Tax Cuts & Jobs Act – Individuals

Axley & Rode LLP
Garvey Jackson CPA
Livingston TX
936-327-3166
www.axleyrode.com
Many changes!

- Most in effect now
- Most changes are temporary
  - Sunset after 2025
- Receiving guidance on law slowly – but still lack clarity
- Future legislation?
- State conformity to changes?
The basics

• Still seven tax brackets
  – 10%, 12%, 22%, 24%, 32%, 35%, 37%

• No more personal or dependent exemption deduction

• Higher child tax credit ($2,000)
  – New $500 non-child dependent credit

• Increase in standard deduction – basically doubled

• Individual AMT not repealed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 only deductible if buying, building, or improving home securing loan

• 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
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- Exception to contemporaneous written acknowledgement requirement is repealed (must be obtained now for any contribution of $250 or more)
State and local tax issues

- 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
Affordable Care Act impact

- Penalty to maintain insurance coverage (individual mandate) is repealed for 2019 and forward
- HOWEVER, 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)
Expired provisions

• Exclusion of discharge of indebtedness on principal residence
• Deduction of mortgage insurance premiums
• Above-the-line deduction for qualified tuition and fees
• Credits for qualified energy property
Sec 199A Deduction (20% Passthrough)

• New Qualified Business deduction of maximum of 20% of net qualified business income allowed for pass-through entities (Partnerships, S-Corps and Trusts) and Individuals (Sole Proprietors)

• Broken into two groups:
  – Qualified Business Income (QBI)
    • Can include rentals (material participation required)
  – QBI generated by a Specified Service Trade or Business
    • Includes such performance of services as the fields of Health, Law, Accounting, Actuarial Science, Performing Arts, Consulting, Athletics, & Finances.
Sec 199A Deduction (20% Passthrough)

• Phase-out Ranges – Taxable Income
  – Single / MFS / HOH - $157k - $207k
  – MFJ - $315k - $415k

• For General QBI – Deduction may be allowed over this range as long as taxpayer has:
  – Enough W-2 wages paid
  – Enough Qualified Property

• For Specified Service Trade Business – No Deduction allowed over the phase-out range
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
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
• But….It may be beneficial to re-think estate planning to receive stepped up basis.
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 allowed for 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 – This effects children with investment income
• Gambling expenses for professional gamblers limited to gambling winnings
Depreciation changes

• 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 no longer qualifies

• Luxury auto limits – (note that additional $8k depreciation has been extended for 2017)

• 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)
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
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

• One exception – Farmers – allowed 2 year carryback

• 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 – only real estate qualifies
- 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
Thank you