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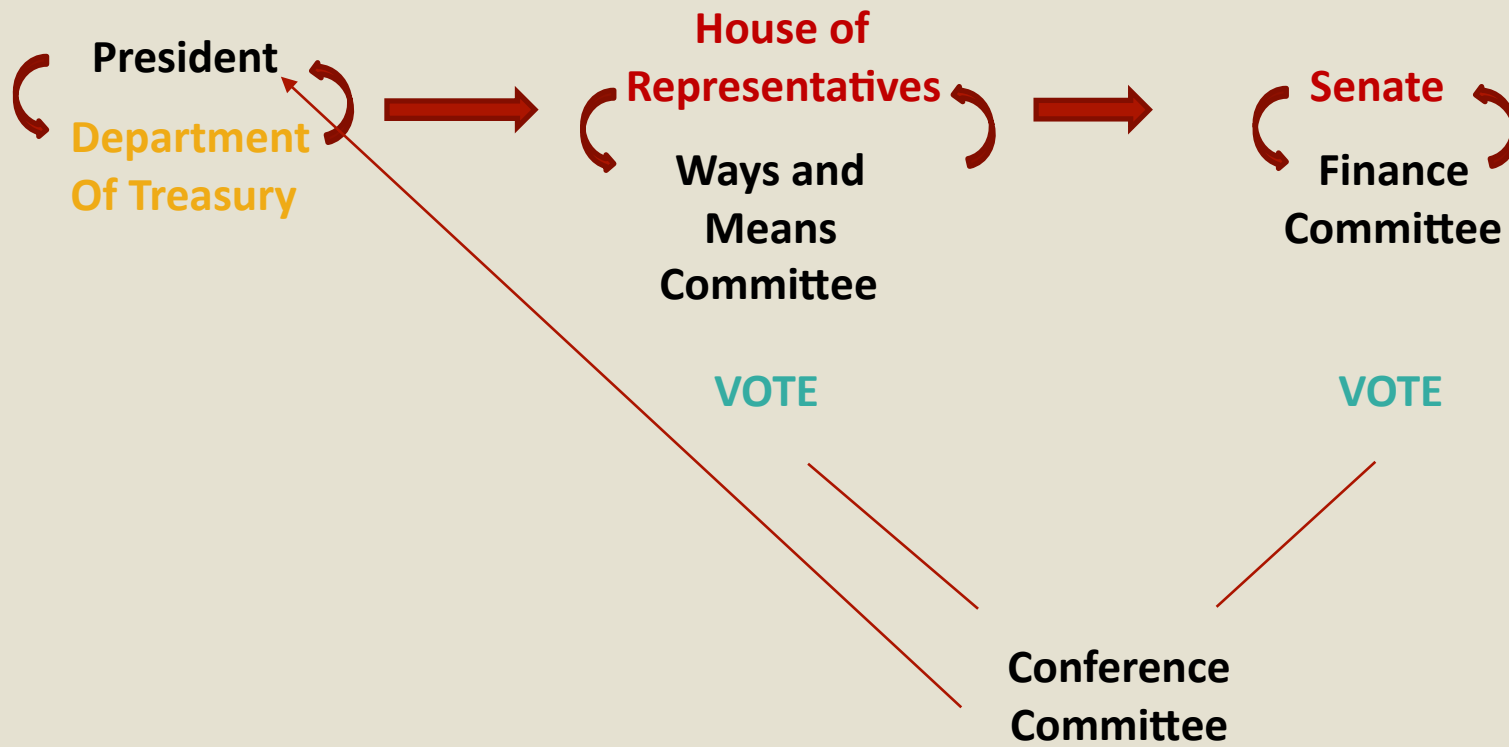
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