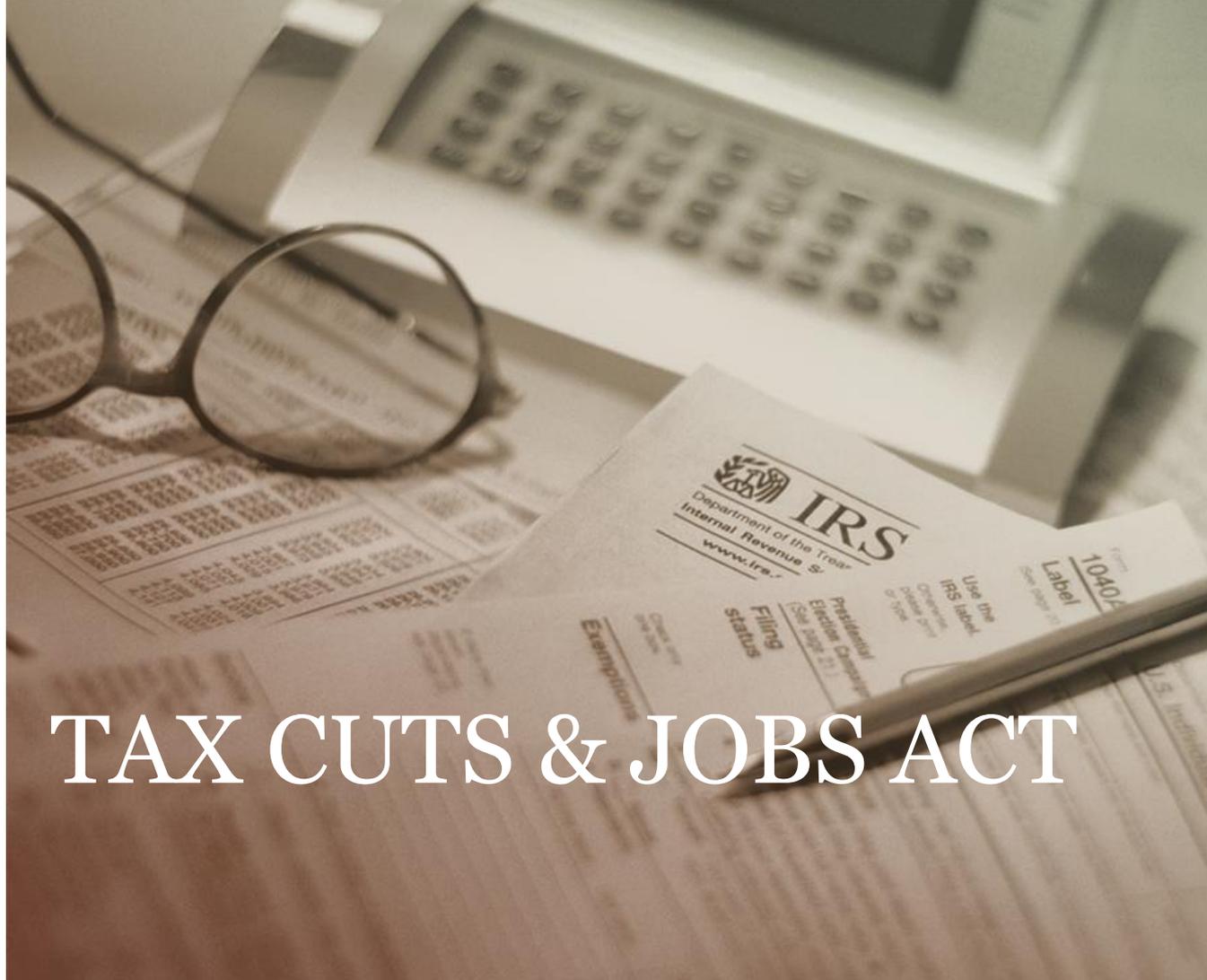




WHITINGER & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS



TAX CUTS & JOBS ACT

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Overview of business changes



- Corporate rate reduction to flat 21%
- Repeal of corporate AMT
- Special rules for pass-throughs (Sec. 199A)
- Loss limitation for other than C corps (Sec. 461)
- Repeal of Sec.199 (DPD)
- Expensing of assets
 - increases to Sec.179 (\$1 million and threshold \$2.5 million)
- Expanded accounting method exceptions for small businesses
- Changes to various fringe benefits including treatment of meals and entertainment paid by employer
- Limit on use of and carryback of NOL
- Limitation on interest expense deduction for non-small businesses (over \$25 million receipts); limited exceptions
- Corporate shift from worldwide to territorial system

Corporate rate changes



- Flat rate of 21%
- Effective for years beginning after 12/31/17
- Fiscal year corporations should apply Sec. 15
- Personal service corporations taxed at same rate (no more surtax)
- Corporate AMT has been repealed
- Dividends received deduction reduced
- Deferred tax assets and liabilities impacted

20% Pass-through Deduction



- 20% of qualified business income (QBI)
- Qualified business income definitions
 - Qualified trade/business income
 - Does not include investment income
 - Does not include reasonable compensation paid from S corporation or guaranteed payments paid to a partner
- Additional limitations apply if taxable income exceeds \$157,500 single and \$315,000 MFJ and are fully phased in if taxable income exceeds \$207,500 single and \$415,000 MFJ
 - Specified service business limitation
 - Wage/investment in depreciable property limitation

Partnership change



- Repeal of technical termination provisions
 - Greater than 50% ownership change (12 mos.)
 - No longer an automatic termination
 - No need to “close the books”
 - No short year returns
 - Effective for years after 12/31/17

