**2017 Tax Reform**

**Tax Cuts and Jobs Act**

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**New Income Tax Rates and Brackets:**

**For Individuals:**

* Prior Law – 10%, 15%, 25%, 28%, 33%, 35%, 39.6%
* New Law – 10%, 12%, 22%, 24%, 32%, 35%, 37%

**For Corporations:**

* Prior Law – 15%, 25%, 34%, 35%, 38%, 39%
* Personal Service Corps were a flat 35%
* New Law – 21% (includes personal service corps)
* No Corporate AMT

**For Estates and Trusts:**

* Prior Law – 15%, 25%, 28%, 33%, 39.6%
* New Law – 10%, 24%, 35%, 37%
* Kiddie tax is now imposed at estate and trust tax rates

**Standard Deduction:**

* $24,000 Married filing Joint
* $18,000 Head of Household
* $12,000 Single or Married Separate
* Age 65 or older or blind add $1,300 per person if married, $1,600 if single or Head of Household

**Personal Exemption:**

* Prior Law $4,050
* New Law $0

**Alternative Minimum Tax (AMT):**

* Remains but will affect fewer taxpayers
* Exemptions are increased
* Popular deductions that cause AMT are gone

**Individual Health Care Coverage Mandate:**

* Gone – no more penalty for non-covered individuals.
* 3.8% Net Investment Income tax and .9% additional Medicare tax remain

**State and Local Tax Deduction:**

* Limited to $10,000 ($5,000 if Married Filing Single)
* Includes State and Local Income Taxes (non-business) and Real Estate Taxes combined.
* No deduction for foreign real estate taxes.

**Mortgage and Home Equity Interest:**

* Mortgage interest is limited to mortgage balances of $750,000 or less ($375,000 if Married Filing Single).
* Home equity interest is not deductible unless used for purchase, building or improvement of the home – then it is subject to the overall $750,000 limit.
* The new lower limit does not apply to acquisition indebtedness incurred before 12/15/2017. Limit will be $1,000,000 ($500,000 if Married Filing Single).
* Refinancing is allowed up to the acquisition indebtedness in place prior to the refinance.

**Alimony:**

* Not deductible by payer and not income to payee for divorce agreements executed AFTER 12/31/2018 (or modified if the modification states the new law applies).

**Miscellaneous Itemized Deductions:**

* Gone
* Applies to all miscellaneous deductions subject to the 2% of Adjusted Gross Income limitation.
* Examples – investment fees and tax prep fees
* Includes all employee business expenses (including home office)
	+ Planning point – try to get employer reimbursement in exchange for a lower salary. Deductible for employer – not income to employee if direct reimbursement.

**Pease Limitation is Suspended**

**Moving Expense Deduction is Suspended:**

* Includes tax free employer reimbursements (now taxable) except Armed Forces on active duty moving under military order and incident to a permanent change of station.

**Child Tax Credit Increased:**

* Increased from $1,000 to $2,000
* Phase-out is $400,000 Married Filing Joint, $200,000 all others
* $500 credit for non-child dependents

**529 Plan Changes:**

* Up to $10,000 per tax year may be used for elementary or secondary school expenses

**Estate and Gift Tax Changes:**

* Exemption is doubled

**IRA Re-characterization Changes:**

* Can no longer unwind a ROTH conversion
* Can still re-characterize contributions to traditional or ROTH IRAs

**Section 179 Depreciation:**

* Increased to $1,000,000 (phase out for purchases exceeding $2.5 million – phased out completely at $3.5 million)
* Includes certain nonresidential real property improvements
	+ Roof
	+ HVAC
	+ Fire protection
	+ Security systems

**Bonus Depreciation:**

* Now 100%
* Used property also qualifies
* Can be used in loss situations
* Phases down after 12/31/2022

**Luxury Auto Limits Increased:**

* $10,000 first year for passenger autos (plus $8,000 bonus depreciation)

**Business Interest Expense:**

* Deduction limited to 30% of taxable income
* Pass through entities limit is determined at entity level
* Real estate businesses can elect out – slower depreciation – irrevocable election
* Disallowed amount is carried forward
* Exemption from these rules if 3 year average gross receipts are under $25 million

**Net Operating Loss Deduction:**

* No carryback allowed (except farming or property and casualty insurance companies)
* Limited to 80% of taxable income

**Domestic Production Activities Deduction**

* Gone

**Like Kind Exchanges:**

* Now only for real estate
* Will cause vehicle trade ins to be a taxable event

**Meals and Entertainment:**

* What was 50% deductible is now non deductible
* What was 100% deductible is now 50% deductible
* Employee parking and mass transit benefits are no longer deductible (still not income to the employee)

**Qualified Business Income (Pass Through) Deduction:**

* 20% of net business income from S-Corp, Partnership or Sole Proprietor
* Also includes rentals and farm income
* Deduction is the smallest of:
	+ Taxable Income
	+ 20% of net business income (carryover disallowed amount)
	+ The greater of 50% of W2 wages paid or the sum of 25% of wages paid plus 2.5% of the unadjusted basis of qualified property (determined at shareholder level)
	+ Qualified property is tangible property used in the qualified business that has not exceeded its depreciable life (10 years or more if recovery period exceeds 10 years)
	+ Service income does not qualify for this deduction
	+ The limits on wages and service income do NOT apply if taxpayer’s taxable income is below $157,500 (Single Married Filing Single or Head of Household) and $315,000 Married Filing Joint - phase-out begins at this income level and is complete at additional $50,000 ($100,000 Married Filing Joint)
	+ Qualified business income does not include investment income
	+ Qualified business income does not include reasonable compensation paid to an owner
	+ This deduction reduces taxable income but not Adjusted Gross Income
	+ Deduction does not reduce Self Employment tax

**Watch out for:**

* Withholding cuts – not everyone will realize a tax decrease
* State income taxes – State taxable income has increased since most states follow the Federal Adjusted Gross Income, but rates have not dropped.