IMPORTANT TAX LAW CHANGES FOR 2018

with Jeff Solomon, CPA

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Presented by

Katz Nannis + Solomon, PC

Katz Nannis + Solomon, PC

- A 50-60 person Boutique Regional CPA firm focused on entrepreneurial companies and their founders
- A thriving private client group that is focused on value added services for this high end level client
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- Focus on creative services –good size firm for most families
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Katz, Nannis + Solomon, P.C.
Certified Public Accountants

DISCLAIMER

Please consult your own tax advisor for any personal tax advise.
We are not providing specific advise – just an overview of items you should be aware of…….

2018 TAX REFORM

Agenda

- Individual changes
- Entity changes-flow through and Corps
- International changes AND Estate changes

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Marginal Tax Rates

7 individual brackets with the following taxable income thresholds for respective filing statuses (Phase out 1/1/2026): **NOW 7 RATE BUCKETS(HIGHEST DOWN FROM 39.5%)**

	MFJ	SINGLE	HOH	MFS	ESTATE/TRUSTS
10%	>$19,050	>$9,525	>$13,600	>$9,525	>$2,550
12%	$19,050 to $77,400	$9,525 to $38,700	$13,600 to $51,800	$9,525 to $38,700	n/a
22%	$77,400 to $165,000	$38,700 to $82,500	$51,800 to $82,500	$38,700 to $82,500	n/a
24%	$165,000 to $315,000	$82,500 to $157,500	$82,500 to $157,500	$82,500 to $157,500	$2,550 to $9,150
32%	$315,000 to $400,000	$157,500 to $200,000	$157,500 to $200,000	$157,500 to $200,000	n/a
35%	$400,000 to $600,000	$200,000 to $500,000	$200,000 to $500,000	$200,000 to $300,000	$9,150 to $12,500
37%	$600,000 and up	$500,000 and up	$500,000 and up	$300,000 and up	$12,500 and up

Capital Gains

0%, 15%, and 20% rates

Breakpoints between the 0% and 15% rates and the 15% and 20% rates are the same amounts as the breakpoints under present law indexed for inflation.

For 2018:

	SINGLE	MFJ
15% Breakpoint	$38,600	$77,200
20% Breakpoint	$425,800	$479,000

Standard deduction

The law has increased standard deduction (Phase out 1/1/2026).

MFJ	$24,000
HOH	$24,000
All other taxpayers	$12,000

For tax years beginning after 12/31/17 and before 1/1/26, the deduction for personal exemptions is effectively suspended to zero

No changes were made to current law additional standard deduction for the elderly and blind

PLANNING POINT-TAXPAYERS WITHOUT A MORTGAGE WITH INTEREST EXPENSE, MAY END UP TAKING A STANDARD DEDUCTION GOING FORWARD SINCE TAXES (PROPERTY AND STATE INCOME) WILL BE LIMITED TO $10,000. CONSIDER "BUNCHING" SCHEDULE A DEDUCTIONS.

Kiddie Tax Changes

Taxable income of a child attributable to unearned income will be taxed under the trust and estate rate

Taxable income of a child attributable to earned income will be taxed under the rate for single individuals

Childs tax is unaffected by the tax situation of the child's parent or unearned income of any siblings

Child Tax Credit

Child tax credit increased to $2,000 per qualifying child

Income phase is:

- **MFJ** - $400,00
- **All other taxpayers** - $200,000

$500 nonrefundable credit for qualifying dependents other than qualifying child

The proposal lowers the earned income threshold for the refundable child tax credit to $2,500.

The refundable portion (payable even without tax liability) is $1,400 per child.

PLANNING POINT –WITH THE HIGHER INCOME PHASE OUT LEVELS, YOU MAY NOW QUALIFY FOR THE CHILD TAX CREDIT

Education-related provisions

Contribution limitation to ABLE accounts is increased, and amounts from 529 plans are able to be rolled over to an ABLE account without penalty (as long as the ABLE account owned by designated beneficiary of the 529 plan or a member of such designated beneficiary's family)

Distributions after 12/31/17, qualified higher education expenses for 529 plan purposes include tuition at an elementary or secondary public, private, or religious school, up to **$10,000** per year.

Home Mortgage Interest

Deduction for interest on **home equity** indebtedness is suspended

The deduction for mortgage interest is limited to debt of up to $750,000 ($375,000 for MFS)

Applies to debt incurred after **December 15, 2017**

YOU WILL BE GRANDFATHERED ON EXISTING DEBT on first mortgages

Interest deduction with respect to home equity indebtedness is suspended

As a concession to the real estate industry, the deduction is available for both new mortgages on first and second homes on debt up to $750,000

PLANNING POINT-home equity loans where the proceeds went into the principal residence to improve or renovate such home are allowable up to the $750,000

State and Local Taxes

State, local, and foreign property taxes and state and local sales taxes are allowed as a deduction only when paid or accrued in carrying on a trade or business or an activity described in §212 (relating to expenses for the production of income).

