



Do the Tax Law Changes Impact Me?

Well, you have probably heard by now that on December 22, 2017, President Trump signed the Tax Cuts and Jobs Act into law. While this tax bill was heralded in the name of tax simplification; what passed was the largest revision to the tax code since 1986. Okay, big deal. What does this mean for you, and when do these changes take effect?

Great questions. Almost everyone will be impacted by the new law; with possible winners and losers, but most should see some tax savings. Almost all of the new provisions start on January 1, 2018 (unless otherwise noted), and then expire at the end of 2025 (unless extended before then). Listed below are some of the highlights of the new law, but most of the details and nuances have been left out for brevity.

Selected changes for individuals:

- Lower **marginal tax rates** with expanded brackets (takes more income now before you move to the next higher bracket). New rates are 10,12,22,24,32,35, and 37% versus the old rates of 10,15,25,28,33,35, and 39.6%).
- **Business income deduction** of up to 20% on “Qualified Business Income” for sole proprietorships, partnerships, S corporations and other qualifying pass-through entities with income limitations and thresholds. This is one of the most complex provisions of the new law.
- **Net operating losses (NOL)** can no longer be carried back; and are limited to the lesser of the NOL carried forward or 80% of taxable income in the subsequent year before the NOL.
- Large increases in the **Alternative Minimum Tax (AMT)** exemption and phase-out limitations for individuals. This means fewer individuals will have to pay AMT tax.
- Reduction of the **Shared Responsibility Payment** (penalty for not having health insurance) to zero after December 31, 2018 (penalties will still apply for 2018 if taxpayers have no insurance).
- **Alimony** deduction and income inclusion has been repealed for any divorce or separation agreements executed after December 31, 2018.

- **Moving expenses** are no longer deductible except for members of the armed forces on active duty, moving pursuant to a military order. Reimbursement of moving expenses by an employer will now be taxable income to employees starting in 2018.
- Elimination of **personal exemptions**.
- Expanded **child tax credit** with higher income thresholds before tax credit is phased out.
- **New nonrefundable credit** available for qualifying dependents other than children under 17.
- Expanded provisions for eligible distributions from **Sec. 529 Plans** to now include the payment of tuition for elementary or secondary schools (\$10,000 annual limit on a per-student basis).
- Substantial increase in the **standard deduction** now available to all taxpayers. These new amounts are almost twice the old amounts (i.e. \$6,350 to \$12,000 for a single tax payer).
- Reduced the threshold for the deduction of **medical expenses** from 10% to 7.5% of adjusted gross income (AGI) for 2017 and 2018 only.
- Placed a cap on the itemized deduction for **state and local taxes** at \$10,000 (\$5,000 for married filing separately) per year. This includes amounts paid for state income taxes, as well as state and local property taxes.
- **Mortgage interest deduction** on 1st and 2nd homes (qualified residence) has been changed. Under the new law, the eligible debt has been reduced from \$1 Million to \$750,000, so interest on indebtedness over this threshold will not be deductible. Loans prior to 12/15/17 will be grandfathered.
- Interest on **home equity loans** will no longer be deductible as mortgage interest.
- **Charitable contributions** to universities tied to the right to purchase season tickets to athletic events will no longer be deductible. Currently, 80% of these contributions are deductible.
- Repeal of the **3% phaseout on itemized deductions**.
- Eliminated all **miscellaneous itemized deductions** subject to the 2% floor (i.e. non-reimbursed employee business expenses, and professional fees).
- **Casualty and theft losses** will no longer be deductible. An exception does apply to casualty losses in Presidentially declared disaster areas.
- The **basic unified exclusion** (taxable estate) amount has been doubled. For 2018, this limit has increased from \$5.6 million to \$11.2 million.

Selected changes for businesses:

- The **corporate tax rate** (C corporation) has been reduced from 35% to 21% (this is permanent).
- Eliminated **corporate AMT** (C corporation).
- **Bonus depreciation** has been increased from 50% to 100% for eligible assets placed in service after September 27, 2017 and before January 1, 2023, then phased out between 2023-2026.
- **Used capital assets** (new to taxpayer and their first use) are now eligible for bonus depreciation.
- **Qualified leasehold, restaurant, and retail improvements** have been simplified and replaced by qualified improvement property and are eligible for 100% bonus and Section 179 with recovery period of 15 years.
- **Qualified improvement property** will now include roofs, HVAC property, Fire Protection and Alarm Systems, and Security Systems.
- **Section 179** has been increased to \$1 million.

- A business' **interest expense deduction** has now been limited to 30% of taxable income. However, this limitation would exclude some businesses like car dealerships with floor-plan interest and businesses with average gross receipts of less than \$25 million.
- Eliminated **like-kind exchanges** on personal property (i.e. vehicles); and are only allowed on real property after 2017.
- The **domestic production activity deduction** has been eliminated.
- Increase in the **depreciation caps on passenger vehicles** after 2017 (old limits in parenthesis). Year 1 - \$10,000 (\$3,160), Year 2 - \$16,000 (\$5,100), Year 3 - \$9,600 (\$3,050) and all other years \$5,760 (\$2,075).
- **"Cash" method of accounting** is now available to more businesses. The threshold requiring businesses with more than \$5 million in average gross receipts to use the accrual method of accounting has been increased to \$25 million.
- In addition, businesses with less than \$25 million in average gross receipts would be exempt from the **UNICAP rules**.
- **Net operating losses (NOL)** can generally no longer be carried back; and the carry forward limitation of 20 years has been repealed. NOLs are limited to the lesser of the NOL carried forward or 80% of taxable income in the subsequent year before the NOL deduction.
- **Business entertainment expenses** are no longer deductible (i.e. athletic events, and green fees).
- **Business meals** will still be subject to the 50% limitation, and business meals provided to employees for the employer's convenience will also be limited to 50%.
- **Technical termination of a partnership** has been repealed. The partnership could continue to operate even if more than 50% of the total capital and profits interests of the partnership were sold or exchanged, and new elections would not be required or permitted.

If you have questions, or would like to discuss your individual situation, please give us a call. We would love to sit down and show you how these changes could impact you.

Kelly McClellan, CPA

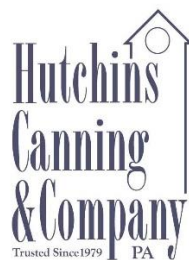
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