Phases Accounting & Tax Service, Inc.

1670 Paonia Street · Colorado Springs, CO 80915
5225 N Academy Blvd, Suite 105, Colorado Springs, CO 80918
719/548-1646 Telephone · 719/548-1936 Fax
Email: debby@phasesaccounting.com· www.phasesaccounting.com

Congress recently passed sweeping tax reform legislation in the Tax Cuts and Jobs Act, and the President signed it into law on December 22, 2017. In addition to many other changes, some of which (such as the lower corporate tax rates) have been discussed at length in the media, the legislation makes significant changes to Internal Revenue Code that either increases or decreases tax. While the new tax law is quite complex, we have been working hard to learn it, and more importantly help you benefit from the new rules and ultimately lower your tax and keep more of your hard earned money.

If you are interested in learning how the new laws effect your bank balance, give us a call. We'll be happy to discuss the new opportunities you have to save money.

The Tax Cuts and Jobs Act Overview

On December 22, 2017, the largest tax reform in three decades, Tax Cuts and Jobs Act, was passed. The article is dedicated to providing some guidance on the tax reform and aid in preparing for planning 2018. The reform impacts individuals and business taxes in 2017 and beyond. While much of the impact will be seen in 2018 through 2025, the changes could revert back to its current state if the future Congress does not extend the Act. That means that the individual tax changes would reset and the tax law would revert back to the 2017 state that we all know of today.

For tax years 2018 through 2025, the changes present a number of year-end tax planning opportunities.

INDIVIDUAL TAX IMPLICATIONS

Income Tax Rate		Income Levels for Those Filing As:	
2017	**2018-2025**	**Single**	**Married-Joint**
10%	10%	$0-$9,525	$0-$19,050
15%	12%	$9,525-$38,700	$19,050-$77,400
25%	22%	$38,700-$82,500	$77,400-$165,000
28%	24%	$82,500-$157,500	$165,000-$315,000
33%	32%	$157,500-$200,000	$315,000-$400,000
33%-35%	35%	$200,000-$500,000	$400,000-$600,000
39.6%	37%	$500,000+	$600,000+

Standard deduction – The Act increases the standard deduction through 2025.

- Single Filers – $6,500 to $12,000
- Married filing jointly – $13,000 to $24,000
- Heads of households – $9,500 to $18,000

Affordable Care Act – aka "Obamacare" – Repeals the penalty imposed on those who do not obtain insurance in 2019.

Personal exemptions – Repeals all personal exemptions through 2025.

Itemized deductions – The Act eliminates or restricts the ability to use several itemized deductions, through 2025.

State and local taxes OR Property Tax Deductions – Individuals are allowed a maximum deduction and must choose between state and local income or property taxes. Taxpayers cannot take a deduction in 2017 for prepaid 2018 state income taxes.

- Married filing jointly – $10,000
- Married filing separately – $5,000

Mortgage interest – Limits the debt of the loan by filing status. Mortgages taken out or contracts entered into before Dec. 15 are still subject to the current tax laws.

- Married filing jointly – first $750,000

Home equity loans – Repealed through 2025.

Alternative Minimum Tax (AMT) – Raises the exemption amount and exemption phaseout threshold that was enacted to curb tax avoidance among high earners.

- Married couples filing jointly – Exemption increases to $109,400 and phaseout increases to $1,000,000
- All other taxpayers – Exemption increases to $70,300 and phaseout increases to $500,000 (other than estates and trusts).

Casualty losses – Applies only if the loss is attributable to a presidentially declared disaster.

Gambling losses – The bill clarifies that the term "losses from wagering transactions" in Sec. 165(d) includes any otherwise allowable deduction incurred in carrying on a wagering transaction. This is intended to clarify that the limitation of losses from wagering transactions applies not only to the actual costs of wagers, but also to other expenses incurred by the taxpayer in connection with his or her gambling activity.

Charitable contributions – The charitable contributions changes are limited or repealed.

- Increases the income-based percentage limit for charitable contributions of cash to public charities to 60%.
- Donations given in exchange for college seating tickets or athletics events are no longer allowed.

Miscellaneous itemized deductions – All miscellaneous itemized deductions subject to the 2% floor under current law are repealed through 2025.

Medical expenses – Allows for medical expense deductions in excess of 7.5% of adjusted gross income for 2017 and 2018 for everyone not just those over the age of 65.

Child tax credit – The Act has several tax planning advantages

- Increases the Child Tax Credit from $1,000 to $2,000 per child
- The credit is refundable for qualifying taxpayers up to to $1,400.
- Increases the maximum income level to qualify for the credit
  - $400,000 for married taxpayers filing a joint return
  - $200,000 for other taxpayers.
- Expansion of 529 savings plans
  - Maximum distribution of $10,000 per student for tuition at private and religious K-12 schools.
  - Allows parents to use the funds for expenses for home-schooled students.

IRA recharacterizations – The Act repeals the ability to recharacterize one kind of IRA contribution as another, for example to designate a traditional contribution as a Roth contribution, or vice-versa.

