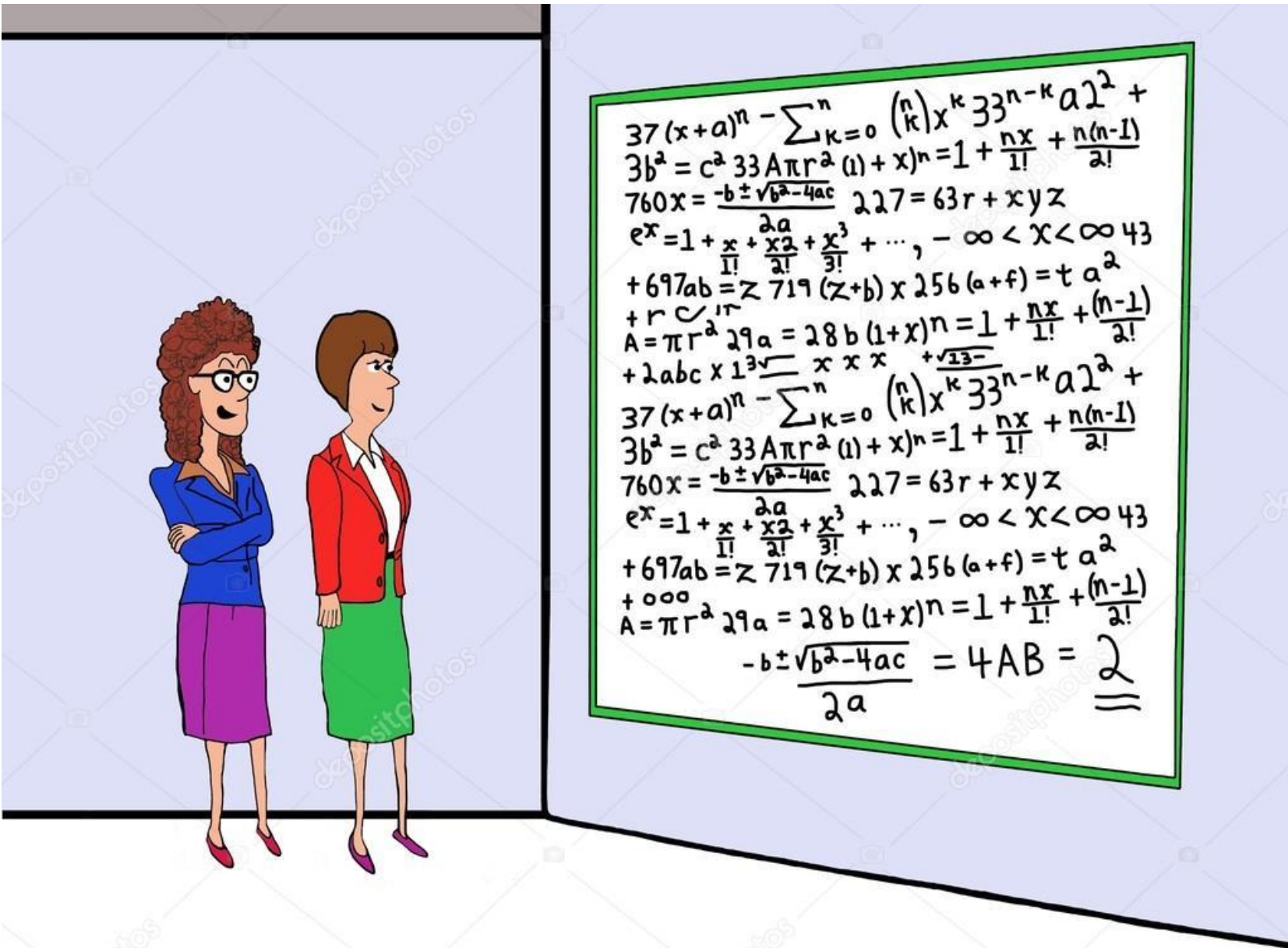




Highlights of Tax Reform

Simplification At Its Finest



“This is the most straightforward tax plan I’ve ever seen.”

