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HIGHLIGHTS FROM THE

# NEW TAX LAW

For Individuals & Businesses





This paper offers a few of the highlights of the recently passed tax legislation. This legislation is the biggest tax reform law in the past 30 years. The majority of the legislation was implemented starting with the 2018 tax year.

# INDIVIDUALS

## TAX RATES

**0%, 10%, 12%, 22%, 24%, 32%, 35%, and 37%.**

The 37% rate begins at a taxable income threshold of \$600,000 for married filing joint (MFJ) / \$500,000 single taxpayers.

## NEW STANDARD DEDUCTIONS

**\$12,000**

for single filers

**\$24,000**

for married filers

## ALTERNATIVE MINIMUM TAX

Retains the individual alternative minimum tax (AMT) with increased exemption amounts (exemptions phased out when alternative taxable income is > \$1 million for MFJ; \$500,000 for all other taxpayers)

## PERSONAL EXEMPTIONS

Repeals personal exemptions and miscellaneous itemized deductions that were subject to the 2% floor, such as: investment fees, tax preparation fees, etc.



## CHILD TAX CREDIT

Increases child tax credit to **\$2,000** from \$1,000 (phased out at \$400,000 MFJ ; \$200,000 for all other taxpayers)

## STATE AND LOCAL TAX DEDUCTIONS

Repeals state and local tax deductions except for **\$10,000** in property, income or sales tax (any combination at election of taxpayer).

## MORTGAGE INTEREST DEDUCTION

Reduces the mortgage interest deduction to interest on **\$750,000** of mortgage debt each for a principal residence and a second home for mortgages acquired after December 15, 2017, and eliminates the deduction for interest paid on home equity indebtedness.

## MEDICAL EXPENSES

Retains the itemized deduction for medical expenses and lowers the floor to 7.5% of AGI (from 10%) in 2018 and 2019.

## SEC. 529

Allows Sec. 529 plan withdrawals, previously only allowed for College education, to be used for elementary or secondary public, private, or religious education and various expenses associated with home school; limits distributions for these additional expenses to **\$10,000** per student.



## CASH CONTRIBUTIONS

Increased limitation for cash contributions to 60% of Adjusted Gross Income (Previously was 50%)

## OBAMACARE

The Act leaves intact the 3.8% net investment income tax and the 0.9% additional Medicare tax (both enacted by Obamacare). Starting after December 31, 2018 the amount of individual shared responsibility payment (healthcare penalty) is reduced to **zero**.

## EXCESS BUSINESS LOSSES

Excess business losses are limited to **\$500,000** on joint returns (\$250,000 otherwise) for taxpayers other than corporations. Any excess business losses have to be carried forward and treated as part of the net operating loss (NOL) carryforward in subsequent taxable years. This limitation applies **AFTER** the application of the passive loss rules already in place.

## ESTATE AND GIFT TAX

Increases the estate and gift tax basic exclusion amount from \$5.5 million to **\$11 million** per person.



# BUSINESSES

## TAX RATE

The corporate tax rate is a **flat 21% rate**, effective January 1, 2018.

## AMT

The corporate alternative minimum tax is repealed.

## INTEREST EXPENSE DEDUCTION

Net interest expense deduction is limited to 30% of the business's adjusted taxable income, and is determined at tax filer level; for pass-through entities determination is at the entity level (i.e. partnership level). These rules do NOT apply for taxpayers with average annual receipts for the prior 3 years that are less than \$25 million.

## PASS-THROUGH ENTITIES

Pass-through entities (Partnerships, S-corporations, LLC, Sole Proprietorship) with qualified business income can potentially deduct up to a maximum of 20% of the taxable income for the tax year. The 20% deduction is not allowed in computing adjusted gross income, but rather is allowed as a deduction reducing taxable income. Qualified business income does not include guaranteed payments to partners or reasonable compensation to shareholders. This deduction does NOT apply to specified service businesses, whose taxpayers' taxable income is greater than \$315,000 MFJ or \$157,500 single, in the fields of: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees. Additional caveats and limitations regarding payroll and business property also exist for this deduction.

## NOL'S

For any NOL's arising after 12/31/17, the two-year carryback is repealed and the net operating loss deduction allowed is limited to 80% of taxable income. NOL's can be carried forward indefinitely.



## SEC. 179

The maximum amount a taxpayer may expense under Sec. 179 is increased to \$1 million (was \$500,000), and the phase-out threshold amount is increased to \$2.5 million.

## FIRST-YEAR DEDUCTION

A 100% first-year deduction is allowed for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023. (the phase-down of 50% allowance is repealed). The additional first year depreciation deduction is allowed for new and used property.

## OTHER DEDUCTIONS

Deductions for all entertainment expenses are disallowed, but the 50% limit on the deductibility of business meals is expanded to in-house cafeteria costs. Deductions for employee transportation fringe benefits (e.g., parking, mass transit) are denied, but exclusion from income of those by an employee is retained. No deduction is allowed for transportation expenses of employees that are the equivalent of commuting (i.e. between home and the workplace).

Research and Experimentation expenses incurred after 12/31/21 are required to be capitalized and amortized over a five-year period.

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Again, this legislation is a major overhaul of the current tax code so this is only a brief update on some of the new rules. New publications relating to this legislation are voluminous and are being updated daily so please contact our office for more personal recommendations based on your specific tax circumstances.



## IMPORTANT DISCLOSURE INFORMATION

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