

Wilmoth & Associates, CPA, P.A.

2317 Blanding Blvd Ste 206
Jacksonville, FL 32210

(904) 633-9222
www.wilmothcpa.com

The Tax Cuts and Jobs Act

The recently enacted Tax Cuts and Jobs Act (TCJA) is arguably the most significant change to the Internal Revenue Code in decades. These changes impact virtually every individual and business and there will be different levels of “winners” and “losers”. We expect guidance and interpretations from the IRS over the course of this year. Most of the new law will go into effect for the tax year beginning January 1, 2018 but there are a few exceptions. Most of the provisions affecting individuals will sunset starting in 2026 and those affecting businesses are generally permanent. It is very important that you file your 2017 tax return early so we may assist you with these 2018 tax changes. The following summarizes many of the key provisions of the TCJA that affect individuals and businesses.

Income Tax Rates

Overall, TCJA reduces individual income tax rates; however, these cuts expire after 2025. The alternative minimum tax is retained, but the exemptions are increased so fewer taxpayers will be subject to it.

<u>Tax Brackets</u>		<u>2018 Before TCJA</u>		<u>2018 After TCJA</u>
Single	10%	\$0 - \$9,525	10%	\$0 - \$9,525
	15%	\$9,526 - \$38,700	12%	\$9,526 - \$38,700
	25%	\$38,701 - \$93,700	22%	\$38,701 - \$82,500
	28%	\$93,701 - \$195,450	24%	\$82,501 - \$157,500
	33%	\$195,451 - \$424,950	32%	\$157,501 - \$200,000
	35%	\$424,951 - \$426,700	35%	\$200,001 - \$500,000
	39.6%	\$426,701 and up	37%	\$500,001 and up
Head of Household	10%	\$0 - \$13,600	10%	\$0 - \$13,600
	15%	\$19,051 - \$51,850	12%	\$13,601 - \$51,800
	25%	\$51,851 - \$133,850	22%	\$51,801 - \$82,500
	28%	\$133,851 - \$216,700	24%	\$82,501 - \$157,500
	33%	\$216,701 - \$424,950	32%	\$157,501 - \$200,000
	35%	\$424,951 - \$453,350	35%	\$200,001 - \$500,000
	39.6%	\$423,351 and up	37%	\$500,001 and up
MFJ	10%	\$0 - \$19,050	10%	\$0 - \$19,050
	15%	\$19,051 - \$77,400	12%	\$19,051 - \$77,400
	25%	\$77,401 - \$156,150	22%	\$77,401 - \$165,000
	28%	\$156,151 - \$237,950	24%	\$165,001 - \$315,000
	33%	\$237,951 - \$424,950	32%	\$315,001 - \$400,000
	35%	\$424,951 - \$480,050	35%	\$400,001 - \$600,000
	39.6%	\$480,051 and up	37%	\$600,001 and up

Standard Deduction and Exemptions

TCJA provides for nearly doubling the standard deduction, but also eliminates personal exemptions. Overall, the result will be significantly fewer taxpayers itemizing deductions as they will no longer exceed the new, higher standard deduction.

<u>Item</u>	<u>Old Law</u>	<u>New Law</u>
Standard Deduction	\$6,500 – Single \$9,550 – HOH \$13,000 – MFJ	\$12,000 – Single \$18,000 – HOH \$24,000 – MFJ
Personal Exemption	\$4,150	Eliminated

Itemized Deductions

Strongly tied to the increase in the standard deduction are alterations to itemized deductions. The limits on state and local tax deductibility will impact those in high state income and real estate tax states, as well as those where property values and thus mortgages are high.