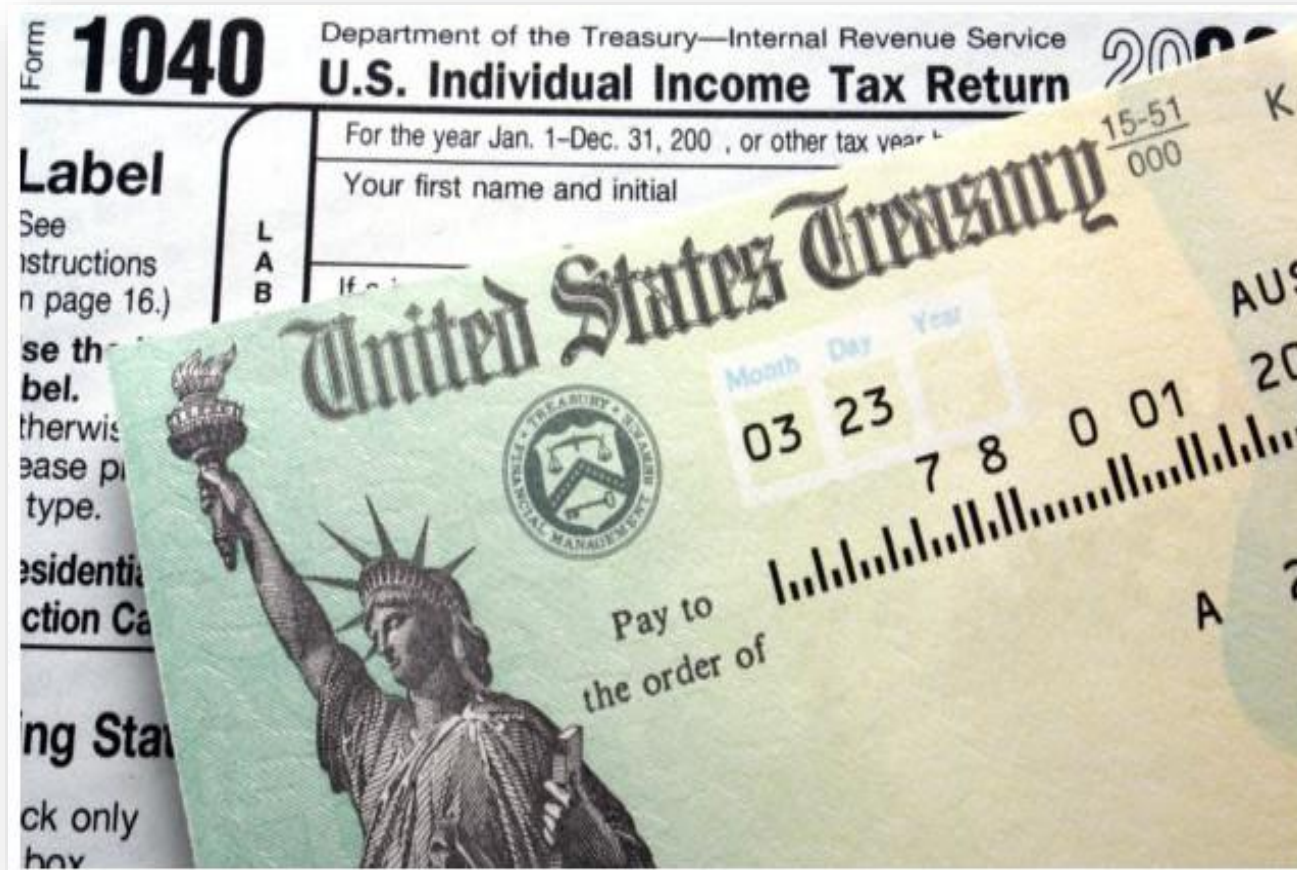
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Individual Tax Reform



Individual Tax Brackets - Joint

Prior Law	2018	TCJA	2018
Taxable income	Rate	Taxable Income	Rate
0-19,050	10%	0-19,050	10%
19,050-77,400	15%	19,050-77,400	12%
77,400-156,150	25%	77,400-165,000	22%
156,150-237,950	28%	165,000-315,000	24%
237,950-424,950	33%	315,000-400,000	32%
424,950-480,050	35%	400,000-600,000	35%
Over 480,050	39.6%	Over 600,000	37%