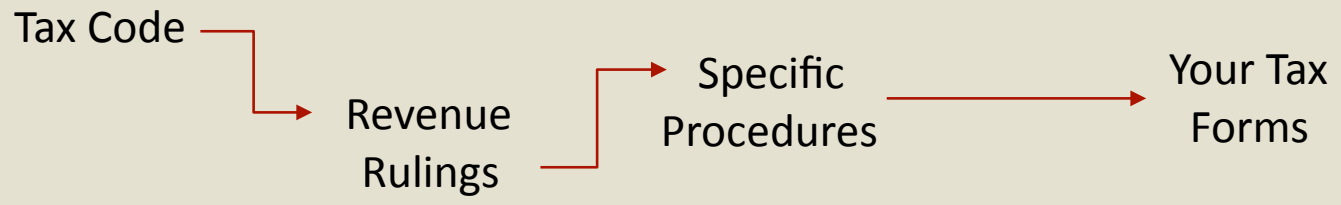
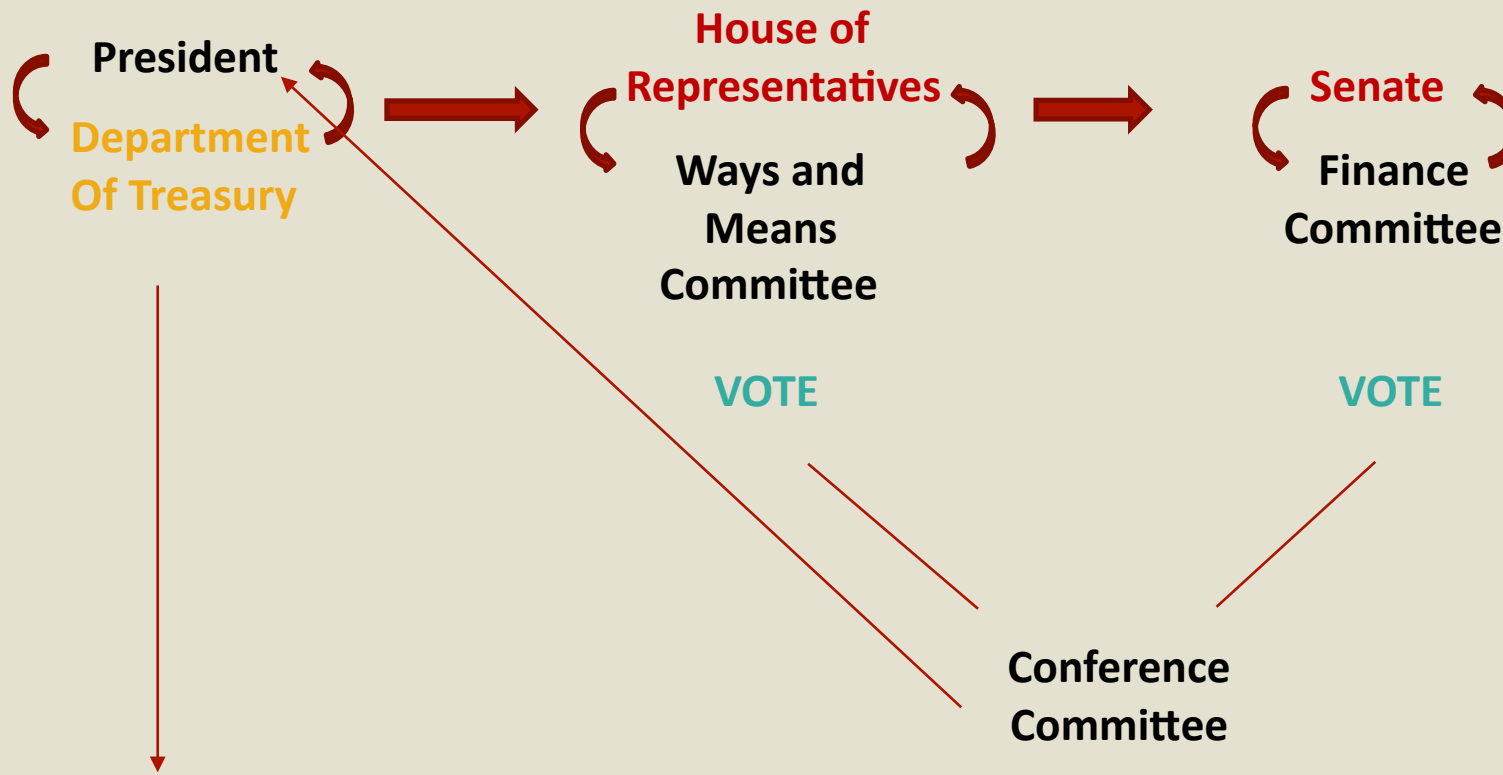
Tax Cuts and Jobs Act 2017

