax rate, for all C corporations, beginning in 2018. The bill reduces the 80-percent and 70-percent dividends received deductions under current law to 65-percent and 50-percent, respectively. The bill also repeals the AMT on corporations.

Bonus Depreciation

The bill increases the 50-percent “bonus depreciation” allowance to 100 percent for property placed in service after September 27, 2017 and before January 1, 2023 (January 1, 2024 for longer production period property and certain aircraft). A 20-percent phase-down schedule would then kick in. It also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Vehicle Depreciation

The bill raises the cap placed on depreciation of business-use vehicles. The new caps would be \$10,000 for the first year a vehicle is placed in service (up from a current level of \$3,160); \$16,000 for the second year (up from \$5,100); \$9,600 for the third year (up from a current level of \$3,050); and \$5,760 for each subsequent year (up from \$1,875) until costs are fully recovered. The new higher limits apply to vehicles placed in service after December 31, 2017 and for which additional first-year depreciation under Code Sec. 168(k) is not claimed.

Section 179 Expensing

The bill enhances Code Sec. 179 expensing. The bill sets the Code Sec. 179 dollar limitation at \$1 million and the investment limitation at \$2.5 million.

Deductions and Credits

Numerous business tax preferences are eliminated. These include the Code Sec. 199 domestic production activities deduction, non-real property like-kind exchanges, business meals, etc.

The bill leaves the research and development credit in place, but requires five-year amortization of research and development expenditures. The bill also creates a temporary credit for employers paying employees who are on family and medical leave. The work opportunity credit is retained until after 2019.

Interest Deductions

The bill generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income. Exceptions exist for small businesses, including an exemption for businesses with average gross receipts of \$25 million or less.

Pass-Through Businesses

The bill provides for a 20 percent reduction of income for most partnerships, S corporations and Limited Liability Companies taxed as partnerships. (Too many calculations and formulas to put into this outline.)

The bill has rules that are intended to prevent pass-through owners, particularly service providers, such as accountants, doctors, lawyers, etc. – from converting their compensation income, taxed at higher rates, into profits taxed at the lower rate.

Net Operating Losses (NOL)

Generally, NOLs would be limited to 80 percent of taxable income for losses arising in tax years beginning after December 31, 2017. The bill also denies the carryback for NOLs in most cases while providing for an indefinite carryforward, subject to the percentage limitation.