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The Taxman Cometh

Highlights of The Tax Cuts & Jobs Act of 2017



FOX VALLEY TAX SOLUTIONS

Personal Precise Passionate - A Different Tax Firm

NAEA

NATIONAL ASSOCIATION
OF ENROLLED AGENTS

POWERING AMERICA'S TAX EXPERTS

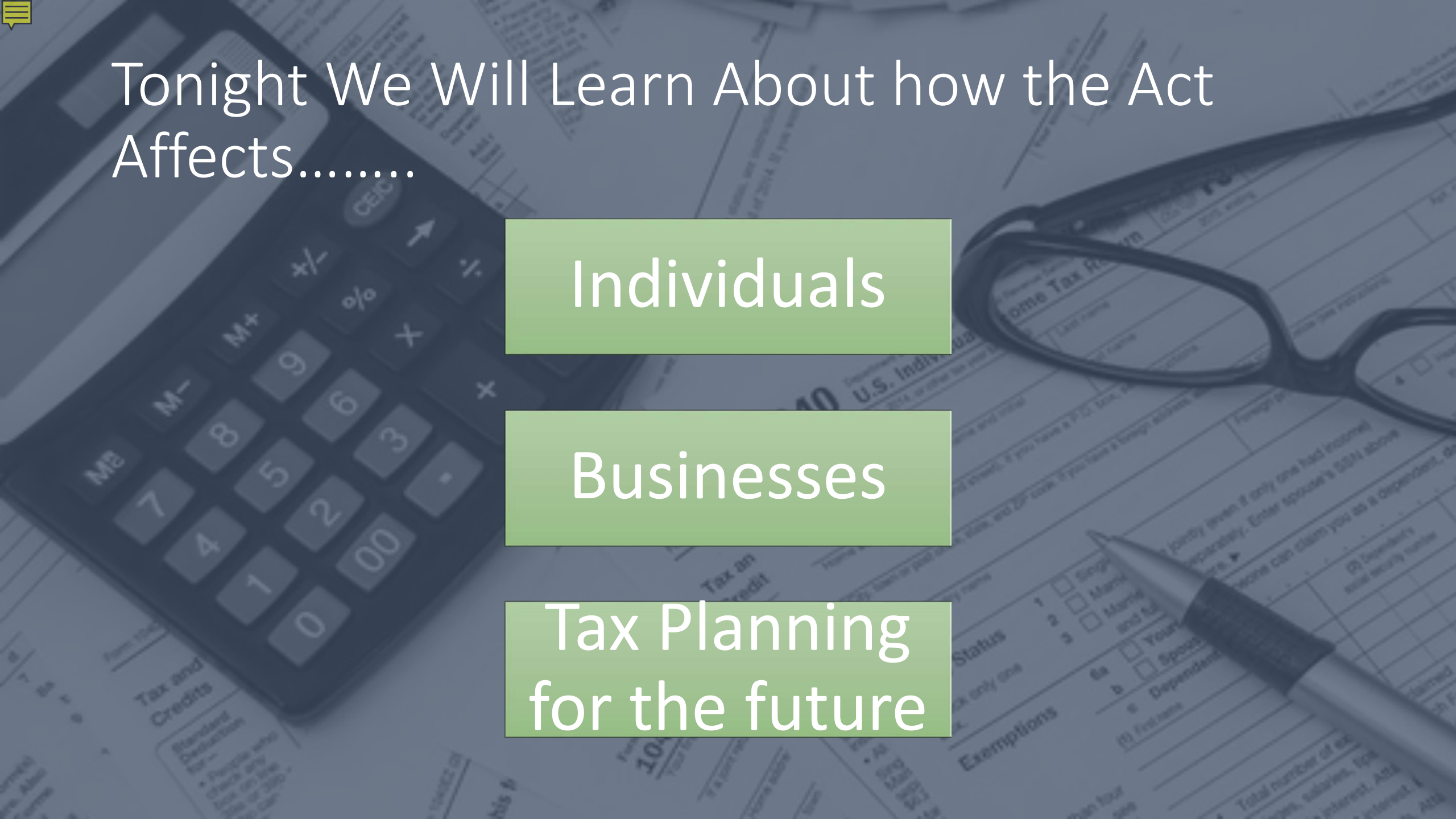


St. Charles
Chamber of Commerce

On Dec 22, 2017 the President signed into law...

