

Norwalk Business Service, Inc.

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****Tax Cuts and Jobs Act****

Congress has finished conferencing on the "Tax Cuts and Jobs Act" and we now have text of the bill that was passed on December 20, 2017. Most of the changes in the tax law will go into effect in 2018. This Act differs from the one we discussed in November. We encourage you to reach out to your accountant if you have questions about how these changes may specifically affect you. Below is a review of some of the key components of the law.

New Tax Rates for Individuals

Individual tax rates will generally go down a few percentage points per tax bracket, and the income threshold for being taxed at each bracket will be increased.

The Standard Deduction is doubled and Personal Exemptions are eliminated

The law will increase the standard deduction for single taxpayers from \$6,350.00 to \$12,000.00 and from \$12,700.00 to \$24,000.00 for married taxpayers. At the same time they are eliminating the personal exemption of \$4,050.00 for each taxpayer and each of their dependents.

| Current Law | Single | Married | New Law | Single | Married |
|--------------|-------------|-------------|---------|-------------|-------------|
| Dependents 0 | \$10,400.00 | \$20,800.00 | | \$12,000.00 | \$24,000.00 |
| Dependents 1 | \$14,450.00 | \$24,850.00 | | \$12,000.00 | \$24,000.00 |
| Dependents 2 | \$18,500.00 | \$28,900.00 | | \$12,000.00 | \$24,000.00 |

Child Tax Credit

The amount of the child tax credit will be increased to \$2,000.00 from \$1,000.00. The amount of the credit that is refundable is increased to \$1,400.00. The income level in which you are eligible for the credit has been increased from a phase out of \$110,000.00 Married / \$55,000.00 Single to \$400,000.00 Married / \$200,000.00 single. There is also a \$500.00 nonrefundable credit for certain non-child dependents. No credit is allowed for a dependent without a SSN.

Deduction for Pass-through income

Pass-through entities (sole proprietorships, LLCs, and S-Corporations), will be allowed a deduction of 20% of Qualified Business Income or taxable income (whichever is lesser). Congress will provide guidance to the IRS on how this will apply to specific businesses. Generally it will result in lower taxable income for these types of entities.

Casualty Loss

Losses for theft or casualty have been suspended. The only allowable losses will be for losses arising from a federally declared disaster.

State and Local Tax Deduction

For tax years beginning after Dec 31,2017, taxpayers aggregate state and local tax deduction will be limited to \$10,000.00. (\$5,000.0 for married filing separate returns.) The aggregate amount is the sum of the property tax paid, state income tax withheld(or sales tax), and other local taxes paid. This provision does not affect the deductions for rentals or businesses.

Mortgage Interest Deduction

Taxpayers will be able to write off mortgages on mortgage loans up to \$750,000.00 down from one million. This law goes into effect for loans after December 14, 2017. Loans that were taken out before will continue to have the previous one million limitation. Taxpayers may refinance the old larger loans as long as they do not exceed the previous loan amount.

Charitable Contributions

Taxpayers may contribute to charities and take a deduction on their schedule A. The maximum amount that a taxpayer may contribute has been increased from 50% to 60% of income.

Alimony Deduction and Inclusion

For divorce or separation agreements executed after December 31, 2018, alimony paid will no longer be deductible. Conversely, alimony received in the new agreements will no longer need to be included in income.

Miscellaneous Itemized Deductions

Expenses subject to the 2% agi threshold will no longer be tax deductible. This includes expenses like union dues, employee miles, uniforms, tax preparation fees, and continuing education.

Moving Expenses

The expense for moving for employment reasons is suspended for years after December 31, 2018. The exception is for members of the Armed Forces on active duty who move pursuant to a military order.

The Individual Mandate

Starting in 2019, there will no longer be a penalty for not having health insurance. This did not repeal the ACA so subsidies will still be available on the marketplace.

Medical Expenses

The income threshold for taking medical expenses as an itemized deduction has been lowered to 7.5% from 10% for 2017 and 2018.

Alternative Minimum Tax: Individuals

The amount of income taxpayers must make before they must pay AMT has been increased. Most taxpayers who pay AMT but make less than 500K single or 1,000K joint, will pay substantially less AMT.

Qualified 2016 Disaster Distributions

For taxpayers who sustained economic loss because of events that resulted from a Presidential Disaster Area can withdraw from retirement plans amounts up to \$100,000.00 and avoid the 10% early withdrawal tax. Additionally, taxpayers can elect to treat the withdrawal as income ratable over 3 years. Retirement loans in these areas can also be repaid over 3 years.

Tax Planning

There are some things you can do to prepare for the next year. While these items may not work for your specific tax situation, for most taxpayer the following will reduce your tax liability.

Pay Employee Expenses in 2017

After 2017, payments made for union dues, continuing education, tools, equipment, uniforms, etc will no longer be a deduction for W-2 employees. We encourage you to accelerate purchases for items you know you will be purchasing in 2018 to receive a tax deduction.

State Tax Payments in 2017

With the new limits to State Tax Deductions, we encourage our clients to pay for their April 2018 property tax and 2017 state income tax liability before January 01, 2018 to make sure that their deduction does not exceed the \$10,000.00 limitation in 2018. Also, if you are on an estimate schedule, make sure you send in the State Estimated Tax Payment before January 1, 2018.

Contributions to Victims of Hurricanes

For donations made before December 31, 2017. Cash contributions to relief efforts for Harvey, Irma, and Maria are not subject to AGI limitations. If the taxpayer does not itemize, these contributions can still be deducted in addition to the normal standard deduction.

Businesses

If you own a business, it will generally make sense to accelerate business expenses and pay them in 2017 if your income is going to be similar. Tax rates will be lower for Corporations, and pass-throughs will have more generous deductions in 2018 which will result in lower overall tax for these types of entities.

Reduction of Corporate Tax Rate and improved expensing

The bill will change the Corporation Tax Rate from the current graduated rate that taxes up to 35% to a flat 21%. Also included in this legislation is 100% cost recovery (write-off) on qualified purchased items that are purchased new by the taxpayer. This is meant as a substitute for bonus depreciation. Section 179 limits have been expanded through 2023 and the definition of section 179 has been changed to include heating and air conditioning property.

Luxury Auto depreciation limits have also been substantially increased.

Net Operating Losses

NOLS arising in tax years after 2017 will generally not be able to carryback losses 2 years as they can under current law. These NOLS, however, can be carried forward indefinitely instead of the 20 years under current law.

Fringe Benefits and Entertainment

Amounts paid for entertainment of clients or employees will be disallowed. Current law allowed a 50% deduction for these expenses. Meals provided onsite for the employers benefit (like cafeteria expenses) will no longer be fully deductible and will instead be classified with other meals for a 50% deduction. Other employment fringe benefits (like mass transit or parking passes) will no longer be deductible by the employer.

Inventory Requirement repealed

Cash Basis producers or resellers that have under \$25 million in gross receipts will no longer need to use inventory when reporting their expenses. Instead they can use the cash method or reporting.

Alternative Minimum Tax: Corporations

Alternative minimum tax is repealed for Corporations. Any minimum tax credit for previous years will be allowed through 2022.

Year End Tax Reminders

Make sure you have taken your yearly Required Minimum Distribution from your retirement account.

If you have capital gains for the year, harvest losses on poor performing stocks to cancel out the gain you have received.

Contribute to your 401k or IRA to reduce your taxable income.

Gift up to \$14,000.00 per recipient in 2017 without filing a gift tax return. This amount will increase to \$15,000.00 in 2018.