Newsletter

TAX TIPS UPDATE-
"TCJA"- Individual & Business Tax Provisions of the New Tax Act

The Reardon Group of Companies:
Weiss + Reardon & Company, P.C.
Accounting, Tax Planning & Preparation
Reardon Consulting, Inc.
Healthcare, Financial & Management Consulting
Valuation Advisors, Inc.
Practice Mergers & Acquisitions

Volume 19 – Issue 1 *March 2018*

To Our Clients and Friends:

In December 2017, President Trump signed into law the *Tax Cuts and Jobs Act (TCJA)*, which introduces the most significant changes to the U.S. tax system since 1986. With a few exceptions, the provisions are generally effective starting in 2018.

Although the Tax Act may provide simplification in a few aspects by eliminating tax provisions, there are also added complexities. Due to the number of changes, as well as some new concepts introduced in the law, there is a need for guidance from the Internal Revenue Service, and possibly from Congress in the form of technical corrections, on the final application of the law. Timing of this guidance and any technical corrections may take months. Which states will conform and to what extent those states conform with the federal changes adds to the complexities.

This newsletter summarizes what we think are the key points in the TCJA. We organized them into two categories- changes for individuals and changes for businesses.

What Are Some of the Significant Changes for Individual Taxpayers?

Below are some highlights of the sweeping tax package changes for individual taxpayers. As this information is general in nature, it is not intended to address all of the TCJA changes that may impact you. Many of the changes are temporary and scheduled to sunset after 2025.

Tax rates: The Tax Act imposes a new tax structure with different tax brackets. The highest tax rate is reduced from 39.6% to 37%. Generally, the new tax rates are the same or lower for most income levels, although there are a few exceptions. The top rate now applies to joint filers whose taxable income is over $600,000 (as opposed to $470,000 for 2017)

Standard deduction: The Tax Act increased the standard deduction for 2018 to $24,000 for married taxpayers filing jointly, $18,000 for heads of household, and $12,000 for all other individuals. The additional standard deduction for elderly and blind taxpayers was not changed by the Act.

Personal exemptions: The Tax Act suspends the personal exemption deduction for tax years 2018 through 2025. The withholding rules were modified to reflect the fact that individuals can no longer claim personal exemptions.

Itemized deductions: For tax years 2018 through 2025, the Act suspends the overall limitation on itemized deductions. In addition, the Act suspends the deduction for certain miscellaneous itemized deductions such as investment expenses, unreimbursed employee expenses (e.g., home office expenses, mileage, travel, etc.), tax preparation costs, union dues, etc.

Mortgage interest: For tax years 2018 through 2025, the Act modifies the home mortgage interest deduction reducing the limit on "acquisition indebtedness" to $750,000 ($375,000 for married taxpayers filing separate returns). The Act has a carve-out allowing the prior-law limit of $1 million for "acquisition indebtedness" to apply in 2018 if you entered into a binding written contract for the purchase of your principal residence before December 15, 2017, and certain conditions are met in 2018.

Main Office
27 Regency Plaza
Glen Mills, PA 19342

Telecommunications
Phone: (610) 459-9300
Fax: (610) 459-5122
DE Phone: (302) 656-5530

Internet
E-mail: rg@thereardongroup.com
Web Site: www.thereardongroup.com

Home-equity loans: Although the Act suspends the home-equity loan interest deduction for tax years 2018 through 2025, the IRS issued clarification as of February 21, 2018, stating that taxpayers in many cases can continue to deduct interest on a home-equity loan if the loan is used to buy, build or substantially improve the taxpayer's home that secures the loan. As under prior law, the loan must not exceed the cost of the home and must meet other requirements.

State and local taxes: Under the Act, the combined deduction for state and local income and property taxes is limited to $10,000 for individual taxpayers and married couples filing jointly ($5,000 for married taxpayers filing separately) for tax years 2018 through 2025.