- **H.R. 1** (officially titled 'An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018')
- Politicians call it the '**Tax Cuts and Job Act**'
- We CPAs and other tax professionals call it the '**CPA and Tax Professionals Job Security Act**'





Tonight We Will Learn About how the Act
Affects.....

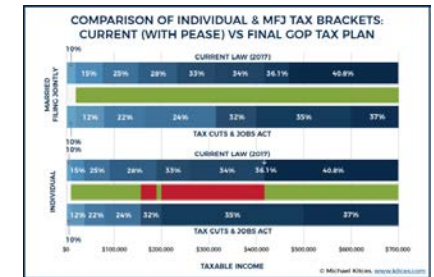
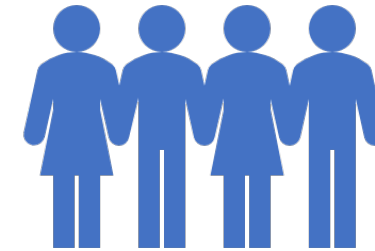
Individuals

Businesses

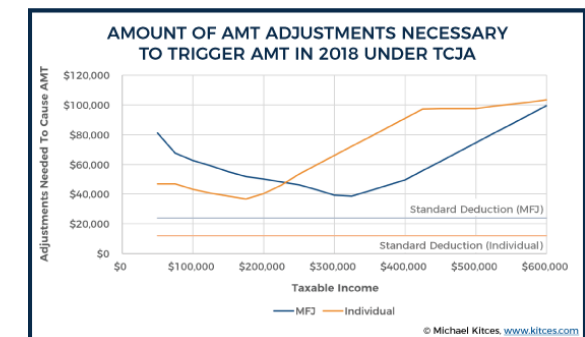
Tax Planning
for the future

- 7 tax brackets – lower rates
- Exemptions – G.O.N.E.
- Family Credit – a partial replacement
- Standard Deduction – approx. doubled
- Child Tax Credit – expanded
- AMT continues – higher thresholds
- Casualty Losses – must be Fed Declared
- ACA Penalty repealed by 2019
- Alimony Deduction - gone beg 2019*
- ROTH IRA Recharacterization – gone

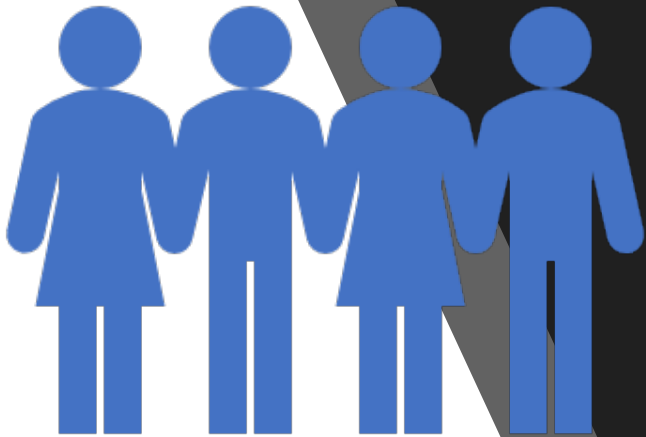
Big Changes for Individuals



STANDARD DEDUCTION		
	Pre-existing law	New law
Married filing jointly	\$13,000	\$24,000
Head of household	\$9,550	\$18,000
Single/married filing separately	\$6,500	\$12,000
Additional aged/blind		
Single/head of household	\$1,600	\$1,600
All other filing statuses	\$1,300	\$1,300



Changes for Individuals - Continued



- Kiddie Tax – based on trust & estate rates, not parents
- Qualified Tuition Programs (Sec 529) – allows up to \$10,000 per-student for public, private or religious elementary or secondary schools
- Moving Expense Deduction – gone except for military
- And for Itemized Deductions reported on Schedule A – the question is: “Is there any part that did not change? Answer:– **NO!**”

Itemized Deductions taken on Schedule A

SCHEDULE A
(Form 1040)

Department of the Treasury
Internal Revenue Service (IRS)

Itemized Deductions

Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
Attach to Form 1040.