Exception:

- taxpayer may claim an itemized deduction of up ***to $10,000 ($5,000 for MFS***) for the aggregate of (a) state and local property taxes and (b) state and local income taxes (or sales taxes in lieu of income taxes).
- Foreign real property taxes are not deductible.

2017 deduction for prepaying 2018 taxes is specifically outlawed unless assessed in 2017

PLANNING POINTS-YOU SHOULD HAVE PREPAID YOUR 2017 REAL ESTATE TAXES AND ALL OF THE TAXES YOU OWED IN 2017

MANY OF US IN MASS ARE GETTING HURT BY THIS $10K LIMIT

Repeal of Deduction for Personal Casualty and Theft Losses

Deduction for personal casualty losses suspended but deduction for personal casualty losses incurred in a federally declared disaster not affected. Phase out 1/1/26.

If an individual has a net disaster loss, the standard deduction is increased by the net disaster loss. Phase out 1/1/26. For tax years 2016 and 2017, the $100 per casualty floor is increased to $500

For tax years 2016 and 2017, there is an exception to the retirement plan 10% early withdrawal tax for up to $100,000 of qualified 2016 disaster distributions.

- Income from a qualified 2016 disaster distribution can be included ratably over three years.

Limitation on wagering losses

All deductions for expenses incurred in wagering, not just gambling losses, are limited to the extent of winnings.

Charitable Contributions

Cash contributions to public charities and certain other organizations was increased from 50% to **60%**

Five-year carryover period retained to the extent that the contribution amount exceeds 60% of the donor's AGI

No deduction is allowed for any payment to an institution of higher education in exchange for which the payor receives the right to purchase tickets or seating at an athletic event

THERE WAS TALK OF GETTING RID OF CHARITY BUT THIS DID NOT HAPPEN.

PLANNING POINT-DISCUSSION OF DONOR ADVISED FUNDS

Miscellaneous itemized deductions subject to 2% floor

The Act suspended all **miscellaneous itemized deductions** that are subject to the 2% floor under present law.

Examples of 2% floor deductions repealed:

- Tax prep fees
- Safe deposit box
- Investment fees and expenses
- Appraisal fees for casualty loss or charitable contribution
- Casualty and theft losses from property used in performing services as an employee
- Depreciation on home computers used for investments
- Fees to collect interest and dividends
- Indirect misc. deductions from pass-through entities
- Employee business expenses

Moving Expenses

Both the exclusion for qualified moving expense reimbursements and the deduction for moving expenses are suspended

- Except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of station. Phase out 1/1/26.

Medical Expenses

For taxable years beginning after 12/31/16 and ending before 1/1/19, the threshold for deducting medical expense shall be **7.5%** for all taxpayers

AMT

The individual AMT survives, Phase out 1/1/26.

The exemption amounts are increased:

MFJ & Surviving Spouse	$109,400
Single	$70,300
MFS	$54,700

These amounts are reduced to an amount equal to 25% of the amount by which the alternative taxable income of the taxpayer exceeds the phase out amounts, increased as follows: $1M for MFJ and surviving spouses and $500,000 for all other taxpayers except estates and trusts.

For trusts and estates, the base figure of $22,500 and phase out amount of $75,000 are unchanged.

PLANNING POINT-MANY MORE INDIVIDUALS WILL NOW, FOR THE FIRST TIME, FALL OUT OF AMT DUE TO 1) NO LARGE STATE TAX DEDUCTION(AS DISCUSSED EARLIER) AND 2) THE INCREASE IN THE EXEMPTION AMOUNT ABOVE.

IRA Recharacterization

Eliminates ability to recharactize a Roth IRA conversion after 12/31/17

Recharacterization can only be utilized to unwind a Roth conversion through 12/31/17

PLANNING NOTE-CAN STILL DO A IRA CONTRIBUTION AND CONVERT INTO ROTH IMMEDIATELY

Alimony

Alimony and separate maintenance are **not deductible** by the payor and are not included in the income of the payee.

The new rules are effective for a divorce or separation agreement executed after **December 31, 2018**,(NOTE THIS DELAY) or one executed before December 31, 2018 but modified after it (as long as the modification expressly provides that the new amendments apply)

PLANNING POINT-DO IT NOW ☺

Loss limitation rules applicable to individuals

For taxable years beginning after 12/31/17

Excess business losses of a taxpayer are not allowed for the taxable year
- Such losses are carried forward and treated as part of the taxpayer's NOL carryforward

The threshold amount for a taxable year is $500,000 for married individuals filing jointly, and $250,000 for other individuals. Ability to offset passive income with losses from an active trade or business affected by threshold amounts

PLANNING POINT -2017 is the last tax year for which a loss can be carried back.