Now That It's Passed...
...What Does It Mean?

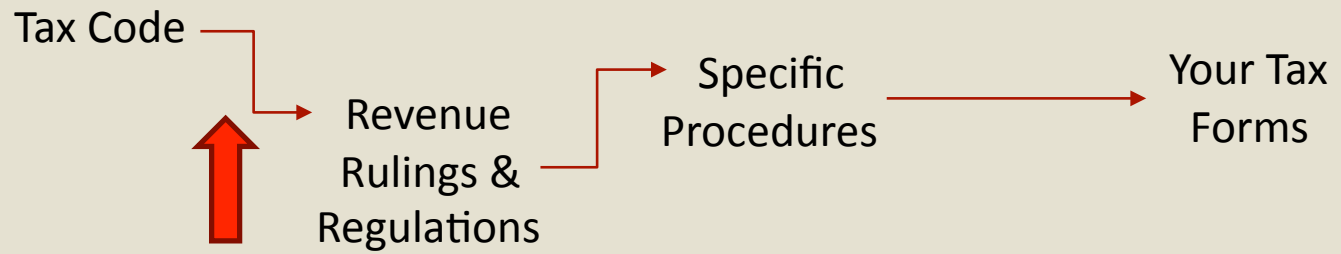
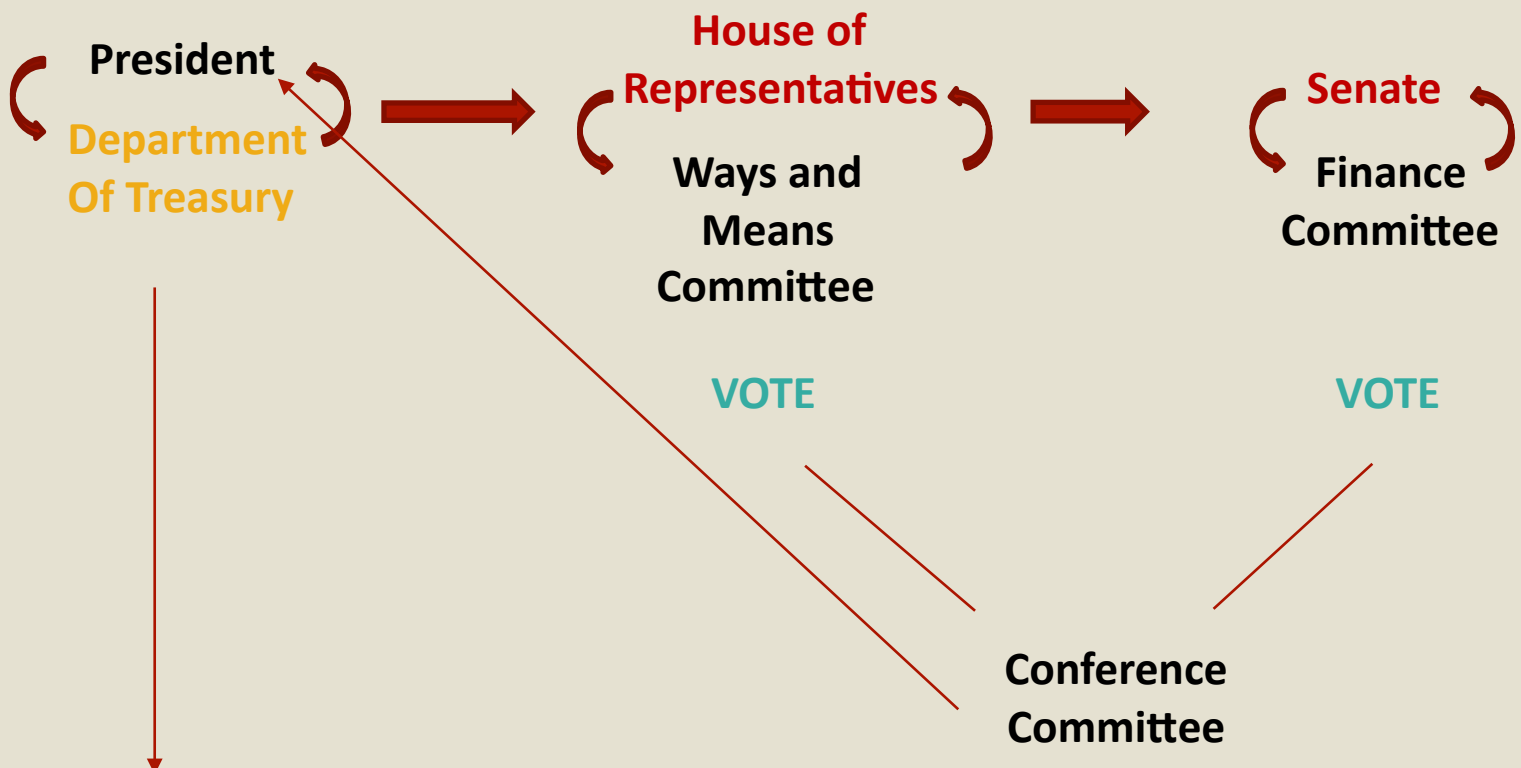
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Disclaimer

New Tax Regulations are still a moving target.

