



KLR

# The Impact of Tax Reform on Businesses and Individuals



---

Presented by  
LAURA H. YALANIS, CPA/MST  
SHAREHOLDER

I work closely with clients to help them achieve their business goals through strategic planning.



Presented by  
NORMAN LEBLANC, CPA , MST  
CHAIR, TAXPAYER DEFENSE

I help clients effectively resolve their tax controversies.







KLR

# The Impact of Tax Reform on Businesses and Individuals

- Signed into law on December 22, 2017
- Largest tax reform bill in over three decades
- Majority of changes for individuals will sunset on December 31, 2025
- Many of the corporate changes are permanent

## Tax Reform Overview





## Agenda

- Individual Taxation / Estate & Gift Changes
- General Business Changes
- Pass-Through Entity Changes
- C Corporation and Foreign Tax Changes



# Individual Taxation / Estate & Gift Changes





# Individual Taxation

## Individual Rates are Lowered:

- 10% (income up to \$9,525 for individuals; up to \$19,050 for MFJ)
- 12% (over \$9,525 to \$38,700; over \$19,050 to \$77,400 for couples)
- 22% (over \$38,700 to \$82,500; over \$77,400 to \$165,000 for couples)
- 24% (over \$82,500 to \$157,500; over \$165,000 to \$315,000 for couples)
- 32% (over \$157,500 to \$200,000; over \$315,000 to \$400,000 for couples)
- 35% (over \$200,000 to \$500,000; over \$400,000 to \$600,000 for couples)
- 37% (over \$500,000; over \$600,000 for couples)

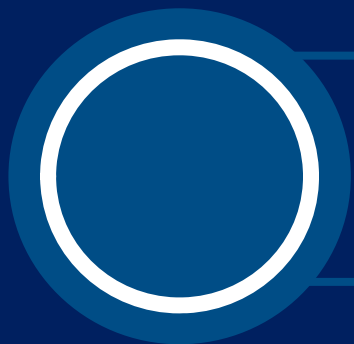


# Individual Taxation

## Standard Deduction Increased:

	Pre-Act Law	Under TCJA 2018-2025
Single	\$6,500	\$12,000
HOH	\$9,550	\$18,000
MFJ	\$13,000	\$24,000
Addition for blind and age 65+	\$1,300 MFJ \$1,600 Single	\$1,300 MFJ \$1,600 Single





# Individual Taxation

	Pre-Act Law	Under TCJA 2018-2025
Personal Exemptions Suspended	\$4,150	\$0
Child Tax Credit Increased	\$1,000/child	\$2,000/child
Credit for non-child dependents	\$0	\$500
Phase-out AGI Threshold	\$75,000 single/HOH	\$200,000 single/HOH
	\$110,000 MFJ	\$400,000 MFJ
Tax ID Number Requirement	SSN/ITIN	SSN



# Individual Taxation

## Kiddie Tax Changes

	Pre-Act Law	Under TCJA 2018-2025
Unearned Income Up to \$2,100	Single rates	Trusts & Estate rates
Unearned Income > \$2,100	Parents' rates	Trusts & Estate rates
Earned Income	Single rates	Single rates
Capital Gain Provisions	No change in tax rates – 0%, 15% and 20%	



Personal Casualty & Theft Losses - Suspended through 12/31/2025, except for losses incurred in a Federally-declared disaster



# Individual Taxation

## Alimony Changes



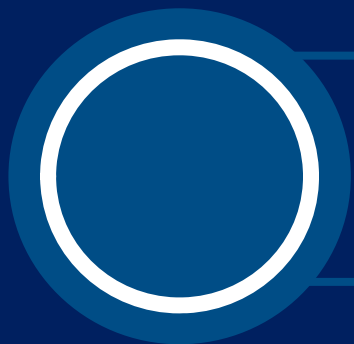
- Not deductible by payor spouse
- Not includible in income for payee spouse
- For any agreement executed after 12/31/2018

## Moving Expenses



- Reimbursements from employer no longer excludable from income
- Deductions for moving expenses eliminated
- Exception – members of Armed Forces on active duty





## Individual Taxation - Itemized Deduction Changes

### **State and Local Tax Deduction**

limited to \$10,000 unless incurred when carrying on a trade of business or for the production of income. Foreign property taxes excluded entirely.





