



# **2018 Federal Tax Update—Understanding the Changes of the Tax Cuts and Jobs Act- Public Law 115-97**

**Presented by: Mary Jo Werner, JD, CPA, CFF**

# Major Areas

- Individual provisions
- Business provisions
- Compensation and benefits
- Gifts, estates and trusts

# Individual Changes\*

*\*Subject to sunset after 2025.*



# Individual Taxation—Major Changes

- Summary Key Changes
- Rate Comparisons
- Individual Alternative Minimum Tax (AMT)
- Education Incentives and Credits

# Individual Deductions

## Deduction

2018

Standard Deductions

\$12,000 Single

\$24,000 Married Filing Jointly

\$12,000 Married Filing Separately

\$18,000 Head of Household

Itemized Deductions Limitation

Eliminated.

Personal Exemptions

Eliminated.

# Individual Deductions

## Deduction

2018

Charitable Contributions

Increased Cash Contribution Limits to 60% of adjusted gross income (AGI).

State and Local Taxes

Schedule A deduction limited to \$10,000

Mortgage Interest Deduction

Existing mortgages grandfathered;  
Generally deductible on new loans up to \$750,000; Limited to 2 qualified residences.

No deduction for home equity debt.

# Individual Deductions

## Deduction

2018

Miscellaneous Itemized Deductions

Eliminated – includes tax preparation fees, investment advisory, and legal fees.

Unreimbursed Employee Business Expenses

Eliminated.

Medical Expenses

7.5% AGI limitation for years 2017 and 2018; 10% for year 2019.



# Individual Deductions

## Deduction

2018

Moving Expenses

Eliminated.

Alimony Paid

Eliminates the deduction for agreements entered into or modified after 12/31/18.





# Filing Status Comparisons

Rate	Single	Married Filing Jointly	Head of Household
10%	\$0 - \$9,524	\$0 - \$19,049	\$0 - \$13,599
12%	\$9,525 - \$38,699	\$19,050 - \$77,399	\$13,600 - \$51,799
22%	\$38,700 - \$82,499	\$77,400 - \$164,999	\$51,800 - \$82,499
24%	\$82,500 - \$157,499	\$165,000 - \$314,999	\$82,500 - \$157,499
32%	\$157,500 - \$199,999	\$315,000 - \$399,999	\$157,500 - \$199,999
35%	\$200,000 - \$499,999	\$400,000 - \$599,999	\$200,000 - \$499,999
37%	\$500,000	\$600,000	\$500,000



# Individuals—Capital Gain Rates

Tax Rate	Filing Status				
	Single	Married Filing Jointly	Married Filing Separately	Head of Household	Trusts & Estates
0%	\$38,600	\$77,200	\$38,600	\$51,700	\$ 2,600
15%	\$425,800	\$479,000	\$239,500	\$452,400	\$ 12,700
20%	> \$425,800	> \$479,000	> \$239,500	> \$452,400	> \$12,700



# Alternative Minimum Tax

Filing Status	Exemption Amount
Single/Head of Household	\$70,300
Married Filing Jointly	\$109,400

---

Phase Out Levels	
Filing Status	Alternative Minimum Taxable income
Single/Head of Household	\$156,300 - \$500,000
Married Filing Jointly	\$208,400 - \$1,000,000

---

# Family Tax Credits

Year	Per Child Tax Credit/(Refundable)	Non-Child Dependents	Phase-Out Begins (Married filing jointly)
2018	\$2,000 (\$1,400)	\$500 (nonrefundable)	\$400,000

## Education Incentives

- Allows §529 accounts to be used for up to \$10,000 of elementary and secondary school tuition.
- Excludes from income student loan discharges for death or disability.





# Affordable Care Act

The new law removes penalty for individuals who fail to maintain healthcare coverage under the Affordable Care Act, effective for years *after December 31, 2018*.

