

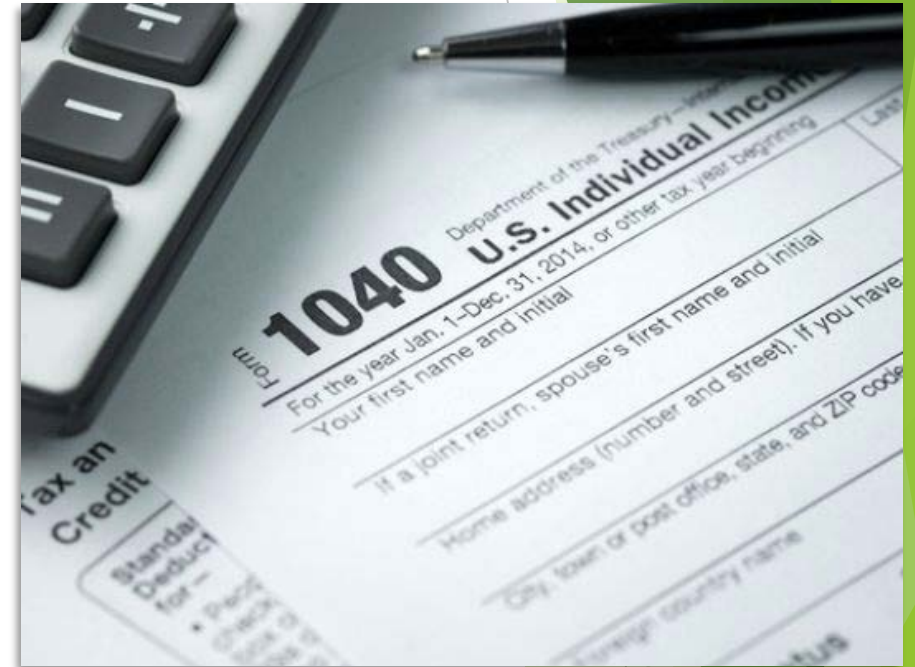
# Tax Cut and Jobs Act for Individuals

What Individuals Need to Know for 2018 & Beyond

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# Meet The Speaker



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Chuck Thornton, CPA specializes in tax planning, compliance and tax representation before governmental authorities. Chuck has lectured locally and nationally on topics such as tax law, management, business valuations and strategic tax planning. Both the American Institute of Certified Public Accountants and the Arizona Society of Certified Public Accountants have honored Chuck as the Speaker of the Year.

Email your questions to Chuck. If they are not answered at the end of the presentation, we promise to get back to you via email.

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- ▶ Please call us if you have any questions.

# The Promise—You Decide!

## SIMPLE, FAIR "POSTCARD" TAX FILING

1	Wage and compensation income	1	
2	Subtract contributions to specified savings plans	2	
3	Subtract standard deduction OR	3	
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# The New Famous Language That Makes Budget Reconciliation Possible



- ▶ "...for taxable years 2018 through 2025"
- ▶ How the Changes Work
  - ▶ If there is no amendment to the code, there is no change. (example definition of medical expense, interest, property taxes, etc.)
  - ▶ However, any thing with the above phrase means that any item in the 2017 is modified or deleted for that period
  - ▶ And everything springs back after 2025 to what it originally was, unless, of course, our elected officials change this again
  - ▶ So in our webinar, these changes apply only to years 2018 through 2025, unless we specify a date (or date range) differently

# Just a few Business Changes, we will be Discussing in Upcoming Seminars

- ▶ 20% Deduction against Qualified Income
- ▶ 21% Max Tax for C Corporations
- ▶ 100% Bonus Deprecation for Qualified Property placed in service before Jan 1, 2023
- ▶ Permanent increase in Section 179 expensing limit up to \$1,000,000 with phase out
- ▶ New Accounting Methods

That's it for now. Stay tuned for upcoming information on business taxation.

# Items Discussed and Heard About, but Never Included in Law

- ▶ Eliminating the step up basis
- ▶ Modification of 401K Plans
- ▶ Use of FIFO method of accounting for selling marketable securities
- ▶ Principal rules on capital gains
- ▶ Changes to capital gain rates
- ▶ Credit for elderly and permanently disabled



# Items Discussed and Heard About, but Never Included in Law

- ▶ Credit for plug in electric motor vehicles
- ▶ Changes to American opportunity tax credit and lifetime learning credit
- ▶ Student Loan Interest
- ▶ Education Assistance Program (ie American Opportunity Credit, Lifetime Credit)
- ▶ Repeal or Exclusion of Employer-Provided Housing
- ▶ Changes in holding periods for Principle Residence
- ▶ Employer provided Dependent Care Expense Reimbursement
- ▶ Adoption Assistance Program
- ▶ In Service Distributions





# Individual Income Tax Rates

- ▶ Retains current bracket structure of seven individual brackets (but at different levels). Top bracket is now 37%
- ▶ Prior Tax Rates continue for
  - ▶ 20% for Capital Gains
  - ▶ 3.8% Net Investment Income Tax
  - ▶ 0.9% additional Medicare Tax that applies to higher income level individuals