Depreciation



- Additional first year/bonus depreciation- 100% for property acquired after 9/27/17
- Phase down schedule for years after 2022
- Now allowed for new and used property
- Qualified improvement property – new definition and recovery life
- Luxury auto limits increased
 - \$10k/\$16k/\$9.6k/\$5.76k
 - Retains \$8k bonus depreciation
- Increases to Sec. 179 (\$1M and threshold \$2.5M)
- SUV limitation remains at \$25,000
- Limits are indexed for inflation
- Expansion for certain real property (roofs, HVAC)
- Allows residential rental property

Accounting methods for small taxpayers



- Expanded availability of cash method
- Inventory tracking requirements
- Sec. 263A threshold raised
- Expanded availability of completed contract method
- Small taxpayers = gross receipts less than \$25 million

Restrictions on interest deductions



- Deductible interest limited to
 - Interest income for year plus
 - 30% of taxable income plus
 - taxpayers financing interest for the year
- Limitation at the taxpayer level
- Interest not deductible carries forward indefinitely
- Doesn't apply to taxpayers that meet \$25M gross receipts test

Changes to fringe benefits/entertainment expense



- Repeal of business entertainment expenses
- Repeal of deduction for qualified transportation fringe benefits
- Repeal of exclusion for bicycle commuting reimbursement
- Repeal of exclusion for employee reimbursed moving expenses
- Other changes to employee fringe benefits

Net operating loss provisions



- No longer allowed to carryback NOLs
- Carried forward indefinitely
- 80% of taxable income may be reduced by NOL

Other changes to note



- New limits on executive compensation deduction
- Changes for Sec. 1031 exchanges
- Changes to carried interest rule
- Expenses for employer operating eating facilities is now 50% (rather than fully deductible)
- Lobbying costs no longer deductible
- New credit for paid family and medical leave

International changes



- Move to a quasi-territorial system with a 100% dividends received deduction
- One-time tax on previously unrepatriated earnings
- Other significant changes for international tax law

Individual Provisions - Basics



- Still seven tax brackets
 - 10%, 12%, 22%, 24%, 32%, 35%, 37%
- No more dependent exemption
- Higher child tax credit (\$2,000)
 - New \$500 non-child dependent credit
- Increase in standard deduction
- Individual AMT not repealed
 - *But* exemption amounts have increased

Dividend and capital gains rates unchanged



- The top tax bracket for qualified dividends and capital gains is 20% (23.8% if the net investment income tax applies).

Here's the breakdown:

**0% for MFJ taxpayers
with < \$77.2k taxable
income**

**15% for MFJ taxpayers
with between \$77.2k
and \$479k taxable
income**

**20% for MFJ taxpayers
with taxable income
greater than \$479k**

Itemized deductions changes



- Repeal of the overall limitation on itemized deductions
- Medical deduction threshold is 7.5% for 2017 & 2018
 - Reverts to 10% starting in 2019
- Mortgage interest limited to \$750k of debt
 - Debt prior to 12/15/17 is grandfathered
- Home equity interest no longer deductible
- State and local tax deduction is limited to \$10k (\$5k if MFS)
- Misc. deductions subject to 2% threshold no longer deductible

Misc. itemized deductions subject to 2% AGI



- Unreimbursed employee expenses
- Tax prep fees
- Hobby expenses
- Investment fees/expenses
- Legal fees related to producing income
- Safe deposit fee

...are no longer deductible

Affordable Care Act impact



- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- Still in effect for 2017 and 2018
- 2017 penalty:
 - Higher of 2.5% of yearly household income, **or**
 - \$695 per person (\$347.50 per child under 18)

Affects on the net investment income tax (NIIT)



- No change to NIIT itself, but.....
- Investment fees and state income tax (amount attributable to investment income) reduce investment income to lower amount subject to NIIT
- Since investment fees are no longer deductible and state income tax is limited to \$10k, this will likely cause an increase in the amount subject to NIIT

Alternative minimum tax (AMT) changes



- Alternative tax system that parallels the regular federal tax (with different rates and rules for deductions)
- Increase in exemption amount
- Due to limit on state/local tax deduction and repeal of miscellaneous deductions, impact should be less

Changes to retirement planning



- Ability to recharacterize a Roth conversion to a traditional IRA is removed after 2017
- Extension of rollover period for plan loan offsets

Estate and gift taxes changes



- 2018 estate tax exemption: \$11.2 million
- 2018 gift tax annual exclusion: \$15,000
- Estate planning is more than minimizing estate taxes.
 - Updating documents
 - Repurposing insurance
 - Privacy
 - Asset protection
 - Considering charitable beneficiaries for IRA and retirement plan assets

Education tax benefit changes



- Sec 529 plan distributions for private school tuition
- Sec 529 plan assets can transfer to ABLE accounts for family members
- Student loan forgiveness will not be taxable income to student upon death/total disability

Other individual changes to note



- Casualty losses: only from federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Kiddie tax now at trusts/estate tax rates

Charitable contribution changes



- AGI limitation increased to 60% for cash contributions (from 50%)
- No 80% deduction for right to purchase athletic tickets
- Exception to contemporaneous written acknowledgement requirement is repealed (must be obtained now for any contribution of \$250 or more)



- Total deduction limit of \$10k (\$5k if MFS)
 - Combination of income/sales and state/local property taxes

Exceptions

- Tax imposed at entity level
- Property taxes for residential rental property/business property
- Prepayment of 2018 state income taxes in 2017
- Prepayment of 2018 real estate taxes in 2017

Planning now to avoid underpayment penalties



- Estimated tax payments/withholding



THANK YOU