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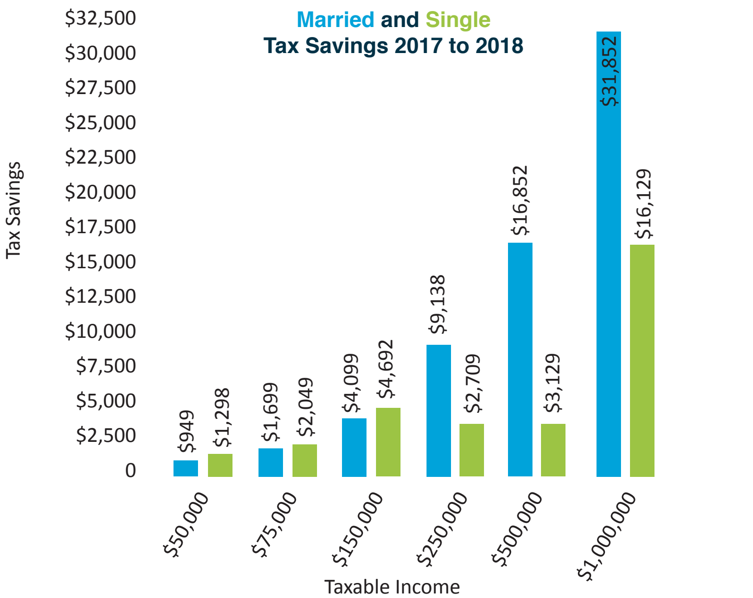
36th Annual Tax Letter | January 2019

Individual Tax Provisions of the Tax Cuts & Jobs Act (TCJA)

Individual Tax Rates

No matter your income level, the tax rate changes for 2018 should reduce your taxes compared to 2017.



They say "the devil is in the details," however, tax rates are based on "taxable income" and your taxable income may be going up or down in 2018 simply due to the changes made to your deductions.

Standard Deductions

If you don't itemize your deductions, you will benefit from a larger standard deduction, which will lower your taxable income.

	New (2018)	Old (2017)	Increased Deduction
Married	$24,000	$13,000	$11,000
Single	$12,000	$6,500	$5,500

Moving

Except for active duty military ordered moves, this deduction is gone along with tax-free moving reimbursements from your employer.

Personal Exemptions

Personal exemptions of $4,150 for you, your spouse and your dependents are no longer deductible. They are still just as costly though, right?

Child Tax Credits

Good news for those with children under 17. The child tax credit has doubled from $1,000 to $2,000 and the income threshold for claiming the deduction is raised to $400,000 (married) and $200,000 (single).

Itemized Deductions

The news is not good for those accustomed to claiming itemized deductions:

- State and local taxes (property, income and sales taxes) are now limited to just $10,000 a year.
- Mortgage interest will be limited to interest on a maximum of $750,000 on new mortgages ($375,000 singles) and limits home equity loan interest to the tax basis in your home.
- Miscellaneous itemized deductions eliminated – these include union dues, employee business expenses, tax preparation fees (not related to a business) and investment fees.

Education

Sending children/grandchildren to private elementary or secondary schools? You can now use "529 Educational Accounts" for up to $10,000 in expenses per year.

Meals and Entertainment O My!

Talk about "No Fun Zone" the TCJA eliminated nearly all deductions for entertainment, amusement or recreational activities, or any facility used in connection with the above. Not even dues relating to any club organized for business, pleasure, recreation, or other social purposes (including Lions, Optimists, Jaycees, economics clubs or networking clubs).

Business meals (meetings or away from home overnight) - allowed to deduct 50% of the cost. Same for food and beverages furnished to employees on the taxpayer's business premises.

Fear not, Congress will still let us deduct expenses for recreational, social or similar facilities, or activities for the benefit of employees. ie: We can still deduct reasonable cost for a year-end holiday party or a summer picnic – whew! ...And if that's not enough – paying for employee parking is no longer deductible.

Opportunity Zones

This is a whole new set of Code Sections created by the TCJA.

Highlights:

1. Permits deferral of capital gains that are reinvested in Qualified Opportunity Zones (QOF).
2. QOFs can be found by checking Census Tract Numbers and are all located in Low-Income Communities. There are more than 8700 Opportunity Zones, covering nearly 12% of the US and nearly 35 million people.
3. Excludes from gross income post-causational gains on investments in QOF's held for at least 10 years.

continued on reverse...

Business Provisions of the Tax Cuts & Jobs Act

New Business Income Deduction

How would you like to pay tax on only 80% of your income? Well that's just what's in store for most businesses in 2018-2025!