OMB No. 1545-0074
2016
Attachment
Sequence No. 07

Name(s) shown on Form 1040: _____ Your social security number: _____

Medical and Dental Expenses

1 Enter amount from Form 1040, line 38 **2**

3 Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead

4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-

Taxes You Paid

5 State and local (check only one box):

a ☐ Income taxes, or **2** and **3**

b ☐ General sales taxes

6 Real estate taxes (see instructions)

7 Personal property taxes

8 Other taxes. List type and amount

9 Add lines 5 through 8 **3**
Capped at \$10,000

Interest You Paid

10 Home mortgage interest and points reported to you on Form 1098

11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show this person's name, identifying no., and address **4**

12 Points not reported to you on Form 1098. See instructions for special rules

13 Mortgage insurance premiums (see instructions)

14 Investment interest. Attach Form 4952 if required. (See instructions.)

15 Add lines 10 through 14

Gifts to Charity

16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions

17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500 **5**

18 Carryover from prior year

19 Add lines 16 through 18

Casualty and Theft Losses

20 Only for federal disaster areas. Casualty or theft loss(es). Attach Form 4684. (See instructions.) **6**

Job Expenses and Certain Miscellaneous Deductions

21 Unreimbursed employee expenses—job travel—union dues; job education—etc.—Attach Form 2106 or 2106-EZ if required. (See instructions.)

22 Tax preparation fees

23 Other expenses—investment, safe deposit box, etc. List type and amount

24 Add lines 21 through 23

25 Enter amount from Form 1040, line 38

26 Multiply line 25 by 2% (0.02)

27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- **7**

Other Miscellaneous Deductions

28 Other—From list in instructions. List type and amount

Total Itemized Deductions

29 Is Form 1040, line 38, over \$155,650?

☐ No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40.

☐ Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.

8

30 If you elect to itemize deductions even though they are less than your standard deduction, check here

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 17143C Schedule A (Form 1040) 2016

Overall: “Pease” phase-out is suspended through 2025

1. Medical Expense – threshold reset to 7.5% for 2017 & 2018, then 10%
2. & 3. State and Local Taxes - capped at \$10,000
4. Home Mortgage Interest Deduction:
 - limit reduced from \$1 million to \$750K
 - Home Equity Interest deduction repealed after Dec 15th, 2017
5. Charitable cash deduction limit raised to 60% of AGI; donations to get preferential seating are non-deductible
6. Casualty & Theft – Limited to Federal Disaster Declaration
7. Miscellaneous Itemized Deductions – G.O.N.E.

7. Miscellaneous Itemized Deductions – *G.O.N.E.*

Subject to 2% AGI Threshold:

Investment Expense

Tax Preparation Fees

Unreimbursed Employee Business Expenses

Uniforms, Union Dues, Safety Dep Box Rental

IRA Trustee Fees

Repayment of Income that is \$3,000 or less

Repayment of Social Security Benefits

SCHEDULE A (Form 1040) 2016
Department of the Treasury
Internal Revenue Service (IRS)
OMB No. 1545-0046
Attachment Sequence No. 07
Your social security number

Itemized Deductions
Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
Attach to Form 1040.

Caution: Do not include expenses reimbursed or paid by others.

Medical and Dental
1 Medical and dental expenses (see instructions) 1
2 Enter amount from Form 1040, line 38 2 2
3 Multiply line 2 by 10% (0.10). But if either you or your spouse was under age 65 at the end of the year, enter 7.5% (0.075) instead of 10% 3

Job Expenses and Certain Miscellaneous Deductions
21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶ 4
22 Tax preparation fees 5
23 Other expenses—investment, safe deposit box, etc. List type and amount ▶ 6
24 Add lines 21 through 23 7
25 Enter amount from Form 1040, line 38 25 8
26 Multiply line 25 by 2% (0.02) 9
27 Subtract line 26 from line 24. If line 26 is more than line 24, enter - 10

Other Miscellaneous Deductions
28 Other—from list in instructions. List type and amount ▶ 11

Total Itemized Deductions
29 If your deduction is not limited, add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. ☐ No. Your deduction is not limited. See the instructions for more information.
30 If you elect to itemize deductions even though they are less than your standard deduction, check here ☐ 12

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 171-09C Schedule A (Form 1040) 2016