Individual Tax Brackets - Single

Prior Law	2018	TCJA	2018
Taxable income	Rate	Taxable Income	Rate
0-9,525	10%	0-9,525	10%
9,525-38,700	15%	9,525-38,700	12%
38,700-93,700	25%	38,700-82,500	22%
93,700-195,450	28%	82,500-157,500	24%
195,450-424,950	33%	157,500-200,000	32%
424,950-480,050	35%	200,000-500,000	35%
Over 480,050	39.6%	Over 500,000	37%

Individual Tax Brackets – Head of House

Prior Law	2018	TCJA	2018
Taxable income	Rate	Taxable Income	Rate
0-13,600	10%	0-13,600	10%
13,600-51,850	15%	13,600-51,800	12%
51,850-133,850	25%	51,800-82,500	22%
133,850-216,700	28%	82,500-157,500	24%
216,700-424,950	33%	157,500-200,000	32%
424,950-480,050	35%	200,000-500,000	35%
Over 480,050	39.6%	Over 500,000	37%

Individual Tax Bracket Inflation

IRS has always used the Consumer Price Index to determine the amount of inflation to apply to the tax brackets each year

New law directs the IRS to use the Chained Consumer Price Index for Urban consumers going forward – consumers will substitute/alter goods purchased as prices increase

This is a permanent provision and is one of the revenue raisers in the new tax law

Tax Brackets – Trusts & Estates

Prior Law	2018	TCJA	2018
Taxable income	Rate	Taxable Income	Rate
0-2,550	15%	0-2,550	10%
2,550-6,000	25%	2,550-9,150	24%
6,000-9,150	28%	9,150-12,500	35%
9,150-12,500	33%	Over 12,500	37%
Over 12,500	39.6%		

2018 Capital Gains Rates

Capital Gain Rate	Taxable Income
<i>Joint</i>	
0%	0-77,200
15%	77,200-479,000
20%	Over 479,000
<i>Head of Household</i>	
0%	0-51,700
15%	51,700-452,400
20%	Over 452,400
<i>Single</i>	
0%	0-38,600
15%	38,600-425,800
20%	Over 425,800

Standard Deductions

Prior Law	2018	TCJA 2018
Single	6,500	12,000
Head of Household	9,550	18,000
Joint/Surviving Spouse	13,000	24,000
Dependent	1,050	1,050
Addition for Elderly or Blind		
Single	1,600	1,600
Married Each	1,300	1,300
Personal Exemption	4,150	N/A

Child Tax Credit

- Child Tax Credit is increased from \$1,000 to \$2,000 per child
- Refundable portion of credit increases from \$1,000 to \$1,400
- Phase-out for credit increases

	Others	Joint
Current law	75,000	110,000
TCJA	200,000	400,000

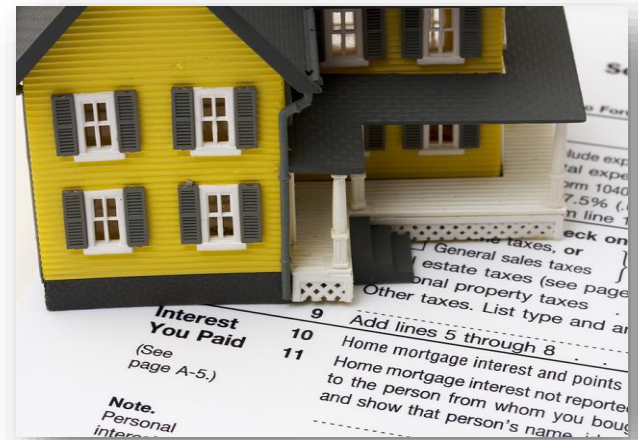
Itemized Deductions

- **State & Local Tax Deduction**

- Limited for tax years 2018 to 2025
- Limitation to \$10,000 total for Property taxes + state and local income taxes (or state and local sales taxes in lieu of income taxes)
- \$10,000 limit includes joint returns, married filing separate limit is \$5,000