## Individual Taxation - Itemized Deduction Changes



### **Mortgage & Home Equity Indebtedness Interest Deduction**

- \$1M allowable under pre-Act Law
- \$750k under new law
- Up to \$100k of home equity indebtedness allowed under pre-Act law
- \$0 allowed under new law



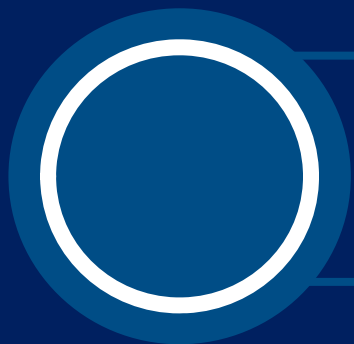
## Individual Taxation - Itemized Deduction Changes

### **Medical Deductions**

Threshold dropped  
back to 7.5% of AGI  
instead of 10%







# Individual Taxation

## Itemized Deduction Changes

	Pre-Act Law	Under TCJA 2018-2025
Charitable Donations limit	50% of AGI	60% of AGI
Misc Itemized Deductions	***** Eliminated Entirely *****	
Limitation on Item. Ded'ns	"Pease" Limit	No limitation



# Individual Taxation

## Repeal of Obamacare Individual Mandate

- “Shared Responsibility Payment” reduced to \$0 for months beginning after 12/31/18 – Permanent change
- 3.8% NIIT and .9% additional Medicare **tax left in tact**

## Repeal of rule allowing re-characterization of IRA contributions

- Roth IRA Conversions – re-characterization of a conversion no longer allowed

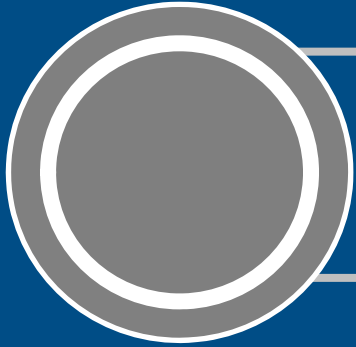


# Individual Taxation

## Changes to Alternative Minimum Tax

	Pre-Act Law	Under TCJA 2018-2025
AMT Exemption		
MFJ	\$86,200	\$109,400
Single	\$55,400	\$70,300
Exemption Reduction Threshold		
MFJ	\$164,100	\$1,000,000
Single	\$123,100	\$500,000





## Estate and Gift Tax Changes

### Lifetime Exemption (indexed for inflation)

	Pre-Act Law	Under TCJA 2018-2025
Individual	\$5,600,000	\$11,200,000
Married Couple	\$11,200,000	\$22,400,000



Annual gift exclusion was not changed under TCJA. However, in 2018, the exclusion does increase from \$14,000 per person to \$15,000 per person.

# General Business Changes







## Key General Business Provisions

	<b>Pre-Act Law</b>	<b>Under TCJA</b>
§179 Expensing	\$500,000 (not indexed)	\$1,000,000 (indexed for inflation)
<b>Bonus Depreciation</b>	50% - phase down through 2020 new only	100% - 9/27/17 – 1/1/23 phase down 2024-2027 new & used



“Qualified Real Property” is expanded to include improvements to nonresidential real property for roofs, HVAC, fire protection and alarm systems and security systems.

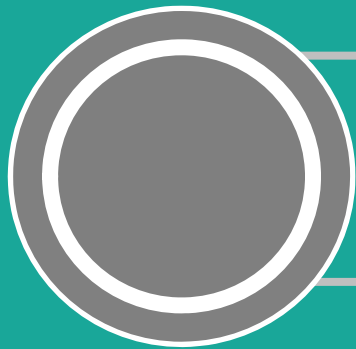


## Key General Business Provisions

	<b>Pre-Act Law</b>	<b>Under TCJA</b>
Business Interest Expense	No limit	Can't exceed 30% of EBITDA*
Net Operating Losses	2 year carry-back  20 year forward	No carryback/forward indefinitely Limited to 80% of taxable income
Domestic Production Activities Deduction	9% of QPAI	Eliminated
Like-kind Exchanges	Tangible/Real	Limited to real property only
Entertainment Expenses	50% disallowed	100% disallowed



# Pass-Through Entity Changes



# Pass-Through Changes

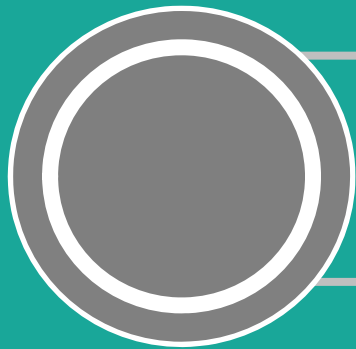


Deduction of 20% of pass-through income from taxable income of a non-corporate taxpayer - *beginning after 12/31/2017 and before 1/1/2026*