While the law legislation has passed, the regulations are still being written and **MANY** questions remain unanswered.



This material is presented for informational purposes only, and represents a general overview of recently passed tax legislation. Facts discussed may or may not apply to your specific situation. You should not rely on this information without seeking out professional advice.





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Just One Example of the Tax Reform's Impact

Married

Filing Jointly

Husband has \$80,000 W-2 wages; wife has \$136,279 Net Schedule C income

2 Children

Comparing 2017 to 2018

\$1,242 increase in income 2017 vs 2018, due to disallowance of entertainment in 2018.

All other information similar, year to year

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Form 1040		Federal Tax Projection Worksheet 1 - Tax Computation		2017 & 2018
Name JOHN & JANE DOE			Taxpayer Identification Number 000-01-0000	
		2017	2018	Differences
	Filing Status	MFJ	MFJ	
	Dependents	2	2	
	1. Salaries and wages	80,000	80,000	
	2. Interest income	22	22	
	3. Dividend income	6,886	6,886	
	4. Taxable state/local refunds	23	23	
	5. Alimony received			
	6. Business income/loss	136,279	136,279	
	7. Capital gain/loss	1,713	1,713	
	8. Other gains/losses			
	9. Taxable IRA distributions			
	10. Taxable pensions and annuities			
	11. Schedule E income/loss			
	12. Farm income/loss			
	13. Unemployment benefits			
	14. Taxable social security benefits		0	
	15. Other income		1,242	1,242
	16. Total income	224,923	226,165	1,242
	17. Moving expenses			
	18. Deductible part of self-employment tax	9,628	9,628	
	19. SEP/SIMPLE/Qualified plans deductions	25,330	25,330	
	20. Self-employed health insurance deduction	5,963	5,963	
	21. Forfeited interest			
	22. Alimony paid			
	23. IRA deductions			
	24. Student loan interest deduction			
	25. Other adjustments			
	26. Adjusted gross income	184,002	185,244	1,242
	27. Medical			
	28. State and local or sales taxes	18,046	18,046	
	29. Real estate taxes	6,840	6,840	
	30. Personal property & other taxes			
	31. Total Taxes Paid. Add lines 28 - 30.	24,886	24,886	
	32. Maximum State and local tax deduction		10,000	10,000
	33. State/local tax deduction. Lower of 31 or 32	24,886	10,000	-14,886
	34. Interest	5,775	5,775	
	35. Contributions	2,480	2,480	
	36. Casualty losses			
	37. Miscellaneous expenses			
	38. Allowable itemized deductions	33,141	18,255	-14,886
	39. Standard deduction	12,700	24,000	11,300
		ITEMIZED	STANDARD	
	40. Deduction taken	33,141	24,000	-9,141
	41. Subtract line 40 from line 26	150,861	161,244	10,383
	42. Exemptions	16,200		-16,200
	43. Taxable inc before qualified business deduction	134,661	161,244	26,583
	44. Qualified business income deduction		27,256	27,256
	45. Taxable income	134,661	133,988	-673



Continuing Example # 1

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Form 1040	Federal Tax Projection Worksheet 1 - Tax Computation	2017 & 2018
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Name JOHN & JANE DOE	Taxpayer Identification Number 000-01-0000
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		2017	2018	Differences
		MFJ	MFJ	
Filing Status		2	2	
Dependents		2	2	
1. Salaries and wages	1.	80,000	80,000	
2. Interest income	2.	22	22	
3. Dividend income	3.	6,886	6,886	
4. Taxable state/local refunds	4.	23	23	
l 5. Alimony received	5.			
n 6. Business income/loss	6.	136,279	136,279	
c 7. Capital gain/loss	7.	1,713	1,713	
o 8. Other gains/losses	8.			
m 9. Taxable IRA distributions	9.			
e 10. Taxable pensions and annuities	10.			
11. Schedule E income/loss	11.			
12. Farm income/loss	12.			
13. Unemployment benefits	13.			
14. Taxable social security benefits	14.		0	
15. Other income	15.		1,242	1,242
16. Total income	16.	224,923	226,165	1,242