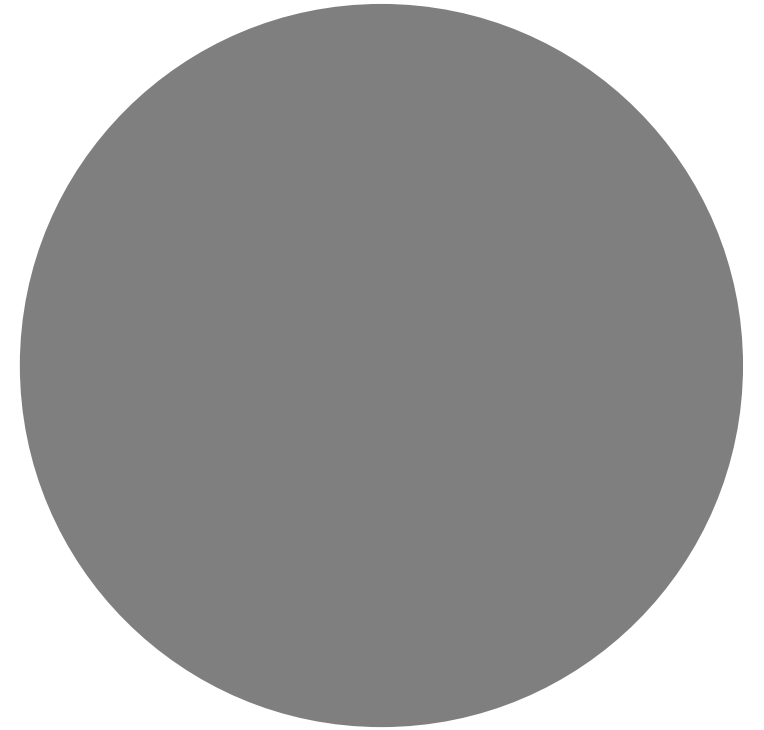
2. State and Local Taxes (SALT)



- Effective 2018 total capped at \$10,000; covered:
 - State & Local Income Tax
 - State Sales Taxes in lieu of Income
 - State, Local & Foreign Income, war profits & excess profits taxes
- Prepayment of Income taxes specifically barred
- Real Estate Taxes were not....hmmm
 - Firestorm of interested taxpayers – especially in suburbs
 - Deductibility Depends on Two Pronged Test:
 - Paid
 - Assessed
 - Do you qualify?
 - Will the IRS challenge you if you prepay and claim two year's taxes?

- Teacher Expenses \$250 - indexed
- Qualifying Dividends & Long Term Capital Gains: zero, 15% & 20%
- Child & Dependent Care Credit
- Additional 3.9% Tax on Investment Income

Things that Remained Essentially the Same





Impact on Businesses, Estates & Trusts

- Tax Rates & Number of Brackets Reduced:
 - C - Corp tax rate – from 8 brackets to one flat rate of 21%; no separate rate for Personal Service Corporations; no separate max rate for net LTCG
 - Estates & Trusts: from 5 brackets to 4; rates reduced at each bracket
- Alternative Minimum Tax (AMT) for businesses – Repealed
- Net Operating Losses:
 - Deductions for losses limited to 80% of taxable income
 - 2 year carryback and special carryback provisions repealed
 - May be carried forward indefinitely until used up
 - Special rule for property casualty companies
- Business Interest Deduction – from simple to complicated
- Domestic Production Activities Deduction eliminated
- Sexual Harassment & Sexual Abuse Settlements join list of non-deductibles
- Estates:
 - Doubles the exemption to \$11,200,000 in 2018
 - Sunsets Dec 31, 2025
 - Step-up in basis retained at death



Impact on Businesses, Estates & Trusts, continued

- Employer Credit for Paid Family Medical Leave
- Executive Compensation Deduction Limitation
- Stock Options
- Three provisions that will affect small businesses the most:
 - **Section 199A** – The 20% Deduction for Qualified Business Income (Pass-Through Entity Deduction): A Special Deduction aimed at keeping the business playing field level once the C Corp rate was reset to 21%
 - **Depreciation Changes:** Bonus Depreciation, Section 179 Expense Deduction and Luxury Auto Depreciation Limits
 - **Business Entertainment Expense Deduction**
 - Repeal of the “directly related to” or “associated with” active conduct of the taxpayer’s trade or business provision

The Deduction for Qualified Business Income *(Pass-Through Entity Deduction)*



- A new law offering a deduction of up to 20% of “Qualified Business Income”
- Available to all forms of business except C- Corporations
 - Sole Proprietorships, Partnerships, S-Corporations and LLCs
 - Includes Aggregate Qualified REIT Dividends, and
 - Publicly Traded Partnership Income
- There is a phase out. Begins when Taxable income exceeds \$157,500 (\$315,000 MFJ); fully phased out at \$207,500 (\$415,000 MFJ)
- Nature of your trade or business can affect how the phase out affects you: can’t be a specified service trade or business (law, accounting, health, performing arts, consulting, athletics, brokerage services, etc.)
- May sound simple, but this is **VERY COMPLICATED** – make sure your tax pro understands this!

