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KLR

Tax Reform Update for Businesses and Individuals



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



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I help clients effectively resolve their tax controversies.

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Tax Reform Update for 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 are 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**
- For debts incurred on or before Dec 15, 2017 – the old rules still apply
- A refinance of a loan existing prior to Dec 15, 2017 will be a continuation of old loan, provided outstanding balance is not increased.



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

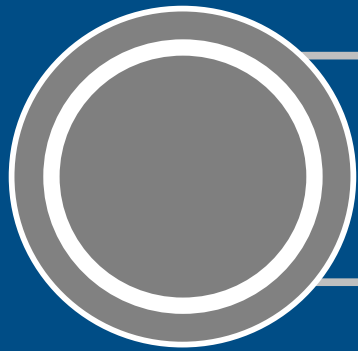
- Roth IRA Conversions – re-characterization of a conversion no longer allowed



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

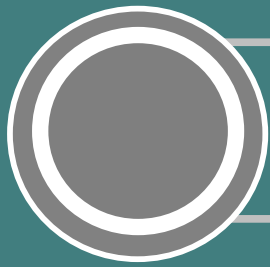
Lifetime Exemption (indexed for inflation)

	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

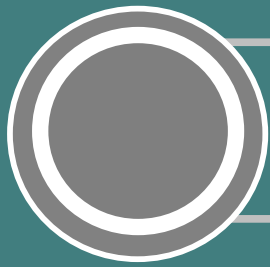


Key General Business Provisions

	Pre-Act Law	Under TCJA
§179 Expensing	\$500,000 (not indexed)	\$1,000,000 (indexed for inflation)
Bonus Depreciation	50% - phase down through 2020 new only	New & used 100% - 9/27/17 – 12/31/22 80% 2023 60% 2024 40% 2025 20% 2026



2018 “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

	Pre-Act Law	Under TCJA
Business Interest Expense (Trade or Business)	No limit	<ul style="list-style-type: none">• Can't exceed 30% of Adjusted Taxable Income (EBITDA, NOLs, and 199A)*• After 2021 Adjusted Taxable Income includes deductions for depreciation and amortization (EBIT)• Floor plan interest is exempted• Excess interest carries forward• Partnerships pass out the excess interest• S corporations retain the excess interest

	Pre-Act Law	Under TCJA
Net Operating Losses	2 year carry-back 20 year forward	No carryback Carryforward indefinitely Limited to 80% of taxable income Limited offset of non business income (\$500k / \$250k) Pre-2018 losses are unchanged
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



BACKUP

COMPUTER

E-MAIL

Business Strategy
Innovation
Branding
Solution
Marketing
Analysis
Sales
Success
Management

SECURITY

ONLINE SHOPPING

SOCIAL

GLOBAL

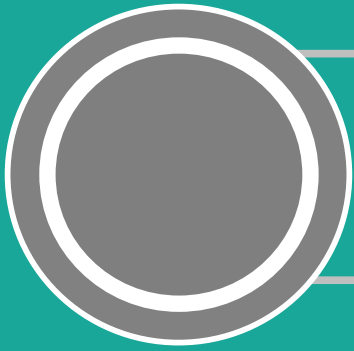
NETWORK

SEARCH
WWW.

@ SYMBOL

WORKSTATION

SMART PHONE



Pass-Through Changes

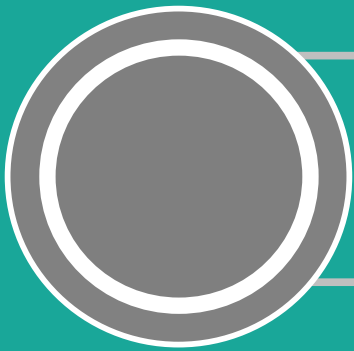


Deduction of 20% of pass-through income from taxable income of a domestic non-corporate entity - *beginning after 12/31/2017 and before January 1, 2026*



Available to non-C corporate owners of sole proprietorships, rental properties, partnerships, LLCs and S corporations





Pass-Through Changes



Limitation provisions on taxable income over \$315,000 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”

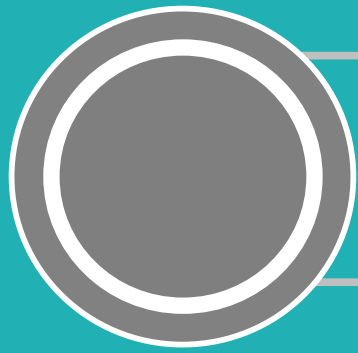


For taxable income over \$315,000 – Deduction is not allowed for specified service businesses – **health, law, accounting, consulting, financial services, etc.**





C corporation and Foreign Tax Changes



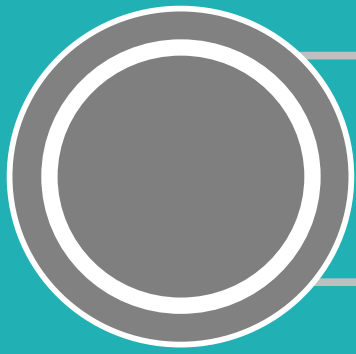
C corp Changes

1

**Flat Corporate
Tax rate of 21%**



No special rate for personal service corporations

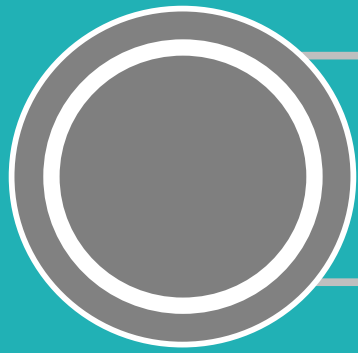


C corp Changes

2

Corporate Alternative Minimum Tax Repealed





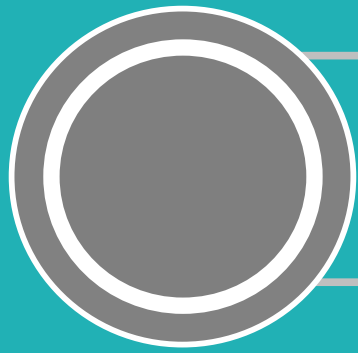
C corp Changes

3

Cash Method of Accounting



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



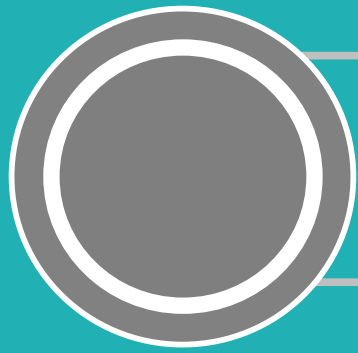
C corp Changes

4

UNICAP Threshold Increases



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



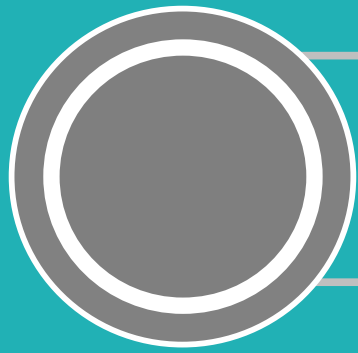
C corp Changes

5

S Corp to C Corp Conversion

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



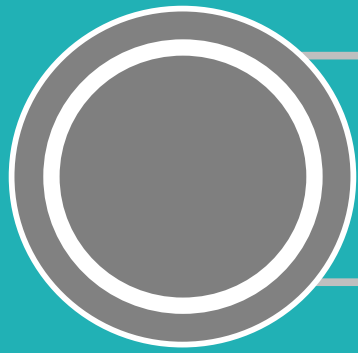


C corp Changes

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



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