# Business Taxes—Major Changes

- C-Corporate rate reduction
- Depreciation cost recovery (bonus/Section 179)
- Limitations on loss deductions
- New 199A 20% deduction for non-corporate taxpayers
- Repeal of corporate alternative minimum tax (AMT)
- Like-kind exchanges

# Corporate Rate Reduction

## C-Corporation Tax Rates:

Taxable Income	2017	2018
\$0 - \$50,000	15%	21%
\$50,001 - \$75,000	25%	21%
\$75,001 - \$10,000,000	34%	21%
Over \$10,000,000	35%	21%

# Corporate Tax Rate – Additional Considerations

- Tax rate applies for tax years beginning after December 31, 2017
- Fiscal year taxpayers will use a blended rate. Calculate tax for full year based on old and new rates and pro rate tax based on number of days before and after rate change date.
- Personal Service Corporations- also use 21%

# Depreciation and Expensing

- The 50% bonus depreciation under current law is increased to 100% through year 2022 (through year 2023 for longer production period property and certain aircraft).
- A phase down on bonus depreciation begins in 2023 and phases out in year 2026 (or year 2027 for longer production period property and certain aircrafts).
- **Additional first-year depreciation deduction applies to new and used property.**



# Bonus Depreciation

Period/Year	Applicable Percentage
9/27/2017 – 2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

## Section 179 Expensing

- The Section 179 expensing limit is \$1 million.
- Both expensing limitation and phase amounts will be indexed for inflation for tax years beginning after year 2018.
- The Section 179 expensing limit for SUVs is \$25,000.
- Expands the definition of qualified property to include improvements to nonresidential real property placed in service after the date the property was first placed in service:
  - roofs;
  - heating, ventilation, and air-conditioning;
  - fire protection and alarm systems;
  - and security systems

## Section 179 Expensing

Year	Section 179 Expense Limitation	Phase Out Starts At
2018	\$1,000,000	\$2,500,000

## Recovery Period for Real Property

There is a general 15-year MACRS recovery period for qualified improvement property.  
... Or is there?

# Qualified Improvement Property

- Qualified Improvement Property Definition Expanded
  - Improvement to an Interior Portion of Non-Residential Real Property
  - Placed-In-Service after original building first placed in service
  - Expenditures cannot be attributed to
    - Enlargement of the building
    - Any elevator or escalator
    - Internal structural framework of the building
  - Includes property without regard to business or leased space
- Effective for Property Placed-In-Service after 12/31/17



# Qualified Improvement Property (QIP)

- Drafting error was made when writing the new law.
- Intention was to have qualified improvement property be depreciated over 15 years.
- The actual law increases the qualified improvement property to 39 years.
- With a technical correction qualified improvement property will be subject to 15 year depreciation starting January 1, 2018.

# Business Deductions—Net Operating Losses

- The new tax law limits the NOL deduction to 80% of taxable income. This change applies to losses arising in taxable years beginning after December 31, 2017.
- No two-year carryback is allowed except for certain farming losses.
- NOL carryforward is unlimited.

## New 199A Deduction – Overview

- Applies to income from S-Corps, Partnerships (LLC's), sole proprietorships, individuals, trusts, and estates.
- If fully applicable, the deduction will equal 20% of business income.
- Calculated at the individual (or trust and estate) level.
- If applicable, brings the top individual tax rate on business income down to 29.6% ( $37\% \times 80\%$ ).

# New 199A Deduction - Overview

- Deduction generally equal to 20 % of the taxpayer's combined qualified business income (QBI) for the year.
- QBI is sum of:
  - Taxable income or loss for each qualified “trade or business” carried on by the taxpayer, and
  - Aggregate of the taxpayer's qualified REIT dividends and qualified publicly traded partnership income.
- Qualified trade or business income deduction is limited by a “W-2 limitation”
- The deduction is further limited by 20% of the taxpayer's taxable income (after reduction for qualified capital gain).

# New 199A Deduction – Qualified Business Income (QBI)

## **Qualified Business Income (QBI) Defined**

- QBI generally includes all net income from a business other than investment income.
  - Does not include dividends, investment interest income, capital gains and losses, commodities gains, and foreign currency gains.
  - QBI includes only income that is effectively connected with the conduct of a U.S. trade or business.



## New 199A Deduction – QBI Defined (continued)

- QBI does not include any amount paid to the taxpayer:
  - Treated as reasonable compensation (as determined under current law)
  - By a partnership that is a guaranteed payment (for services under section 707(c) or a section 707(a)).

## New 199A Deduction – QBI Defined (continued)

- “Specified Service Businesses” do not qualify for QBI deduction.
  - Exception provided for taxpayers under taxable income thresholds
    - \$315,000 (married filing jointly)
    - \$157,500 for all other taxpayers.
  - Deduction relating to service business income completely phased out for taxpayers with taxable incomes of
    - \$415,000 (married filing jointly)
    - \$207,500 for all other taxpayers.

# New 199A Deduction - Specified Service Business

A “Specified Service Business” includes any trade or business involving performance of services by owners or employees in:

Health	Law	Accounting
Actuarial Science	Performing Arts	Consulting
Athletics	Financial Services	Brokerage Services

**OR**

Any trade or business of performing services as an employee.