Indefinite carryforward

Section 199 Domestic Production Activities Deduction

This section of the code is repealed

Like-Kind Exchanges/Sale of IP

The Law eliminates like-kind exchanges for tangible personal property

PLANNING POINT-STILL WORKS FOR REAL ESTATE THOUGH!!

Starting in 2018 the sale of patents or IP by the Creator of such asset will now be taxable at ORDINARY RATES,NOT CAP GAIN RATES

Entities

The Pass-through Entity Deduction

Congress gave pass-throughs not a lower tax rate, but a deduction that in essence gives a reduced rate on this income.

. For tax years after 12/31/17 and before 1/1/26, a new Code **§199A** allows a non-corporate taxpayer, including a trust or estate, with qualified business income (QBI) from a partnership, S corporation, or sole proprietorship to **deduct**:

- The lesser of: **(1)** the "combined qualified business income amount" of the taxpayer, or **(2)** 20% of the excess, if any, of the taxable income of the taxpayer for the tax year over the sum of net capital gain and the aggregate amount of the qualified cooperative dividends of the taxpayer for the tax year; **plus**
- The lesser of: **(1)** 20% of the aggregate amount of the qualified cooperative dividends of the taxpayer for the tax year, or **(2)** taxable income (reduced by the net capital gain) of the taxpayer for the tax year.

"Combined qualified business income amount" means

- The deductible amount for each qualified trade or business of the taxpayer defined as 20% of the taxpayer's QBI subject to the W-2 wage limitation); plus
- 20% of the aggregate amount of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income of taxpayer for the tax year

- Note that this deduction is available to non itemizers as well.

How the Deduction Works:

1. FOR CERTAIN SPECIFIED SERVICES BUSINESSES OVER $415K, YOU GET NO 20% DEDUCTION

2. IF NOT ONE OF THESE BUSINESSES AND OVER $415K OF INCOME FROM THAT BUSINESS, THEN THE 20% DEDUCTION THEN GETS FURTHER LIMITED TO THE GREATER OF 1)50% OF WAGES PAID BY THE ENTITY OR 2) 25% OF THE WAGES PAID AND 2.5% OF THE UNADJUSTED BASIS OF THE QUALIFIED PROPERTY IN THAT ENTITY

3. LASTLY, THE 20% DEDUCTION CAN NOT EXCEED 20% OF **YOUR** TAXABLE INCOME (REDUCED BY CAP GAINS).

ANY UNUSED LOSSES CARRYFORWARD TO THE NEXT YEAR.

THIS IS COMPLICATED. GET AN EXPERT TO ASSIST HERE

Pass-through Income

Limitations:

- For pass-through entities, including sole proprietorships, the deduction cannot exceed the greater of:
    1) 50% of W-2 wages with respect to Qualified trade or business; or
    2) The sum of 25% of the W-2 wages paid with respect to the qualified trade or business plus 2.5% of the unadjusted basis, immediately after acquisitions of all "qualified property"

	PHASE 1	PHASE 2	PHASE 3
TI for MFJ	$315,000	$315,000 - $415,000	$415,000
TI for all other	$157,500	$157,500 - $207,500	$207,500
	Any trade/business	Any trade/business	Only qualified businesses
W-2 Limitation	No W-2 limitation for taxpayers under these thresholds	Phase in W-2 limitation	Limited to the great of 1) 50% of W-2 wages or 2) 25% of W-2 income + 2.5% of unadjusted basis

Other Limitations for the "Flow Through 199A Deduction"

FOR CERTAIN TYPES OF TRADES(SEE BELOW) ONCE YOU HAVE TAXABLE INCOME OVER 315K(mfj), YOU WILL NOT GET THE 20% DEDUCTION. THE FOLLOWING TYPES OF PROFESSIONS ARE EXCLUDED:

Personal services such as those performed in the fields of health, accountants, actuarial science, performing arts, athletics, brokerage, consulting, financial services and attorneys, unless the income from that entity is below $157,500 for individuals or $415,000 for married couples

PLANNING POINT-SO KEEP IN MIND IF YOU ARE A HIGH INCOME EARNER AND HAVE BOARD OR CONSULTING FEES, YOU PROBABLY FALL UNDER THE MANAGEMENT CLASSIFICATION AND WILL NOT BE ELIGIBLE FOR THE 20% DEDUCTION

KNS CAN WORK WITH YOU TO TAKE THE MOST ADVANTAGE OF THE REDUCED RATE ON THIS FLOW THROUGH INCOME

Corporate Tax and Corporate AMT

Corporate tax rate is a flat **21%** beginning 2018

The law reduces the 70% dividends received deduction to 50% and the 80% dividends received deduction to 65%.