Continuing Example # 1

	15. Other income	15.		1,242	1,242
	16. Total income	16.	224,923	226,165	1,242
A d j u s t m e n t s	17. Moving expenses	17.			
	18. Deductible part of self-employment tax	18.	9,628	9,628	
	19. SEP/SIMPLE/Qualified plans deductions	19.	25,330	25,330	
	20. Self-employed health insurance deduction	20.	5,963	5,963	
	21. Forfeited interest	21.			
	22. Alimony paid	22.			
	23. IRA deductions	23.			
	24. Student loan interest deduction	24.			
	25. Other adjustments	25.			
	26. Adjusted gross income	26.	184,002	185,244	1,242



Continuing Example # 1

t s	25. Other adjustments	25.				
	26. Adjusted gross income	26.	184,002	185,244	1,242	
D e d u c t i o n s	27. Medical	27.				
	28. State and local or sales taxes	28.	18,046	18,046		
	29. Real estate taxes	29.	6,840	6,840		
	30. Personal property & other taxes	30.				
	31. Total Taxes Paid. Add lines 28 - 30.	31.	24,886	24,886		
	32. Maximum State and local tax deduction	32.		10,000	10,000	
	33. State/local tax deduction. Lower of 31 or 32	33.	24,886	10,000	-14,886	
	34. Interest	34.	5,775	5,775		
	35. Contributions	35.	2,480	2,480		
	36. Casualty losses	36.				
	37. Miscellaneous expenses	37.				
	38. Allowable itemized deductions	38.	33,141	18,255	-14,886	
	39. Standard deduction	39.	12,700	24,000	11,300	
				ITEMIZED	STANDARD	
	40. Deduction taken	40.	33,141	24,000	-9,141	
41. Subtract line 40 from line 26	41.	150,861	161,244	10,383		
42. Exemptions	42.	16,200		-16,200		
43. Taxable inc before qualified business deduction	43.	134,661	161,244	26,583		
44. Qualified business income deduction	44.		27,256	27,256		
45. Taxable income	45.	134,661	133,988	-673		



Continuing Example # 1

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Form 1040	Federal Tax Projection Worksheet 2 - Tax Computation	2017 & 2018
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Name **JOHN & JANE DOE** Taxpayer Identification Number **000-01-0000**

		2017	2018	Differences
	Filing Status	MFJ	MFJ	
	46. Taxable income from TPW page 1, line 45	134,661	133,988	-673
	47. Tax on taxable income CG TAX	24,283	20,755	-3,528
	48. Taxes from Forms 4972, 8814, and add'l taxes			
	49. Alternative minimum tax			
	50. Add lines 47, 48, and 49	24,283	20,755	-3,528
	51. Foreign tax credit			
T	52. Child and dependent care credit			
a	53. Education credits			
x	54. Retirement savings credit			
	55. Credit for the elderly			
C	56. Child tax credit		2,500	2,500
o	57. Nonbusiness energy property credit			
m	58. Alternative motor vehicle credit (Form 8910)			
p	59. Qualified plug-in electric motor vehicle (Form 8936)			



Continuing Example # 1

67. Total credits	67.		2,500	2,500
68. Net tax liability	68.	24,283	18,255	-6,028
69. Self-employment tax	69.	19,256	19,256	
70. Tax on unreported tips	70.			
71. Tax on IRA or qualified plans	71.			
72. Household employment taxes	72.			
73. First-time homebuyer credit repayment	73.			
74. Health care: individual responsibility	74.			
75. Additional Medicare Tax	75.			
76. Net Investment Income Tax	76.			
77. Other taxes	77.			
78. Total tax	78.	43,539	37,511	-6,028
79. Income tax withheld	79.			
80. Estimated tax payments	80.	33,614	44,800	11,186
81. Earned income credit	81.			
82. Additional child tax credit	82.		0	
83. Reserved	83.			
84. Other payments	84.	10,500		-10,500
85. Total payments	85.	44,114	44,800	686
86. Net tax due/-refund	86.	-575	-7,289	-6,714
87. Marginal Tax Rate - Ordinary Income	87.	25.0%	22.0%	
88. Marginal Tax Rate - Capital Income	88.	15.0%	15.0%	
89. Effective Tax Rate	89.	32.0%	28.0%	



Individual Taxes

Seven Individual Tax Brackets

- 10%
- 12%
- 22%
- 24%
- 32%
- 35%
- 37%

Same number of brackets, but the income breaks are in different places, and top out at 37% rather than 39.6%

Taxable income of a child

- Net unearned income of a child is taxed according to the brackets applicable to estates and trusts. No longer tied to the parents' return.
- Child's earned income is taxed at the Single individual rates.