Sole proprietorships, partnerships, LLC's and S corporations





## Pass-Through Changes



Limitation provisions – Deduction limited to lesser of:

- 20% of QBI or
- The greater of
  - 50% of W-2 wages paid by the entity, or
  - 25% of W-2 wages plus 2.5% of unadjusted basis of all “qualified property”



Deduction not allowed for specified service businesses – **health, law, accounting, consulting, financial services, etc.**

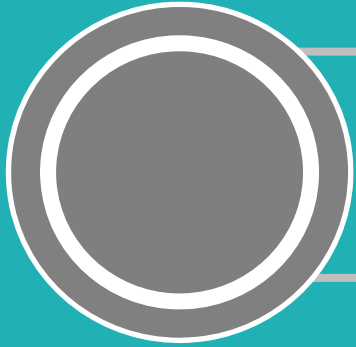






# C corporation and Foreign Tax Changes





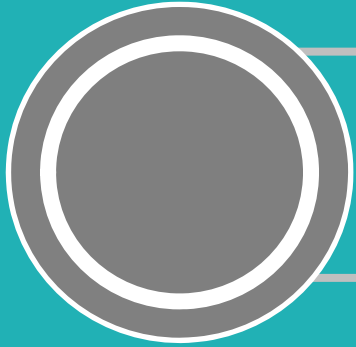
## C corp Changes

**1**

# Flat Corporate Tax rate of 21%



No special rate for personal service corporations



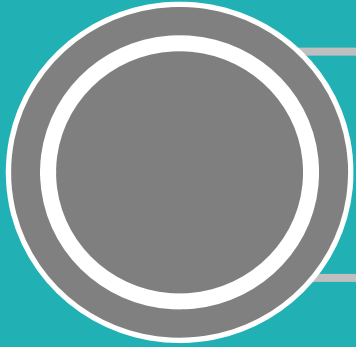
C corp Changes

**2**

# Corporate Alternative Minimum Tax Repealed







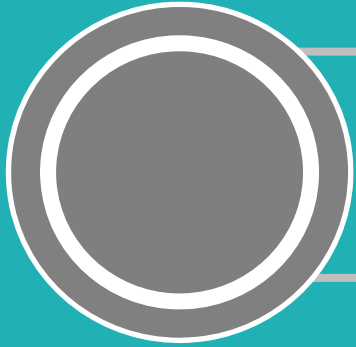
C corp Changes

**3**

# Cash Method of Accounting



Cash method of accounting  
permitted for organizations  
with average gross receipts of  
up to \$25M (from \$5M)



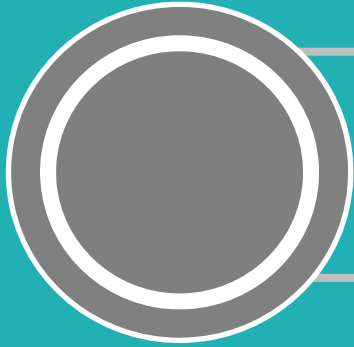
## C corp Changes

**4**

# UNICAP Threshold Increases



Exemption from Uniform capitalization (UNICAP) rules threshold for average gross receipts increased to \$25M (from \$10M)



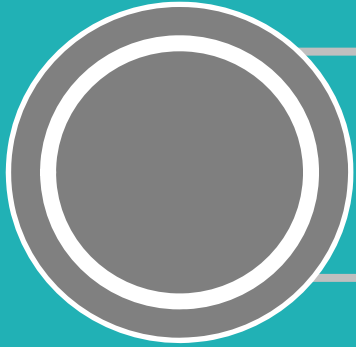
C corp Changes

**5**

# S Corp to C Corp Conversion



Distributions would be treated as paid proportionately from accumulated adjustment account and from earnings and profits



C corp Changes

6

# Parent/Subsidiary

- 80% dividends received deduction reduced to 65%;
- 70% dividends received deduction reduced to 50%





C corp Changes



**7**

## Foreign Source Dividends

100% deduction for Foreign-source portion of dividends & repatriation for foreign subsidiaries owned 10% or greater by US corporation

# Let's Connect



lyalanis@KahnLitwin.com



nleblanc@KahnLitwin.com



888-KLR-8557

**KahnLitwin.com**



BOSTON | NEWPORT | PROVIDENCE | SHANGHAI | WALTHAM  
KAHNLITWIN.COM