Corporate AMT is repealed for tax years after 12/31/17

AMT credit may offset the regular tax liability for any taxable year

AMT credit is refundable for any taxable year after 2017 and before 2022 in an amount equal to 50% of the excess minimum tax credit for the taxable year over the amount of credit allowable for the year against regular tax liability

PLANNING POINT-THIS IS A HUGE BENEFIT. CORPS ARE THE WINNERS HERE. WE WILL SEE MANY MORE C CORPS BEING FORMED NOW

Should you convert your type of entity in 2018 due to these changes?

-Type of company and investor mix

-will you sell your company soon and could it be asset or sale of stock?

-can you zero out profit every year if a C corp?

-will you get the full 20% deduction or will you be limited?

Increased Expensing (bonus depreciation)

The law extends and modifies the additional first-year depreciation deduction through 2022

50% allowance is increased to 100% for property placed in service after 9/27/2017, and before 1/1/2023 (new and used property qualify)

For first tax year ending after 9/27/17, taxpayer can elect to claim 50% bonus first-year depreciation

For passenger automobiles placed in service after 12/31/17, maximum amount of allowable depreciation is:

- 10,000 for the year in which vehicle is placed in service
- 16,000 for 2nd year
- $9,600 for 3rd year, and
- $5,760 for the 4th and later years in the recovery period

Removes computer or peripheral equipment from the definition of listed property

Expansion of §179 expensing

The law increases the maximum amount a taxpayer may expense under §179 to **$1 million**, and increases the phase out threshold amount to $2.5 million.

- The $1 million is reduced (but not below zero) by the amount which the cost of qualifying property placed in service during the taxable year exceeds $2.5 mill
- Expands the definition of §179 property to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with **furnishing lodging**.

Small Business Accounting Method Reform and Simplification

The gross receipts test allows taxpayers with annual average gross receipts that do not exceed $25 million for the three prior tax years to use the cash method.

- Exception:
  - Exceptions from the required use of the accrual method for qualified personal service corporations and taxpayers other than C corporations are retained – meaning they are allowed to use the cash method without regard to the $25 million gross receipts test.

Small Business Accounting Method Reform and Simplification

The act exempts certain taxpayers from the requirement to keep inventories

Taxpayers that meeting the $25 million gross receipts test are not required to account for inventories under §471, but may use a method of accounting for inventories that either:

- Treats inventories as non-incidental materials and supplies; or
- Conforms to the taxpayer's financial accounting treatment of inventories

Business Interest

Act limits business interest deductions to 30% of adjusted taxable income.

Any interest amounts disallowed would be carried forward to the succeeding taxable year. Business interest may be carried forward indefinitely

If you are a business with gross receipts under $25mm then you are exempt from this limit.

Research and Experimentation Expenses

For amounts paid or incurred in tax years beginning after 12/31/2021, specified R&E expenses would have to be capitalized and amortized ratably over a five-year period.

Software development would be subject to capitalization.

R&D-STILL AROUND AND AVAILABLE for the foreseeable future

PLANNING POINT-THE R&D CREDIT AGAINST PAYROLL TAXES AVAILABLE TO SOME

Entertainment, etc. expenses

50% limit expanded to meals provided through an in-house cafeteria or otherwise on employer's premises.

Deductions for employee transportation benefits (parking, mass transit) are denied, but employee exclusion from income is retained.

For tax years beginning in 2026, law disallows deduction for meals provided for the convenience of employer on the employer's premises.

No deduction allowed for other entertainment expenses.

PLANNING POINT-NOW TICKETS AND FEES TO ATTEND VENUES OR SHOWS ARE NOT DEDUCTIBLE

Repeal of technical termination of partnerships

The partnership technical termination rule is repealed.

Partnership is treated as continuing even if more than 50% of the total capital and profits interests of the partnership is sold or exchanged.

Modification to Estate, Gift, and GST Taxes

The Act doubles the estate and gift tax exemption for estates and decedents dying and gifts made after 12/31/17

The exclusion amount is increased from $5.5 mill to $11 mill

PLANNING POINT. –YOU STILL GET A STEP UP IN BASIS AT DATE OF DEATH. MAYBE INSTEAD OF MOVING HIGHLY APPRECIATED ASSETS OUT OF YOUR ESTATE YOU MOVE THEM IN NOW!!!

International Taxation

For repatriation, multinational companies' accumulated offshore earnings would be taxed at 15.5% for cash holdings and 8% for noncash holdings

The law shifts the current U.S. "worldwide" international tax system under which U.S. companies are taxable on worldwide income to a "territorial" system under which foreign active profits are generally exempt from tax.

Thank you!

Questions?

Give us a try….. An alternative to the big 4 for your emerging growth companies and your personal needs……

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