Personal Exemption Deduction

- Eliminated

Deductions

Increased Standard Deduction

- \$24,000 for Married Filing Jointly
- \$18,000 for Head of Household
- \$12,000 for All Other Taxpayers

More Good News: This will be adjusted for inflation following 2018

- As consistent with current law, additional deductions apply for the elderly and blind



Medical Expenses

- New lower threshold is 7.5% of Adjusted Gross Income (down from 10%)



State And Local Tax Deduction

- Limited to a total of \$10,000 for real estate, state and local income taxes



Mortgage Interest

- Deduction is limited to indebtedness of up to \$750,000 (or \$375,00 if Married Filing Separately) on qualified residences.
- Bad News: The deduction for Home Equity Loans has been eliminated.



Charitable Contributions

- Deduction for cash contributions to *qualified organizations* is increased to 60% of Adjusted Gross Income, with contributions above that still subject to being carried forward for up to five years.

Charitable Donations for College Athletic Seating Rights

- No Charitable deduction is allowed for payment in exchange for the right to purchase tickets or seating at athletic events.



Casualty and Theft Loss Deduction

- Mostly eliminated, with the exception of losses incurred in a federally declared disaster area.

2% Miscellaneous Itemized Deductions

- **Eliminated**

Overall Limits on Itemized Deductions

- **Eliminated**



Deduction for Qualified Business Income

- This is a new deduction.
- Generally speaking, 20% of qualified business income is deducted from QBI to arrive at the taxable portion.
- for married taxpayers with taxable income of \$315,000 or less.
- or \$157,500 taxable income or less for other individuals.

This deduction is not for:

- Health, Law, Accounting, Actuarial Science, Performing Arts, Consulting, Athletics, Financial Services, Brokerage Services
- Any other trade or business where the principal asset is the reputation or skill of one or more employee or owner, or
- Any trade of business involving the performance of services that consist of investing and investment trading, or dealing in securities, partnership interests or commodities.
- UNLESS...the taxpayer has taxable income below the threshold (i.e. \$157,500 or \$315,000). Can still get deduction if taxable income within limits.



Excess Business Losses

- Excess Business losses are not allowed for the current tax year, but are carried forward, as part of the Net Operating Loss in subsequent tax years.
- This was formerly only applicable to farm losses, and is now applicable to all businesses, subject to limitations.



Self-Created Property

- Patents, inventions, models or designs, whether or not patented, are added to the list of items excluded from the definition of a capital asset.
- This **DOES NOT** include copyrights and musical compositions which are still capital assets.



Alimony

- Alimony and maintenance payments are not deductible by the payor spouse, and are not included in the income of a payee spouse.
- This is only applicable to alimony paid with respect to agreements after 2018.



Moving Expenses

- Have been eliminated as deductible, with the exception of members of the military on active duty (and their families) who move pursuant to a permanent change of station military order.



Alternative Minimum Tax

2018 AMT exemption amounts are:

- \$109,400 for Married Filing Jointly
- \$79,300 for single or Head of Household
- \$54,700 for Married Filing Separately

Exemptions are reduced by 25% of AMT taxable income over:

- \$1,000,000 for Married Filing Jointly
- \$500,000 for Single, Head of Household or Married Filing Separately.

Amounts are indexed for inflation after 2018.



Tax-Advantaged Savings Accounts

QTPs – Qualified Distributions

- Educational expenses are expanded to include tuition at elementary or secondary public, private or religious schools – up to \$10,000 per tax year.



Other Significant Items

Child Tax Credit

The child tax credit has doubled to \$2,000 per qualifying child under 17.

Adjusted Gross Income (AGI) levels at which the credit phases out are:

- \$400,000 for Married Filing Jointly
- \$200,000 for all other taxpayers

These amounts are not indexed for inflation.