<u>Item</u>	<u>Old Law</u>	<u>New Law</u>
State and local tax deduction	Income or sales tax and property taxes: unlimited	All state and local tax deductions are capped at \$10,000
Mortgage interest deduction/Home Equity Interest	Interest payments are limited to \$1mm in debt	Interest payments are limited to \$750k of mortgage debt; home equity interest deduction eliminated
Medical expenses	Out-of-pocket expenses in excess of 10% of AGI are deductible	Out-of-pocket expenses in excess of 7.5% of AGI are deductible (applies to 2017 & 2018)
Misc. Itemized Deductions	Unreimbursed employee expenses, financial advisor fees, tax prep fees, etc. deductible of over 2% of adjusted gross income	Eliminated
Moving expenses	Moving expenses	Eliminated, military members exempted
Charitable Donations	Deductible up to 50% of income	Now up to 60% of income
Phase out of Deductions (Pease Limitation)	Limitation on otherwise allowable deductions based on income.	Repealed

Child Tax Credits

While the removal of personal exemptions appears to impact larger families, this is somewhat overridden by changes to the child tax credits.

<u>Item</u>	<u>Old Law</u>	<u>New Law</u>
Child Tax Credit	\$1,000	\$2,000
Refundable Portion	15% of earnings > \$3,000	Up to \$1,400
Other Dependent Credit	Did not exist	\$500 for a dependent that's NOT a qualifying child (examples: qualifying child older than 18 or parent)
Phase Out (Single/MFJ)	\$75,000 / \$110,000	\$200,000 / \$400,000

Education Provisions

Despite earlier versions of the bills, there are little to no changes in education deductions and credits. The following provisions remain unchanged versus current law: education credits (American Opportunity Tax Credit, Lifetime Learning Credit and Hope Scholarship Credit), student loan interest deduction, graduate tuition waiver and classroom expense deduction.

The one thing that did change is the education savings plans rules, which now expand to allow the use of 529 college savings accounts for K-12 private school tuition.

Other Individual and Pass-Through Tax Changes

TCJA changes a number of other tax laws affecting individuals, including those related to the ACA, the estate tax and pass-through businesses where taxes are paid at the individual level.

<u>Item</u>	<u>Old Law</u>	<u>New Law</u>
Individual ACA mandate	Penalty for not having health insurance	Eliminated starting in 2019
Alimony	Deductible for payer; included in taxable income to recipient	For divorces after 12/31/18, payments are not deductible for payer and are not taxable to recipient
Estate tax	Top rate of 40% on estates above \$5.6M	Top rate stays the same, however the threshold it applies to doubles to \$11.2M
Pass-through income	Taxed at individual rates	Allows most pass-throughs to deduct 20% of business income; Phased out beginning at \$315k (MFJ)/ \$
Capital gain treatment	Top rate of 23.8% (inclusive of net investment tax)	No change

Business Taxes and Credits

The new law creates a number of changes to business taxation as well. The changes will affect all aspects, including tax rates, deductions and credits. The main drivers are a lower over corporate tax rate, offset by more restrictive or eliminated deductions.

<u>Item</u>	<u>Old Law</u>	<u>New Law</u>
Top corporate rate	35%	21%
Business interest deduction	Generally fully deductible	Limited to 30% of income (does not include depreciation)
Alternative minimum tax	Business calculation existed	Eliminated for business, reduced for individuals
Section 179 deduction	Small business expensing limit capped at \$500k	Limit increased to \$1mm
Bonus Depreciation	50% immediate expensing of New Qualified Assets	100% immediate expensing of New & Used Qualified Assets (effective 9/28/17)
Net operating losses	Deductible from income in other years, income is reducible to zero	Deduction is limited to 80% of taxable income
Research and development expenditures	Immediately deductible	Gradual write-off rules

International corporations

The new law alters the landscape for multi-national corporations from a worldwide tax system to a territorial system that only taxes domestic profits.

<u>Item</u>	<u>Old Law</u>	<u>New Law</u>
Taxation of multinational companies	Worldwide system with deferrals and credits for taxes paid to other countries	Modified territorial system accompanied by anti-abuse tax provisions
One-time repatriation	N/A	One time tax of 7.5% (14.5% for cash)

Of course, there is a lot more to the new tax law than is covered here. Please remember, each of you will be affected differently. We are here to help you navigate the changes of this comprehensive tax reform. Please allow us to prepare your 2017 tax return early so we can assist you with your 2018 tax planning. If you would like to schedule a tax planning appointment, please give us a call.

Please visit us at: www.wilmothcpa.com for additional information and resources.