- **Home Mortgage Interest**

- New Debt is limited to interest deduction on \$750,000
- Home Equity interest deduction is eliminated
- Existing debt is grandfathered, refinancing of grandfathered debt okay



Itemized Deductions

- **Medical Expenses**

- 2016 – 10% of AGI if under age 65, 7.5% if 65 and older
- 2017-2018 – deductible in excess of 7.5% of AGI
- 2019 and on – deductible in excess of 10% of AGI

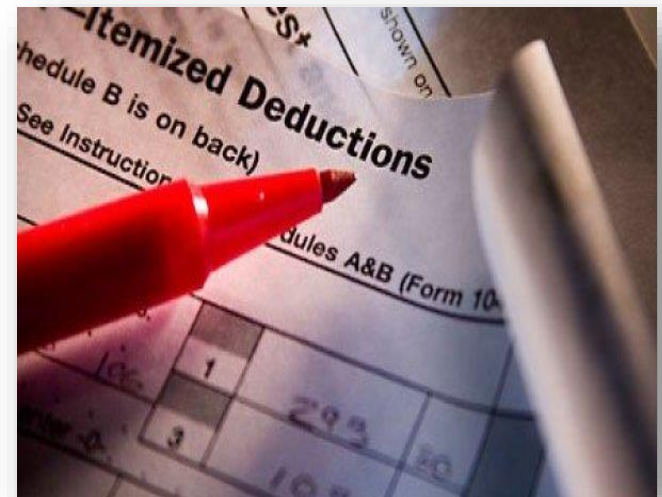
- **Charitable Contributions**

- Deductions for contributions now allowed for up to 60% of AGI for cash donations (previously 50%)
- Suspension of deduction allowing 80% of amount paid to Universities for ticket rights



Itemized Deductions

- **ALL Miscellaneous Deductions subject to 2% AGI limit are suspended**
 - Tax preparation fees for individual return
 - Brokerage & Investment Fees
 - Unreimbursed Employee Business Expenses
- **“Pease” Limitation on Itemized Deductions removed**
 - Higher income taxpayers had itemized deductions phased out as much as 80%
 - Phaseout removal may generate a larger deduction for higher incomes even with the new restrictions on deductions



Itemized Deductions

Consider itemized deduction bunching

\$12,900 charitable contributions

\$2,500 property taxes

\$3,800 mortgage interest

\$5,000 income taxes

\$24,200 itemized deductions

(>\$24,000 MFJ standard deduction)

What can you move?

\$25,800 charitable contributions

\$5,000 property taxes

\$3,800 mortgage interest

\$5,000 income taxes

\$39,600 itemized deductions

Savings of \$15,200 x tax rate

Alternative Minimum Tax - Individuals

- Amounts are indexed for inflation past 2018

	Old Law	TCJA
Joint/surviving spouse		
Exemption	86,200	109,400
Phase-out threshold	164,100	1,000,000
Unmarried		
Exemption	55,400	70,300
Phase-out threshold	123,100	500,000

Health Insurance Mandate

- **Affordable Care Act** established a penalty on individuals who did not have health insurance, administered through tax returns.
 - Penalty for not having minimum insurance coverage phased in starting in 2014
 - 2016 thru 2018 penalty - \$695 per adult, \$347.50 per child
 - Penalty is reduced to zero beginning in 2019
 - Act leaves the 3.8% net investment income tax and the 0.9% additional Medicare tax



Retirement Plan Change

- **Roth IRA Conversions are FINAL**

- Individuals could previously recharacterize conversions to Roth IRAs as if they did not happen (do-over)
- This allowed those converting funds to a Roth IRA the ability to assess the market post-conversion to see if they made the best decision and ultimately take a do-over on the conversion if the market fell.
- A recharacterization of an annual Traditional IRA contribution over to an annual Roth IRA contribution within the tax year appears to still be okay