Child Tax Credit – Non-Child Dependents

- A \$500 non-refundable credit is provided for dependents other than qualifying children.
- This is a new provision.



Child Tax Credit – Refundability

- To the extent the child tax credit exceeds the taxpayer's tax liability, the taxpayer is eligible for an increased refundable credit of up to \$1,400 per qualifying child, (up from \$1,000, and adjusted for inflation) and the earned income threshold for the refundable portion of the credit is decreased from \$3,000 to \$2,500.



Affordable Care Act Individual Mandate

- The shared responsibility payment, or penalty for not being covered by a minimum essential health coverage has been permanently reduced to zero for months after 12/31/2018.

Roth IRA Recharacterizations

- The special rule that allowed IRA contributions to one type of IRA (either traditional or Roth) to be recharacterized as a contribution to the other type of IRA is repealed. Thus, a recharacterization cannot be used to unwind a Roth conversion, but is still permitted with respect to other contributions.



Estate and Gift Tax

Exemption Amount

The exemption for 2018 is expected to be:

- \$11.2 million for individuals
- \$22.4 million per married couple
- Final amounts will be determined after inflation calculations are finalized.

The base exemption amount is \$10 million,
indexed for inflation occurring after 2011



C Corporations

Income Tax Rates

- Lowered to a flat 21%, for all corporations, including personal service corporations (PSCs).
- This is down from graduated rates that topped out at 35%.



Dividends Received Deduction

- If the corporation owns at least 20% of another corporation, a 65% dividends received deduction is permitted. Otherwise, the deduction is limited to 50%. If the payor and recipient corporations are members of the same affiliate group, a 100% dividends received deduction is allowed.



Alternative Minimum Tax

- Corporate AMT has been eliminated.



S Corporations

Conversion to C Corporation Status

- For distributions of cash by an eligible terminated S corporation, the accumulated adjustments account (AAA) is allocated to such distribution, and the distribution is chargeable to accumulated earnings and profits (AE&P) on a pro rata basis.

An eligible terminated S corporation is a C corporation if:

- It was an S corporation before 12/22/17
- It revoked its S corporation election during the two-year period beginning on 12/22/17 and
- It had the same owners on 12/22/17 and the revocation date



Partnerships

Technical Termination

- Rule repealed. It had stated that a partnership was considered to be terminated for tax purposes if, within a 12-month period, there was a sale or exchange of 50% or more of the partnership's capital and profits interests.



Non-profit Organizations

Excise Taxes

- There are new excise taxes on tax-exempt organizations that pay excessive compensation to their top executives. In addition, investment income of certain private colleges and universities is now taxed.



Unrelated Business Taxable Income (UBTI) Calculation

- Nonprofit organizations must separately calculate and apply their unrelated business gains and losses. Previously, they could use the losses of one unrelated trade or business to offset income from another.



Trusts and Estates

New Brackets

New Brackets

- 10%
- 24%
- 35%
- 37%

Previous Brackets

- 15%
- 25%
- 28%
- 33%
- 39.6%



General Business Tax Provisions

Expensing and Depreciating Property

Section 179 Deduction Limits:

- The maximum deduction and phase-out thresholds are increased to \$1 million and \$2.5 million, respectively, and will be indexed for inflation.

(Previously, the maximum Section 179 deduction was \$520,000, and the qualifying property phase-out threshold was \$2,070,000)



Section 179 Deduction of Qualifying Property

- The definition of Section 179 Property is expanded to include certain tangible personal property used predominantly to furnish lodging and certain improvements to nonresidential real property (i.e., roofs, HVAC, fire protection and alarm and security systems), which were not included in the previous definition.



Immediate Expensing of Qualifying Business Assets

- First year (bonus) depreciation deduction of 100% (up from 50%) is allowed for qualified property, and now applies to used as well as new property. Beginning in 2023, this first-year deduction phases down to zero in 2027.
- For certain property with longer production periods, and certain aircraft, the phase down begins in 2024 to zero in 2028.
- The definition of qualified property is expanded to include certain qualified film or television productions and qualified live theatrical productions.

Luxury Automobile Depreciation Limits Increased

The annual limits on the amount of depreciation allowed, for which bonus depreciation is not claimed is:

- \$10,000 for the placed-in-service year
- \$16,000 for the second year
- \$9,600 for the third year
- \$5,760 for the fourth and later years.

