

# BOTTOM LINE



**CPAs & Business Advisors**

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## 35<sup>th</sup> Annual Tax Letter | January 2018

### Business Tax Provisions of the Tax Cuts & Jobs Act

#### C-Corporation Tax Rate

Lowering the tax rate for C-type corporations was the foundation and starting point of this tax bill. For tax years beginning after 12/31/17, the graduated tax rate system for corporations is replaced with a flat rate of 21%.



Here's some examples of how this new flat rate will change at various income levels:

<u>Corporate Taxable Income</u>	<u>Old Rates 2017</u>	<u>New Rates 2018</u>	<u>Tax Increase &lt;Decrease&gt;</u>
\$50,000	\$7,500	\$10,500	\$3,000
\$75,000	\$13,750	\$15,750	\$2,000
\$100,000	\$22,250	\$21,000	<\$1,250>
\$335,000	\$113,900	\$70,350	<\$43,550>
\$1,000,000	\$340,000	\$210,000	<\$130,000>
\$10,000,000	\$3,400,000	\$2,100,000	<\$1,300,000>

Companies needing to retain profits for expansion or debt-retirement may want to reconsider C Corp status – especially if eligible for code section 1202 (tax-free sale).

#### Write-offs / Write-offs / Write-offs

Lots of opportunity for writing off assets via 179 Expensing, bonus depreciation, and shorter depreciation lives.



#### Section 179 Expensing

- Annual limit is increased from \$500k to \$1M
- Qualified improvement property expanded to include tangible personal property used for residential rental
- And for non-residential real property, roofs, HVAC, fire alarm, and security systems will qualify for expensing



#### Bonus



- Retroactive for assets placed in service after 9/27/17
- Expanded from 50% write-off to 100%
- Used property now qualifies
- 100% write-off through 12/31/22 then reduces by 20%/year until zero 1/1/27
- “Qualified improvement property” no longer eligible for bonus depreciation, but still qualifies for section 179 expensing (see above)

#### Depreciation

- Most farm machinery and equipment, now 5 years (was 7), may be allowed to depreciate using 200% declining balance, rather than 150% (old law)
- All “qualified improvement property” (generally improvements to the interior of building structures) will be allowed 15-year straight-line depreciation



#### PTP Reduces TP

Proper Tax Planning reduces Tax Payments! Talk to your H&S tax professional today!



#### New 20% Business Income Deduction

Hold on to your hats, this one's a biggy!

Beginning 1/1/18 and through 12/31/25 there is going to be a new deduction from taxable income generally equal to 20% of “Qualified Business Income.”

- This provision is not for C-Corporations.
- Service type businesses (doctors, lawyers, Indian Chiefs) will only qualify if income is below a threshold subject to phase out.
- For entities other than sole proprietorships, there will be an additional limitation on the deduction based on W-2 wages paid and asset purchases.

Many new rules and regulations (yet to be written), but suffice to say this is a potential large deduction for business income earners.



#### New Tax Credit for Employer-Paid Family & Medical Leave

For wages paid in tax years beginning after 1/1/18 and before 12/31/19 businesses can claim a tax credit equal to 12.5% of wages paid to individuals on FMLA if the rate of employee payment is at least 50% of normal wages. The credit is increased by .25 percentage points to maximum of 25% for each percentage point by which rate of payment exceeds 50%. The downside is that the window for the credit is only two years.

*Business Tax Provisions continued on reverse...*

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## Accounting Changes

The gross receipts test for the ability to use the cash method of accounting has been increased from \$5 million to \$25 million. Similarly, the UNICAP inventory test has been increased from \$10 million in average annual gross receipts to \$25 million.

## Corporate AMT Repealed

### And now for the not so good business changes:

- Business interest deduction limited to 30% of adjusted taxable income after 12/31/17. Exceptions for:
  - Businesses with average annual gross receipts under \$25 million

- Real property trades electing ADS depreciation
- Floor plan financing (cars, boats, farm equipment) interest is excluded
- DPAD (Domestic Production Activities Deduction) is repealed effective 12/31/17
- Like-kind exchange tax deferral limited to just real estate
  - Employee parking deductions eliminated
  - Entertainment expenses no longer allowed (meals still OK)
  - Under the title – can you believe this! – Congress took away the tax-free \$20/month reimbursement allowed for bicycle commuting!



# Individual Tax Provisions of the Tax Cuts & Jobs Act

## Individual Tax Rates - Effective 1/1/18

Lots of talk about reducing the number of brackets, but you know the story of the committee designing a horse and ending up with a camel... Well, seven brackets turned into guess what – seven!

Taxable Income	Married		Single	
	Old Rates	New Rates	Old Rates	New Rates
\$50,000	\$6,568	\$5,619	\$8,238	\$6,940
\$75,000	\$10,318	\$8,619	\$14,489	\$12,440
\$150,000	\$28,978	\$24,879	\$34,982	\$30,290
\$250,000	\$57,717	\$48,579	\$65,899	\$63,190
\$500,000	\$143,231	\$126,379	\$153,819	\$150,690
\$1,000,000	\$341,231	\$309,379	\$351,819	\$335,690

## Standard / Itemized Deductions

Good news for those who don't itemize their deductions, as the standard deduction increases next year from \$12,700 (married) to \$24,000 and from \$6,350 (single) to \$12,000. Somehow these numbers are supposed to be double, but it doesn't quite compute that way with our calculators.

Plenty of changes to itemized deductions:

1. State and local taxes (property, income, sales taxes) will now be limited to just \$10,000/year
2. Mortgage interest will be limited to interest on a maximum of \$750,000 on new mortgages (\$375,000 singles) and no longer will home equity interest be deductible after 12/31/17
3. Miscellaneous itemized deductions eliminated – these include such expenses as union dues, employee business expenses, tax preparation fees (not related to a business) and investment advisor fees
4. Also some minor changes to charitable deduction and medical expense percentages

Two major "above the line" (before AGI) deductions to sunset:

1. Alimony for any agreement entered into after 12/31/18. Payments under prior agreements will still be deductible. On the flip side, receipt of alimony will be tax-free for agreements after 12/31/18
2. Moving Expenses – except for active duty military ordered moves, this deduction has been eliminated 12/31/17



## Personal Exemptions / Child Tax Credit

- Bad News: No longer may you claim a personal exemption (worth \$4,050 this year) for you, your spouse, or your children after 12/31/17.
- Good News: The child tax credit for children under the age of 17 is increased from \$1,000 to \$2,000 as of 1/1/18.

### Healthcare

For calendar year 2019 returns (filed 2020) the penalty for not having health insurance will be eliminated.

## Alternative Minimum Tax (AMT)

Unlike corporations, individuals will still be subject to the AMT, however, dollar threshold limits have been significantly expanded and thus fewer will be subject to this tax.

## 529 Education Accounts

Beginning 1/1/18, "qualified educational expenses" are expanded to include elementary or secondary public, private, or religious schools, and even home school expenses up to \$10,000 per year.

## Estate & Gift Tax

And now we come to the end... Or at least the end of our newsletter. We hope it's not the end of you! We shudder to suggest dying between now and 1/1/26, during which time the unified gift and estate exemption is doubled to approximately \$22.4 million (married couple) and \$11.2 million (single person).

Should you wish to stay alive, however, there are plenty of tax savings opportunities. The key for those with the wherewithal would be to greatly expand giving to loved ones, since no gift tax would be incurred on up to \$22.4/\$11.2 million of cumulative gifts. We just may see more wealth transfers in the fourth quarter of 2025 than any time in history!

OPPORTUNITY AHEAD

Follow us for more news and updates throughout the year!

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