"Pass-through" income deductions: For tax years 2018 through 2025, individual taxpayers may be allowed to deduct up to 20% of domestic "qualified business income" from partnerships, S Corporations, trusts and estates, and sole proprietorships. These are business entities that do not pay income tax at the business entity level, but where the profits and other income of the business "pass through" to the owners (or to the beneficiaries in the case of a trust). The rules are very complicated and there are phase-out limitations that may apply.

Individual AMT: The Alternative Minimum Tax (AMT) for individuals was retained but the exemption amount and thresholds were increased. The exemption and threshold amounts will be indexed for inflation. However, the increased exemption amounts and thresholds are scheduled to sunset after 2025.

Child tax and dependent credits: The Tax Act increased the amount of the child tax credit to $2,000 per qualifying child. The maximum refundable amount of the credit is $1,400 per qualifying child. The Tax Act also created a new nonrefundable $500 credit for qualifying dependents who are not qualifying children. The threshold at which the credit begins to phase out was increased to $400,000 for married taxpayers filing a joint return and $200,000 for all other taxpayers.

Education provisions: The Tax Act modifies Sec. 529 plans to allow them to distribute up to $10,000 in expenses for tuition incurred during the tax year at an elementary or secondary school. This limitation applies on a per-student basis, rather than on a per-account basis.

Alimony: For any divorce or separation agreement executed ***after December 31, 2018***, the Tax Act provides that alimony and separate maintenance payments will not be deductible by the spouse making alimony payments and will not be considered income for the spouse receiving payments.

Moving expenses: The moving expense deduction is suspended for tax years 2018 through 2025, with the exception of certain military personnel.

Estate tax: The Tax Act doubles the basic exclusion amount from $5 million to $10 million and will be indexed for inflation.

Individual mandate: The Tax Act reduces to zero the amount of the penalty under Sec. 5000A, imposed on taxpayers who do not obtain health insurance that provides at least minimum essential coverage, effective after 2018.

The Affordable Care Act (ACA or "Obamacare"): It was kind of repealed! Remember, it requires individuals who weren't covered by a health plan that provided at least minimum essential coverage to pay a shared responsibility payment. Starting in 2019, the TCJA permanently reduces the shared responsibility payment to zero. However for 2017 and 2018, the ACA's legislative provisions are still in force, and taxpayers are obligated to follow the law and pay any amounts owed.

What Are Some of the Significant Changes for Business Taxpayers?

Some highlights of the significant changes to businesses are below. The information is general in nature and it is not intended to address all of the Tax Act changes that may impact your business.

2017 Business Tax Returns: For the most part, TCJA will not affect your 2017 business tax return. Most business tax changes apply to tax years beginning in 2018. Some returns may be affected by some depreciation modifications which are reviewed below.

Tax rates: The Tax Act introduced a major change, which is the reduction of the corporate tax rate to a flat 21% (previously they were subject to graduated tax rates, with a top rate of 35%) for C corporations whose income is taxed at the corporate level, effective in 2018. This is a huge tax cut under TCJA. For fiscal year corporations that begin during 2017 and have their fiscal year end in 2018, Code Section 15 provides an alternative way to calculate the taxes that, in effect, provides a blended tax rate.

Deduction for pass-through businesses: The Tax Act has a new provision that provides up to a 20% deduction on qualified business income ("QBI") for business entities that do not pay income tax at the business entity level, but where the profits and other income of the business go to or "pass through" to the owners (or to the beneficiaries in the case of a trust). The calculation is very complex and can be limited based on taxable income as well as the type of trade/business income that is applicable. More guidance is still needed on the final application of the law related to this new deduction.

Corporate AMT: Alternative Minimum Tax (AMT) for corporations has been repealed.

Net Operating Loss ("NOL") provisions: For 2018 and forward, except in certain situations (specific farming losses, for one), the TCJA has repealed the two-year carryback. The NOL carryforward period, however, is indefinite, but only 80% of taxable income can be reduced by the NOL.