These amounts will be indexed for inflation. For passenger autos eligible for bonus depreciation, the increase to the first-year depreciation limit remains at \$8,000.



Farming Equipment – Recovery Period

- The recovery period of new machinery or equipment used in a farming business (other than any grain bin, cotton ginning asset, fence or other land improvement) is five years. Use of the 150% declining balance depreciation method for these assets is no longer required.



Real Property – Recovery Period

- The separate definitions of qualified leasehold improvement, qualified restaurant and qualified retail improvement property are eliminated. A 15-year recovery period (20 years for ADS) applies to *qualified improvement property*.
- *Qualified improvement property* means 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.
- In addition, the ADS recovery period for residential rental property is shortened to 30 years.



General Deductions, Exclusions and Credits

Interest Expense

- For businesses with gross income $>$ \$25M net interest expense is limited to 30% of adjusted taxable income (defined as taxable income computed without regard to deductions for depreciation, amortization, depletion or the Section 199 deduction).
- The good news: Taxpayers (other than tax shelters) with average annual gross receipts for the prior three years of \$25 million or less are exempt from this limitation.



Net Operating Losses (NOLs)

- NOLs can no longer be carried back, but can be carried forward indefinitely. The NOL deduction is limited to 80% of taxable income.
- Exceptions: The old two-year carryback rule still applies to certain losses incurred in a farming business, and property and casualty insurance companies can carry their NOLs back two years and forward 20 years to offset 100% of taxable income.



Domestic Producers Deduction

- This deduction has been eliminated.



Like-Kind Exchanges

- Like-kind exchanges are allowed only with respect to real property that is not held primarily for sale.
- There are special transition rules that continue to apply for property disposed of or replaced on or before 12/31/17.



Research & Experimental (R&E) Expenses (Beginning after 2021)

- Specified R&E expenses must be capitalized and amortized ratably over 5 years (15 years if R&E is conducted outside the US).
- Specified R&E expenses include costs for software development and exploration for ore and other minerals.



Fringe Benefits Deduction

Changes:

- Deductions for entertainment expenses are disallowed.
- The 50% limit on the deductibility of business meals is expanded to those provided in an in-house cafeteria or otherwise on the employer's premises, until 2025.
- The deduction for employee transportation fringe benefits is eliminated. However, the exclusion from income for such benefits received by an employee is retained.
- The deduction for transportation expenses that are the equivalent of commuting for employees is eliminated, except as provided for the safety of the employee.



Excessive Employee Compensation

- The exceptions to the deduction limit for excess (over \$1 million) employee compensation attributable to commissions and performance-based compensation are eliminated.
- Note: These changes do not apply to written binding contracts that were in effect on 11/2/17, unless the contract is materially modified.



Credit for Employer-Paid Family and Medical Leave

- Where there was formerly no provision in the tax code for Employer-Paid Family and Medical Leave,
- Businesses can now claim a general business credit equal to 12.5% of the amount of wages paid to qualifying employees during any period in which such employees are on family and medical leave if the rate of payment is 50% of the wages normally paid to an employee.
- The credit is increased by .25 percentage points (but not above 25%) for each percentage point by which the rate of payment exceeds 50%. All qualifying full-time employees have to be given at least two weeks of annual paid family and medical leave for the credit to apply.

Accounting Method Changes

Cash Method of Accounting

- The availability of the cash method is expanded to include taxpayers (other than tax shelters) that satisfy a \$25 million gross receipts test, regardless of whether the purchase, production or sale of merchandise is an income-producing factor.
- In addition, such taxpayers are not required to account for inventories. Instead, they may treat inventories as non-incidental materials and supplies or conform to their financial accounting treatment of inventories.



Long-Term Contracts

The exemption from the requirement to use the Percentage of Completion Method (PCM) is expanded to contracts for the construction or improvement of real property if the contract:

- is expected to be completed within two years and
- is performed by a taxpayer that meets a \$25 million gross receipts test.



Key International Tax Provisions

International Changes

- Moving to a quasi-territorial system with 100% dividends received deduction.
- There will be a one-time tax on previously unrepatriated earnings.
- Other significant changes for international tax law.



So What Does It Mean?

Or, “now what?”

Summary

- Consult a professional with whom you can communicate, who will look at your entire situation, not just compliance with new rules.
- Consider banking, investing or otherwise leveraging your tax savings. It's likely to be substantial.



Thank You!



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