*These professions do not ‘build’ things...*

# New 199A Deduction - Specified Service Business

- Specified Service Business also includes
  - Architects
  - Engineers

*These professions help 'build' things....*

# New 199A Deduction - Wage Limitation

## Wage Limitation

- Wage Limitation (*also referred to as W-2 limits*):

*Greater of:*

➤ 50% of W-2 wages paid by the trade or business

OR

➤ Sum of 25% of W-2 wages paid by the trade or business plus a 'capital component' equal to 2.5% of the unadjusted basis of all tangible property subject to depreciation.

# New 199A Deduction - Wage Limitation (continued)

## Wage Limitation (continued)

- W-2 limitation is not applicable to small taxpayers
  - Not applicable for taxpayers with taxable income less
    - \$315,000 (married filing jointly)
    - \$157,500 (others)
  - Partially applicable to taxpayers with income between
    - \$315,000 and \$415,000 (married filing jointly)
    - \$157,500 and \$207,500 (others)
- If wages are at least 40% of business income, wage limit should not be an issue

# New 199A Deduction - Miscellaneous

- Can be taken by taxpayers, regardless whether they itemize or take the standard deduction.
- The deduction is not added back in computing individual alternative minimum tax (AMT).
- If the combined QBI of the taxpayer for any taxable year is less than zero, that amount is treated as a loss from a qualified trade or business in the succeeding taxable year.
- The deduction sunsets after December 31, 2025.





## **Alternative Minimum Tax (AMT)**

Is Repealed Permanently.

## Like-Kind Exchanges

The new tax law limits like-kind exchanges under § 1031 to exchanges of real property.





# Compensation & Benefits

# Compensation & Benefits—Major Changes

- Entertainment Deduction Changes
- Employer Provided On-site Meals and De Minimis Fringes
- Deduction for Transportation Fringes

# Business-Related Entertainment Expenses

## Repealed

### This Includes:

Club dues, football tickets, theater tickets,  
event admission fees



## M&E Expenses- Still Allowed

- A deduction is still generally available for 50% of food and beverage expenses associated with operating a trade or business (e.g., meals consumed by employees on work travel).
- Business meals with customers are 50% deductible.

## On Site Meals & De Minimis Fringes

Starting in 2018, deminimis fringe benefits (e.g. staff working lunches, pizza and soda when working overtime) are only 50% deductible.



## Deduction for Transportation Fringes

- The new law eliminates the current deduction for qualified transportation fringes to employees, except as necessary for the safety of an employee in commuting between work and home, effective December 31, 2017.
- The deduction for bicycle commuting reimbursements is suspended between December 31, 2017, and December 31, 2025.



# Estate, Gift and GST\*

*\*Subject to sunset after 2025.*

# Estate and Gift—Major Changes

- Gift Tax Exclusion Updates
- New Tax Rates- Estates and Trusts

# Gift tax exclusion amounts

	2018
Annual exclusion amount for gifting	\$15,000
Annual exclusion to non-citizen spouses	\$152,000

- Estate exclusion \$11.18 million per person
  - Effective January 1, 2018 through December 31, 2025.
- Exemptions would revert back to \$5 million (indexed for inflation) after December 31, 2025.
- Maximum tax rate does not change: 40%.

# Tax Brackets for Estates and Trusts


Taxable Income	2017	2018
\$0 - \$2,449	15%	10%
\$2,550 - \$5,999	25%	24%
\$6,000 - \$9,149	28%	24%
<b><i>\$9,150 - \$12,499</i></b>	<b><i>33%</i></b>	<b><i>35%</i></b>
> \$12,500	39.6%	37%



# Questions ?







The information on this website is provided solely for general illustration and guidance and does not create a business or professional services relationship. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules and regulations, and the inherent hazards of electronic communication, there may be delays, omissions or inaccuracies in information contained in this website. Accordingly, the information on this site is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice and services. As such, it should not be used as a substitute for consultation with professional accounting, tax, legal or other competent advisers. Before making any decision or taking any action, you should obtain appropriate professional guidance.

While we have made every attempt to ensure that the information contained in this website has been obtained from reliable sources, Wipfli is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this website is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. In no event will Wipfli, its related partnerships or corporations, or the partners, agents or employees thereof be liable to you or anyone else for any decision made or action taken in reliance on the information in this website or for any consequential, special or similar damages, even if advised of the possibility of such damages.