Gift & Estate Tax

- **Annual Gift Exclusion Retains the same base, indexed for inflation**

- 2018 = \$15,000
- 2014-2017 = \$14,000
- 2009-2012 = \$13,000



- **Gift & Estate Tax Exemption**

- Current base exclusion of \$5,000,000 indexed for inflation (~\$5.6mm for 2018)
- Exclusion doubled for 2018 – 2025. 2018 exclusion of ~\$11.2mm, still indexed for inflation

Business Tax Reform

Form 1120
Department of the Treasury
Internal Revenue Service

For calendar year ending

A Check if:

1a Consolidated return (attach Form 851)

b Life/nonlife consolidated return

2 Personal holding co. (attach Sch. PH)

3 Personal service corp. (see instructions)

4 Schedule M-3 attached

TYPE OR PRINT

E Check if:

1a Gross receipts or sales

b Returns and allowances

c Balance. Subtract

2 Cost of goods sold

3 Gross profit. Subtract

4 Dividends (Schedule D)

5 Interest

6 Gross rents

7 Gross royalties

8 Capital gain net income

9 Net gain or (loss) from other sources

10 Other income (see instructions)

11 Total income. Add lines 1a through 11

U.S. Corporation Income Tax Return

Form 1120S
Department of the Treasury
Internal Revenue Service

For calendar year ending

U.S. Income Tax Return

Do not file this form unless attaching Form 2552

Information about S corporations

Form 1065
Department of the Treasury
Internal Revenue Service

For calendar year ending

U.S. Return of Partnership Income

A Principal business activity

B Principal product or service

C Business code number

Type or Print

Name of partnership

Number, street, and room or suite no. If a P.O. box

City or town, state or province, country, and ZIP code

C Corporation Tax Rates

Taxable Income	Tax Rate	TCJA
\$0 - \$50,000	15%	21%
\$50,000 - \$75,000	25%	21%
\$75,000 - \$100,000	34%	21%
\$100,000 - \$335,000	39%	21%
\$335,000 - \$10,000,000	34%	21%
\$10,000,000 - \$15,000,000	35%	21%
\$15,000,000 - \$18,333,333	38%	21%
Over \$18,333,333	35%	21%

Qualified Business Income (QBI)

- **Deduction to benefit sole proprietorships, partnerships, and S Corporations**
- **20% deduction of QBI from each pass-through entity**
- **The deduction reduces taxable income, but not adjusted gross income –similar to claiming itemized deductions**
- **Appears to create some differences in the amount of deduction allowed between different types of entities.**
- **IRS Regulations still to be issued on the new law**

Qualified Business Income (QBI)

- **Qualified Business income**
 - Self Employment Income (Schedule C)
 - Income from S Corporations
 - Income from Partnerships
 - Income from Rental Properties? Maybe – the term “trade or business” has not been clearly defined
- **NOT Qualified Business income**
 - Most dividends
 - Interest income
 - Capital gains
 - Reasonable Compensation to S corporation owners
 - Guaranteed payments from partnership

Qualified Business Income (QBI)

- **Low income taxpayers are excluded from the W-2 wages test**
 - *MFJ Threshold - \$315,000; MFJ Phase In - \$415,000*
 - *Single, MFS, HOH Threshold - \$157,500; Single, MFS, HOH Phase In - \$207,500*
- **QBI deductible amount is determined by the lesser of:**
 - *20% of the taxpayer's qualified business income, or*
 - *W-2 Wages/Qualified Property limit*
- **W-2 Wages/Qualified Property limit is determined by the greater of:**
 - *50% of the taxpayer's share of W-2 wages with respect to the business, or*
 - *25% of the taxpayer's share of W-2 wages plus 2.5% of the unadjusted basis of qualified property with respect to the business*

Qualified Business Income (cont.)

- Specified service trade or businesses are excluded from the definition of qualified trade or business and a deduction is generally not allowed.
- Businesses meet the specified service definition if involved in the performance of services in the following fields:
 - *Health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investment management, or dealing in securities or commodities*
- This specified service exclusion does not apply to low income taxpayers (same threshold as W-2 Wages/Qualified Property limit).

