Just as a little refresher! Changes and inflation adjustments are marked throughout.

TAX CUTS AND JOBS ACT OF 2017 (TCJA)

Here's a look at some of the major changes to both individuals and businesses resulting from the passage of the Tax Cuts and Jobs Act. Unless otherwise specified, these changes took effect 1/1/18 for your 2018 income tax returns.

INDIVIDUAL CHANGES

Figures have been updated for 2019 for inflation.

- *Tax rates.* The new law imposes a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate was reduced from 39.6% to 37% and applies to 2019 taxable income above $510,300 for single taxpayers and $612,350 for married couples filing jointly. The rates applicable to net capital gains and qualified dividends were not changed. The "kiddie tax" rules were simplified. The net unearned income of a child subject to the rules will be taxed at the capital gain and ordinary income rates that apply to trusts and estates. Thus, the child's tax is no longer affected by the parent's tax situation or the unearned income of any siblings.

Figures have been updated for 2019 for inflation.

- *Standard deduction.* The new law increases the standard deduction to $24,400 for joint filers, $18,350 for heads of household, and $12,200 for singles and married taxpayers filing separately. If you are 65 or older, you are allowed an additional $1,650 if single or $1,300 each if married filing jointly. Given these increases, many taxpayers will no longer be itemizing deductions. These figures will continue to be indexed for inflation annually.
- *Exemptions.* The TCJA suspended the deduction for personal exemptions. Thus, starting in 2018, taxpayers can no longer claim personal or dependency exemptions. The IRS updated the withholding tables for 2019 to reflect this (they hadn't for 2018) and have created an online withholding calculator that can be found at: https://apps.irs.gov/app/tax-withholding-estimator.

Figures have been updated for 2019 for inflation.

- *Deduction for "qualified business income."* Starting in 2018, taxpayers were allowed a deduction equal to 20 percent of "qualified business income," otherwise known as "pass-through" income, i.e., income from partnerships, S corporations, LLCs, and sole proprietorships. The income must be from a trade or business within the U.S. Investment income does not qualify, nor do amounts received from an S corporation as reasonable compensation or from a partnership as a guaranteed payment for services provided to the trade or business. The deduction is not used in computing adjusted gross income, just taxable income. For taxpayers with taxable income above $160,700 ($321,400 for joint filers), (1) a limitation based on W-2 wages paid by the business and depreciable tangible property used in the business is phased in, and (2) income from the following trades or businesses is phased out of qualified business income: health, law, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners.
- *Child and family tax credit.* The new law increases the credit for qualifying children (i.e., children under 17) to $2,000 from $1,000, and increases to $1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) $500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to $200,000 ($400,000 for joint filers).
- *State and local taxes.* The itemized deduction for state and local income and property taxes is limited to a total of $10,000 in 2019.

- *Mortgage interest.* Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans acquired after December 15, 2017. A taxpayer who entered a binding contract on or before December 15, 2017 is treated as incurring the debt prior to December 15, 2017 as long as the purchase closed by April 1, 2018. Refinanced debt is grandfathered in under the old law, however, if additional cash is taken out at the time of refinance, the cash must be used to improve or expand your primary residence in order for the interest to be deductible. Interest paid on home equity debt used for a purpose other than the purchase, improvement or expansion of your primary residence is no longer deductible (previously $100,000 could be used for any purpose and the interest was deductible). This applies to *all* home equity debt regardless of the original loan date. <u>In order to reduce our time preparing your tax returns, we highly recommend providing details of your home equity debt if it has been or will be used for a purpose other than the purchase, expansion or improvement of your primary residence.</u>
- *Miscellaneous itemized deductions.* There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2 percent of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses.

Change from 2018!!

- *Medical expenses.* Medical expenses must exceed 10% of adjusted gross income in order to be deductible. In 2017 and 2018, the threshold was only 7.5%
- *Casualty and theft losses.* The itemized deduction for casualty and theft losses has been suspended except for losses incurred in a federally declared disaster.
- *Overall limitation on itemized deductions.* The TCJA suspended the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded specified thresholds. There is no longer any limitation.
- *Moving expenses.* The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.
- *Alimony.* For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.

Change from 2018!!

- *Health care "individual mandate."* Effective for 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage. You will no longer need to notify us if you do not have health insurance coverage.

Figures have been updated for 2019 for inflation.

- *Estate and gift tax exemption.* Effective for decedents dying, and gifts made, in 2019, the estate and gift tax exemption has been increased to roughly $11.4 million ($22.8 million for married couples).

Figures have been updated for 2019 for inflation.

- *Alternative minimum tax (AMT) exemption.* The AMT has been retained for individuals by the new law but the exemption has been increased to $111,700 for joint filers ($55,850 for married taxpayers filing separately), and $71,700 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over $1,020,600 for joint filers, and over $510,300 for all others.

Nothing new for 2019 in this section!

BUSINESS CHANGES

- *Corporate tax rates reduced.* One of the more significant new law provisions cuts the corporate tax rate to a flat 21%. Before the new law, rates were graduated, from 15% to 35% of taxable income.
- *Alternative minimum tax repealed for corporations.* The corporate alternative minimum tax (AMT) has been repealed by the new law.
- *Net Operating Loss ("NOL") deduction modified.* Under the new law, generally, NOLs arising in tax years ending after 2017 can only be carried forward, not back. The general two-year carryback rule, and other special carryback provisions, have been repealed. However, a two-year carryback for certain farming losses is allowed. These NOLs can be carried forward indefinitely, rather than expiring after 20 years. Additionally, under the new law, for losses arising in tax years beginning after 2017, the NOL deduction is limited to 80% of taxable income, determined without regard to the deduction. Carryovers to other years are adjusted to take account of the 80% limitation.
- *Limit on business interest deduction.* Under the new law, every business, regardless of its form, is limited to a deduction for business interest equal to 30% of its adjusted taxable income. For pass-through entities such as partnerships and S corporations, the determination is made at the entity, i.e., partnership or S corporation, level.
- *Domestic production activities deduction ("DPAD") repealed.* The new law repeals the DPAD for tax years beginning after 2017.
- *New fringe benefit rules.* The new law eliminates the 50% deduction for business-related entertainment expenses. The pre-Act 50% limit on deductible business meals is expanded to cover meals provided via an in-house cafeteria or otherwise on the employer's premises. Additionally, the deduction for transportation fringe benefits (e.g., parking and mass transit) is denied to employers, but the exclusion from income for such benefits for employees continues. ***Please see separate sheet regarding new meals and entertainment rules under TCJA.***
- *Increased Code Sec. 179 expensing.* The new law increases the maximum amount that may be expensed under Code Sec. 179 to $1 million. If more than $2.5 million of property is placed in service during the year, the $1 million limitation is reduced by the excess over $2.5 million.
- *Bonus depreciation.* Under the new law, a 100% first-year deduction is allowed for qualified new and used property acquired and placed in service after September 27, 2017 and before 2023. Pre-Act law provided for a 50% allowance, to be phased down for property placed in service after 2017. Under the new law, the 100% allowance is phased down starting after 2023.
- *Depreciation of real property.* The new law modified some rules for the depreciation of residential rental buildings and certain building improvements.