Interest deductions: Regardless of its form, every business will be subject to a net interest expense disallowance. Starting in 2018, net interest expense in excess of 30% of your business's adjusted taxable income will be disallowed. Small businesses that have average annual gross receipts < $25 million are exempt from the limitation. For businesses subject to the interest limitations, there may be some additional planning needed to address debt financing decisions. Special rules apply to the calculation of income for Personal Service Corporations and S Corporations.

Depreciation: Several modifications to the depreciation rules were addressed in the TCJA and not all of them are noted in this communication. One notable change, however, is that the Act permits full and immediate expensing ("bonus depreciation") up to 100% of the cost of qualified property placed in service beginning September 28, 2017 and before January 1, 2023. Qualified property available for bonus depreciation now includes "used" property that is acquired. One other notable change is that the Act expanded the definition of property subject to Internal Revenue Code ("IRC") Section 179, as well as increased the limitation to $1 million and increases the phase-out threshold to $2.5 million for property placed in service on or after January 1, 2018.

Entertainment expenses/fringe benefits: Before TCJA, taxpayers could generally deduct 50% of business-related meal and entertainment expenses, and exceptions allowed bigger deductions in certain circumstances. The TCJA shifts the playing field for expenses paid or incurred after 12/31/17.

Unfavorable change disallows deductions for most entertainment expenses-Effective for amounts paid or incurred after 12/31/17, the TCJA disallows deductions for the most common business-related entertainment expenses, including the cost of facilities used for most business-related entertainment activities. Specifically, nondeductible treatment now applies to the cost of tickets to sporting events; license fees for stadium or arena seating rights; private boxes at sporting events; golf club dues; company golf outings for customers; hunting, fishing and sailing outings; and so forth. Some business entertainment expenses are still deductible, but only in very limited circumstances.

Deductions still allowed for eligible food and beverage expenses-After the TCJA, the most common business-related meals are still *50% deductible,* and the time-honored rules for proving that meals are business-related still apply. In addition, food and beverages that fall under certain exceptions are *still 100% deductible* after the TCJA. Although uncertain at this point, it appears businesses also can *still deduct 50%* of food and beverage expenses incurred at entertainment events, but only if business was conducted during the event or immediately before or after. These rules can get tricky, and future IRS guidance may change things.

Also, the deduction for meals provided in an in-house cafeteria is now limited to 50%.

Taxpayers may still generally deduct 50% of business meals associated with operating their trade or business if they are traveling for work, but more guidance is necessary on what this will mean for meals that are not related to travel (taking clients out to lunch, etc.).

Your business may no longer deduct the cost of providing transportation fringe benefits (parking, for example) to employees. However, your employees can still exclude the value of such benefits from their income. In addition, no deduction is allowed for transportation expenses that are the equivalent of commuting for employees (except as provided for the employee's safety).

Consider assessing your current expense allowance policies to determine if the unfavorable TCJA provisions warrant changes---especially for entertainment expenses incurred by employees, which are now nondeductible (unless reported as taxable compensation). Accounting system changes may be necessary to separately track employee entertainment expenses and business-related meal expenses, which are still 50% deductible.

There are online resources available to you for general information and guidance regarding tax reform.
The Internal Revenue Service (IRS) is working on implementing this major tax legislation. The IRS has committed to providing guidance to taxpayers, businesses and the tax community as it becomes available. Visit https://www.irs.gov/newsroom/resources-for-tax-law-changes regularly for updates and resources.

Conclusion

As you can see, TCJA (the new tax act) includes lots of tax changes. We did not cover them all here because we did not want this to turn into a book. If you have questions or want more complete information, please contact us.

Shawn, Jean and the Staff of Weiss + Reardon & Company, P.C.

If you would prefer to receive future newsletters electronically (or to be removed from our mailing list), send your request via e-mail to rg@thereardongroup.com

Main Office
27 Regency Plaza
Glen Mills, PA 19342

Telecommunications
Phone: (610) 459-9300
Fax: (610) 459-5122
DE Phone: (302) 656-5530

Internet
E-mail: rg@thereardongroup.com
Web Site: www.thereardongroup.com