Depreciation Changes

- Bonus Depreciation increased to 100% for all property acquired after 9/27/2017 and put into service by 12/31/2017; applies to used as well as new property
- Section 179 Expense Deduction:
 - Maximum increased to \$1,000,000; reduced when property exceeds \$2,500,000; \$25,000 SUV limitation remains. All are indexed for inflation
 - Definition of qualifying property expanded to include property typically used in lodging businesses and specifically to certain real property: roofs, HVAC, Fire protection & alarm systems, and Security Systems
- Luxury Auto Limits increased and indexed for inflation
- Computer Equipment removed from “Listed Property” definition

100% bonus depreciation



Annual Limits for §179

- **Ceiling Limitation**
Maximum is reduced Dollar for Dollar to extent eligible property placed in service for year exceeds a certain limit:
Limit for 2012-2014 = \$2 million
Limit for 2015 = \$200,000
- **Taxable Income Limitation**
§179 cannot be used to create a loss for the year
Excess §179 on a particular asset can be carried forward
- **Additional limitation for SUV's between 6,000 -14,000 lbs**
Max §179 deduction for the year = \$25,000 (even if max 179 increases)

End of the Entertainment Expense Deduction

- Rescinds the exception allowing 50% deduction of entertainment... “directly related to or associated with” the active conduct of the taxpayer’s trade of business
- Affected are traditional forms of business entertainment:
 - Golf
 - Skiing
 - Tickets to football, baseball, basketball, etc. games
 - Dinner & other forms of entertainment
- Employee Meals cut from 100% to 50%; goes to zero% in 2026
- Expenses associated with business travel remain



Illinois Tax Changes

- Income tax rates increase effective July 1, 2017
 - Individuals, trusts & estates: 3.75% -> 4.95%
 - Corporations (excluding S-Corps): 5.25% -> 7.0%
- New or Increased Benefits:
 - Instructional Materials & Supplies Credit up to \$250
 - K-12 Education Expense Credit increases \$500 -> \$750
 - Earned Income Tax Credit Increase: 2017: 10% -> 14% of fed; 2018: -> 18%
- Benefits lost when AGI \geq \$250,000 or \$500,000 (MFJ):
 - Standard Exemption Allowance
 - K-12 Education Expense Credit
 - Illinois Property Tax Credit

WELCOME TO
ILLINOIS

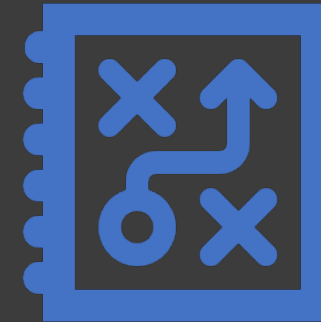
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TAX HIKES



It's a new ball game

- Individuals: Old tax plans are obsolete
 - More Individuals will qualify for the standard deduction
 - When and how you pay your taxes, support charities, save for your children's education, pay off your mortgage, structure your retirement funds
- Businesses:
 - Time to rethink how your business needs to be organized
 - Do you qualify for the 20% Pass-Through Deduction? This is seriously complicated stuff – Make sure your tax pro is up to speed
 - Asset purchases – consulting with your tax accountant before you purchase is critical
- Estate Planning: Jointly involve your attorney **AND** your tax professional



Some Closing Thoughts

- No matter what you call it, HR-1, The Tax Cuts & Jobs Act, or simply some otherwise unprintable name, the tax legislation represents some of the most comprehensive tax changes in 30 years:
 - Some totally new law
 - Lots of old law modified or eliminated
 - Very few provisions left untouched
 - Touted as being simpler, but vastly more complicated
- Bottom Line: The tax landscape is a whole new world that no one fully understands – not the tax staffs that wrote it, the Congress that passed it, the IRS that has to implement it or the lawyers, CPAs, EAs and other tax pros who must interpret it much less the taxpayers who must abide by it!

Welcome to 2018





Questions



Thank You & Good Night

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