December 21, 2017
Email Subject: Tax Reform Update

TAX REFORM UPDATE

Progress of the Tax Bill

As you have probably heard, Congress has been working on a bill to pass changes in the tax law that will be **effective for the 2018 tax year**. This bill has now passed Congress, and while it will not become law until President Trump signs it, we expect it will become law without significant changes.

President Trump has said Americans can expect bigger paychecks beginning in February as their payroll withholding adjusts for the new tax rates. The IRS withholding tables will come out once the tax bill becomes law and the agency reviews it and updates withholding tables. Those changes will then be processed and integrated by payroll companies and employers.

Below are some of the major changes that will affect many of our clients:

Standard Deductions Higher, Personal Exemptions Repealed

The standard deduction will increase from $6,350 for single taxpayers and $12,700 for married filing jointly to $12,000 for single taxpayers, $24,000 for married filing jointly. The $4,050 personal exemption for each person claimed on the return is repealed (through 2025). This change will mean that many taxpayers who itemize deductions will no longer benefit from doing so. Smaller families will have more deductions, while families with many dependents will feel more of a loss from losing the personal exemption for each dependent.

Itemized Deductions

The medical expense deduction has been retained (lowering to a 7.5% floor in 2018, then increasing to a 10% floor in future years). Taxes including state and local income taxes and property taxes are still deductible, though the deduction has been capped at $10,000 per year. Charitable deductions are still allowed, but no charitable deduction can be taken for payments in exchange for college athletic event seating rights. Itemized deductions subject to the 2% floor, including investment advisory fees, tax preparation fees, union dues, and unreimbursed employee business expenses, are repealed (through 2025).

Credits for Dependents

The child tax credit has been increased to $2,000 per child under the age of 17, of which $1,400 is refundable. (It was formerly $1,000 per child.) It starts phasing out at adjusted gross income of $200,000 ($400,000 for married filing jointly). The tax reform bill also adds a $500 nonrefundable credit for non-child dependents.

Health Insurance Penalties
For years after 2018, no penalty will apply to taxpayers who do not have health insurance coverage. Other aspects of the Affordable Care Act remain in place.

New Individual Tax Brackets
New tax brackets for individual income tax will be 10%, 12%, 22%, 24%, 32%, 35%, and 37%. Formerly, the top rate was 39.6%. Most individuals will be paying tax at a lower income rate.

Miscellaneous Individual Tax Provisions
Up to $10,000 can be withdrawn from a 529 plan tax-free for grammar school or high school. The moving expense deduction is repealed (through 2025). For divorce agreements signed or modified after 2018, alimony is not deductible to the payer or included as income to the receiver. The alternative minimum tax (AMT) is still in place, though the exemption has been raised to $109,400 for married filing jointly, (up from $86,200). The rules on excluding gain on the sale of personal residences did NOT change in the final bill. The estate tax exemption approximately doubled and will now be $11.2 million.

Passthrough Income Deduction
The tax reform bill creates a 20% deduction for passthrough income (income from a partnership or S corporation), which phases out between income of $315,000 and $415,000.

Limits on NOL Deduction
Carrying back a net operating loss for a refund of taxes in past years will be prohibited. Excess business losses will carry forward to future years as part of the net operating loss (NOL), and the NOL deduction will be limited to 80% of taxable income.

Bonus Depreciation and Section 179
Bonus depreciation is raised to 100% through 2022 (though this is an add back for state tax, unless your state decides to conform to the federal rule, which Idaho currently does not). Limits for Section 179 are raised from $500,000 to $1 million. Luxury auto limits are increased to $10,000 for the first year and $16,000 for the second year a vehicle is in service.

Corporate Income Tax Rate Decrease
The top corporate income tax rate has been lowered to 21% (from 35%). This is a permanent reduction, but the lower rate only applies to C corporations. S corporations and partnerships pass through their income to their owners, who pay taxes at the individual level.

Meals and Entertainment Expenses
Deductions for entertainment expenses will be disallowed. A 50% deduction still applies to meals in the course of a trade or business.

KEY TAKEAWAYS - TAX PLANNING FOR 2017

So with all those changes, what do you need to know?

Many taxpayers will see their income tax going down next year with the favorable provisions in the bill. So at the end of 2017, you may benefit from accelerating some of your deductions:

- **Push business income to 2018.** Rates are going down in 2018.
- **Recognize business losses in 2017**. Tax rules for those losses will be less generous when the tax reform bill takes effect.
- **Prepay investment expenses and tax preparation fees.** These expenses will no longer be deductible for non-business taxpayers after 2017.
- **Pay moving expenses, if applicable, in 2017.** These expenses will no longer be deductible in 2018.
- **Buying a passenger vehicle for your business?** Consider waiting. Rules on deducting business passenger vehicles will be more favorable in 2018.

We appreciate the opportunity to serve you and ask that you please contact us if you have any questions. ***Please note that our offices will be closed from December 22, 2017 through January 1, 2018, to celebrate Christmas and New Year's with our families.*** If you have questions that need an answer before year-end, please email your CPA directly. We will re-open on Tuesday, January 2, 2018, at 8:00 am.