Estate, gift, and generation-skipping transfer taxes – This change will be reversed as of 2026

The estate tax doubles the exemption and applies to estates of decedents dying and gifts made after Dec. 31, 2017, and before Jan. 1, 2026.

- $11.2 million for singles
- $22.4 million for couples.

Other credits – The Act repeals several tax credits.

- Credit for the elderly and permanently disabled
- Credit for plug-in electric drive motor vehicles
- Credit for interest on certain home mortgages.

Other Deduction Changes – The Act outlines other impacts to the individual taxpayer.

- **Alimony –** Alimony and separate maintenance payments are not deductible by the payor spouse and conversely not includible income by the payee spouse.
- **Moving expenses –** Repealed for most with one major exception.

- Members of the armed forces on active duty who move because of military orders or change in where the members is stationed.

- **Exclusion for bicycle commuting reimbursements –** The bill repeals through 2025 the exclusion from gross income or wages of qualified bicycle commuting expenses.

BUSINESS TAX IMPLICATIONS

For tax years beginning after Dec. 31, 2017, and beginning before Jan. 1, 2026, the Tax Reform and Jobs Act include the following changes that impact businesses.

Alternative Minimum Tax (AMT): Eliminated for corporations.

Income from Pass-Through Entities: The Act dramatically changes how individuals are taxed on income from partnerships, S corporations, and other pass-through entities.

- Increases deductions to 20% of "qualified business income" from a partnership, S corporation, or sole proprietorship
  - "qualified business income" means the net amount of qualified items of income, gain, deduction, and loss with respect to the qualified trade or business of the taxpayer
  - Items must be conducted trade or business within the United States. They do not include specified investment-related income, deductions, or losses.
  - "Qualified business income" do not include an S corporation shareholder's reasonable compensation, guaranteed payments, or—to the extent provided in regulations—payments to a partner who is acting in a capacity other than his or her capacity as a partner.
  - "Specified service trades or businesses" include any trade or business in the fields of accounting, health, law, consulting, athletics, financial services, brokerage services, or any business where the principal asset of the business is the reputation or skill of one or more of its employees.
  - The exclusion from the definition of a qualified business for specified service trades or businesses phases in for a taxpayer with taxable income:
    - Singles – $157,500
    - Married filing jointly – $315,000

- Allowed deductions of 20% of qualified real estate investment trust (REIT) dividends, qualified cooperative dividends, and qualified publicly traded partnership income. (Special rules apply to specified agricultural or horticultural cooperatives.)
- Limitation on deduction based on W-2 wages above a threshold amount of taxable income, generally limited to 50%.
- Deduction disallows for specified service trades or businesses with income above a threshold.
- For each qualified trade or business, can deduct 20% of the qualified business income with respect to such trade or business.
- Capital-intensive businesses may yield a higher benefit under a rule that takes into consideration 25% of wages paid plus a portion of the business's basis in its tangible assets.

Corporate Income Tax Rate Reduction: The Act reduces the corporate income tax rate and expands property definitions.

- Reduces tax rate beginning in 2018 to 21 percent from 35 percent.
- Allows 100 percent expensing for business property placed in service after September 27, 2017 to encourage more capital investing in corporations
- Expands eligible property definition for 100 percent expensing, to include used property that was not previously used by the taxpayer. Expire in 2023 or 2024 for certain property.

International Tax Reform: The Act makes significant changes to the U.S. international tax code.

- Entirely replaces the current foreign subsidiaries system with a dividend exemption system. U.S. corporations are exempt from U.S. income tax for foreign-source dividends from certain foreign subsidiaries are exempt from U.S. income tax.
- Requires foreign subsidiaries to pay a repatriation tax on their foreign subsidiaries' post-1986 earnings and profits.
  - tax is 14.5 percent on foreign earnings held in cash and cash equivalents
  - 7.5 percent on foreign earnings held in illiquid assets.
- Imposes current U.S. income tax on 50 percent of foreign controlled corporation. Under the system, multinationals are taxed on foreign earned income.

Carried Interest: The Act addresses the tax of "carried interest," directed at private equity fund managers, hedge fund managers, and some other investment professionals to pay long-term capital gains rates on their share of the profits from an investment partnership.

- Beginning 2019 long-term capital gains attributable to an "applicable partnership interest" are characterized as short-term capital gain (taxable at ordinary income rates) to the extent applicable to an investment held less than three years.
- An applicable partnership interest generally means a partnership interest transferred about the performance of substantial services. In effect, the provision does not allow fund managers to benefit from the lower tax rate applicable to long-term capital gains unless the investment that generated the gain was held for at least three years.

Liquor Tax: The Act cuts taxes on beer, wine, and liquor.

We will continue to bring you more guidance on the impact of the passage of the tax reform legislation. Still, one thing is clear: The tax reform plan will mean different things to different people, depending on how much they make, where they live, and their family size and makeup. See your tax professional for the best tax implementation plan for you, your family, and your business. The implications could have both negative and positive effects, so get the facts for your circumstances.

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