Business Depreciation §179 - Deductions

- **Background:**

- Taxpayers (other than estates, trusts, and certain noncorporate lessors) may elect to treat the cost of qualifying property, called “section 179 property” (§179), as a currently deductible expense.
- Section 179 property has generally been defined as new or used depreciable tangible section 1245 property (i.e. “personal property”) and specific qualified real property (i.e. certain “leasehold improvements”)
- **The new limits, phaseouts, and applicable definitions are effective for property placed in service after December 31, 2017.**

Business Depreciation §179 - Deductions

- Limits and Phaseouts (For tax years beginning in 2018)
 - The annual limitation has been increased to \$1,000,000
 - The threshold for phasing out the deduction has been increased to \$2,500,000
 - All limits will be indexed for inflation beginning after 2018

	2016	2017	2018
Deduction Limit	\$500,000	\$510,000	\$1,000,000
Investment Limit	\$2,010,000	\$2,030,000	\$2,500,000

Business Depreciation §179 - Deductions

- **Expansion for certain real property**

- The importance of “Qualified Improvement Property” (QIP) has increased significantly and is now the basis for taking §179 on qualified real property (e.g. generally real estate and permanent improvements)
 - QIP is any improvement to an *interior portion* of a building which is *nonresidential real property* if such improvement is placed in service *after the date such building was first placed in service*. (Note that certain exclusions apply)
- The definition of qualified real property that is eligible for §179 treatment is also expanded to:
 - Roofs,
 - Heating, ventilation, and air-conditioning property,
 - Fire protection and alarm systems, and
 - Security systems

Business Depreciation - 1st Year Bonus

- Background:
 - Taxpayers are allowed to immediately expense (e.g. “bonus”) a percentage of the cost of qualifying property when placed in service.
 - In the past, bonus eligible property has generally been defined as new, MACRS property with a 20 year or less recovery period.



Business Depreciation - 1st Year Bonus

- Percentages (For property placed in service after 9/27/17)
 - In general, the 50-percent bonus depreciation rate has been increased to 100% for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023
- Property no longer must be originally placed in service by the taxpayer (i.e. new and used property qualifies)

	1/1/ - 9/27/17	9/28/17 - 2022	2023	2024	2025	2026	2027
Bonus Percentage	50%	100%	80%	60%	40%	20%	-

Luxury Automobile Limits

- Depreciation limits on “Luxury” cars are substantially increased
- “Luxury” auto previously received \$15,060 of depreciation over 5 year period

- New tax law allows for \$47,120 of depreciation over 5 year period

Period	2017	TCJA
First year	\$3,160	\$10,000
Second year	\$5,100	\$16,000
Third year	\$3,050	\$9,600
Fourth and later years	\$1,875	\$5,760

Business Expenses - Interest

- Business interest is limited to the sum of business interest income plus 30% of the adjusted taxable income of the taxpayer and any floor plan financing interest of the taxpayer.
- Interest disallowed may be carried forward indefinitely
- If the taxpayer elects, the limitation does not apply to the following:
 - Real property development, farming, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing or brokerage
- Small businesses are exempt from the limitation if they meet the \$25 million gross receipts test

Business Expenses - Entertainment

- Previously, 50% of the expenses associated with entertaining clients was deductible
- However, and effective for amounts paid or incurred after December 31, 2017, these expenses are no longer deductible for tax purposes.
- Business meals should still be 50% deductible if certain conditions are met.
- Please note that Congress did not eliminate *all* deductible entertainment expenses.
 - Non-extravagant periodic expenses of providing recreational, social, or similar activities for your non-highly compensated employees still is 100% deductible

Various Business Changes

- The Corporate Alternative Minimum Tax is repealed (permanent provision)
- The Domestic Production Activities Deduction is repealed (permanent provision)
- Like Kind Exchanges of personal property are repealed – Like kind exchanges are now limited to real property only
- Net Operating Losses of corporate taxpayers arising in 2018 or later may only be carried forward (not back) and will only offset 80% of income
- Net Operating losses of non-corporate taxpayers have the same carryforward and 80% limitations, and a limitation on the income offset in the year of the loss



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Thank You!