# Comparison of Married Filing Joint Rate



Brackets	TCJA	Prior Rates
\$0 to \$19,050	10%	10%
\$19,051 to \$77,400	12%	15%
\$77,401 to \$156,150	22%	25%
\$156,151- \$165,000	22%	28%
165,001- \$237,950	24%	28%
\$237,951-\$315,000	24%	33%
\$315,001-\$400,000	32%	33%
\$400,001 to \$424,950	35%	35%
\$424,951 to \$480,050	35%	35%
\$480,051 to \$600,000	35%	39.6%
Over \$600,000	37%	39.6%

# Tax on Unearned Income of Children

- ▶ Instead of Kiddie Tax
  - ▶ Apply ordinary and Capital Gains rates for Trust
  - ▶ Capital Gains and Earned Income the same



# New Standard Deduction

## Standard Deduction Was:

Single	Married Filing Joint	Married Filing Separate	Head of Household
\$6,350	\$12,700	\$6,350	\$9,350

## Standard Deduction is Now:

Single	Married Filing Joint	Married Filing Separate	Head of Household
\$12,000	\$24,000	\$12,000	\$18,000

# Exemptions Gone



- ▶ Completely Repealed after 2017
- ▶ The theory is that this is now included as part of Standard Deduction.
- ▶ Child Care Credit better to help families

# Family Tax Credits

- ▶ After 2017
  - ▶ Credit for Child goes from \$1,000 to \$2,000
  - ▶ Additional \$500 non-refundable Credit for non-child Dependents
  - ▶ Phase out of Credit goes from \$110,000 to \$400,000 for MFJ
  - ▶ Refundable Amount (for children only) goes from \$1,000 to \$1,400



# Education Incentives

- ▶ 529 Plans—up to \$10,000 may be used for qualified expenses for Elementary and High School
- ▶ Student Loan Forgiveness—not taxable to student on account of student's death or total disability
- ▶ Home School Expense—books, instructional materials, curriculum and materials, tuition for tutoring or education classes outside home—tutor can not be related
- ▶ For Teachers, increase in deduction of expense of Educators to \$500



# Modification or Elimination of Deductions

- ▶ All Deductions previously subject to 2% Exclusion are now gone.
  - ▶ Examples
    - ▶ Job Expenses\*\*, Moving (except for members of armed forces), Miscellaneous
- ▶ Medical
  - ▶ For 2017 and 2018, the threshold is 7.5% of AGI. After that time frame, the limitations return to 10%.
- ▶ \*\*Likewise the ACT repeals the Exclusion for qualified member moving expenses, except for members of armed forces.



# Modification or Elimination of Deductions

- ▶ Salt Deduction is now limited to \$10,000 for 2018
- ▶ Charitable Contributions Limit increase to 60% for cash in 2018
- ▶ Personal Casualty Losses -repealed except for declared disaster areas
- ▶ Alimony Paid—repealed for any divorce or separate agreement executed after 2017
- ▶ Elimination of the “Pease” limitation on overall individual itemized deductions.



# Modification or Elimination of Deductions

- ▶ Mortgage—Limited to \$750,000 (MFJ) of acquisition indebtedness incurred after December 14, 2017.
- ▶ As prior law the Acquisition Debt Limit applies on up to two personal residences.
- ▶ Grandfather of Mortgages prior as of December 14, 2017 or refinanced after that, but only to prior limits.
- ▶ Equity Line Non-Deductible
- ▶ This provision continues: Acquisition indebtedness means any interest in acquiring, constructing, or substantially improving a qualified residence of the tax payer.

# Expenses for Production or Collection of Income, Tax Preparation

- ▶ Non-Deductible
- ▶ Tax Preparation fees be certain of proper allocation between business expenses.



# Unreimbursed Expenses Attributable of Being an Employee

- ▶ Examples
  - ▶ Auto
  - ▶ Dues
  - ▶ Home Office
  - ▶ Dues to Professional Societies
- ▶ In the past these would have been subject to 2% exclusion.
- ▶ Consider Accountability Plan!



# Repeal of ACA's Individual Mandate

- ▶ Effective 2019
- ▶ Employer shared responsibility portion remains
- ▶ Did you know that the IRS never had the ability to collect the individual mandate bill anyway?

**REPEAL**

# Impact on Employers

- ▶ Withholdings will change
- ▶ Withholding tables should be out in February
- ▶ Should consider revised W-4's at that time



# Retirement Plan Roth Recharacterization

- ▶ What is a Recharacterization
  - ▶ Cannot be used to unwind a Roth Conversion after 2017
  - ▶ But can still be used to change a Roth Contribution to a Traditional IRA



# Alternative Minimum Tax Wounded by Tax Reform and Still Survives

- ▶ Most thought this would be repealed
- ▶ It has been for C Corporations
- ▶ But for individuals
  - ▶ It Remains
  - ▶ Exemptions higher for 2018 and beyond
    - ▶ All Others \$70,300 with phase out at \$500,000
    - ▶ Joint \$109,400 with phase out at \$1,000,000
  - ▶ Was
    - ▶ Single \$54,300 with phase out at \$120,700
    - ▶ Joint \$84,500 with phase out at \$160,900



# Estate & GST Taxes

- ▶ Exclusion is Doubled (was \$10,000,000 in law for 2011)
- ▶ Continue with Step Up in basis
- ▶ Remember this all sunsets December 31, 2025



# They Promised—What did you Decide?

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# Questions?

*For More Information*

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