If your taxable income is under $315,000 ($157,000 single), you'll get this deduction on nearly any type of active business income without restriction. Phase outs on deductions start at $315,000 (married) and $157,500 (single) and end at $415,000 (married) $207,500 (single).

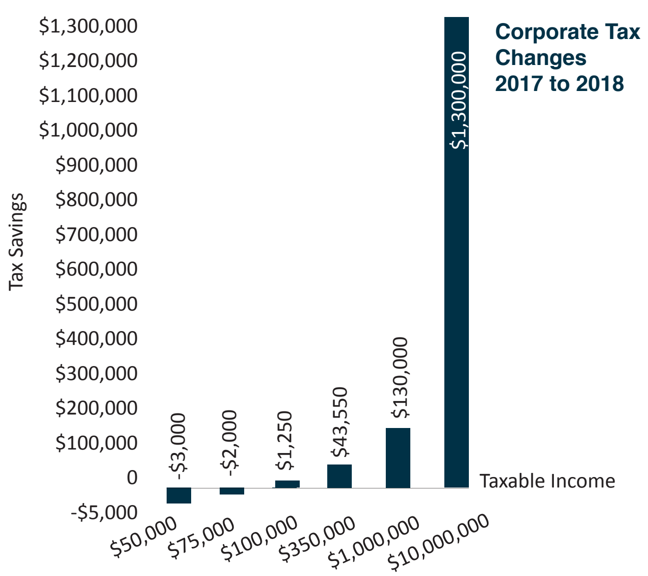
If your taxable income is over these thresholds, there are two important hurdles to meet before claiming the deduction:

1. W-2 Wage/Depreciable Asset Limit: Your 20% deduction is limited to the greater of:
   a. 50% of W-2 wages paid or
   b. 25% of W-2 wages paid plus 2.5% of unadjusted basis of your depreciable assets

2. Exclusions for specified services: Not all businesses are created equal for this new deduction, oh no! The following folks are excluded unless their income is below thresholds above:
   a. **Doctors**, including pharmacists, dentists, veterinarians, nurses, therapists, etc.
   b. **Lawyers**
   c. **Indian Chiefs** – just kidding, Indian Chiefs are fine
   d. Accountants – CPAs, accountants, enrolled agents
   e. Athletes (yes accountants are in the same category as athletes ☺...both excluded ☹)
   f. Performing Artists
   g. Consultants
   h. Financial Services and Advisors

C-Corporation

If you operate your business as a C-Corporation, you won't receive the new 20% business income deduction, but you will get something better yet if you make a lot of money. The old tax brackets have been thrown out and replaced with a flat rate of 21% on corporate net income, including personal service corporations (PSCs). Check out the graph of savings below:



It's certainly time for many businesses to re-consider C-corporations and their tax structure, particularly for businesses with high incomes, which need to reinvest and retain profits for debt retirement or expansion. And, only businesses operated as C-Corporations can qualify for 100% tax free sale of shareholder's stock on up to $10 million ($5 million single tax payer) of gains. This provision (Code Section 1202) applies to most businesses with certain exceptions, such as legal, accounting, banking, farming, and real estate.

Cash Method of Accounting

How would you like to quit paying tax on your accounts receivable? Under prior law, most businesses grossing more than $5 million a year were required to utilize the "accrual" method of accounting (Accounts Receivable/Accounts Payable)

For 2018, this threshold has been raised to $25 million. Thus, you could switch to the cash method for tax purposes and deduct the net amount that your accounts receivable exceed your account payable on your 2018 tax return!

If your business fits this description, it is time to talk to your H&S professional!

Depreciated Deductions

Two big depreciation deductions available for businesses purchasing or improving property:

	179 Expensing	Bonus Depreciation
Write Off	100%	100%
Limitation	$1M of property subject to net income limitation	None
Phase-Out	Yes, beginning at $2.5M	No
New or Used	Both	Both
Rental Property	No	Yes
Fruit Trees	No	Yes
Qualified Improvement Property*	Yes	Maybe**

*Qualified Improvement Property - This category includes interior improvements to real estate either by the lessor or the lessee; improvements to restaurant real estate property and improvements to property in the retail industry.

**Caution: Congressional intent was to include this sort of property as eligible for bonus depreciation, however, due to a technical glitch, the tax bill failed to make the necessary changes to the code. As of the writing of this newsletter, we are still waiting passage of a technical correction bill which may be retroactive to 2018.

Follow us for more news and updates throughout the year!

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