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Legal Legend

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TAX REFORM

On December 20, 2017, Congress reformed the Tax Code under the "Tax Cuts and Jobs Act ("Act"). The Act makes several significant changes to the existing tax code that will take effect starting in 2018.

Changes for Individual Taxpayers

The Act ***lowers*** the percentages of the existing seven tax brackets from 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% to 10%, 12%, 22%, 24%, 32%, 35% and 37%. In addition, the amount of income that must be earned to cause an individual to be subject to a higher bracket has ***increased***, causing taxes to be decreased further. Capital gain and qualified dividend, which are taxed at a maximum of 20%, are unchanged. Inflation will now be measured using the Chained CPI (C-CPI), instead of the Consumer Price Index, which is a less generous adjustment. This means the income includable in each bracket will increase more slowly.

The Act ***increases*** the standard deduction from $6,500 for individuals and $13,000 for married couples to $12,000 for individuals and $24,000 for married couples. It ***repeals*** the person exemption of $4,150 per taxpayer and per dependent.

The Act ***increases*** the child tax credit from $1,000 to $2,000, adding a new credit of $500 for other dependents. The phase out for the family tax credit will increase from $75,000 for individuals and $110,000 for couples to $200,000 for individuals and $400,000 for couples. It also ***expands*** the education savings plans to allow 529 college savings accounts to be used for K-12 private and religious school tuition.

Itemized deductions are substantially ***changed***. The overall itemized deduction phase out, which began at $266,700 for individuals and $320,000 for couples, is repealed by the Act. Deductions for state and local income taxes and property or sales and property tax, in states where there is no income tax, will be ***limited*** to $10,000. The mortgage interest deduction will be ***limited*** to payments on $750,000 of debt with debt incurred before December 15, 2017, "grandfathered" at $1,000,000. Deductions for tax preparation expenses are ***eliminated***.

Deductions for moving expenses, except for members of the military, are ***eliminated***. Employer-provided expense reimbursement deductions, except for members of the military, are ***eliminated***. Starting in 2019, alimony would no longer be deducible to those who pay it or includable in the income of those wo receive it.

"Pass-through" income from partnerships, S corporations and sole proprietorships, which was formerly taxed at the individual rates, will now be allowed a 20% deduction of their qualified business income, with a phase out starting at $157,500 of income for individuals and $315,000 of income for couples before January 1, 2026.

Changes for Individual Taxpayers (con't)

Medical expense deductions are ***expanded*** for 2017 and 2018 only, by reducing the threshold for expenses in excess of 10% of adjusted gross income to 7.5% of adjusted gross income. Although the Affordable Care Act is not repealed, the Act ***repeals*** the individual mandate, which penalizes individuals that do not sign up for health care.

Changes to the Estate, Gift, and Generation-Skipping Transfer Taxes

The unified credit for gifts and bequests made after December 31, 2017 and before January 1, 2026 are doubled so $11.2 million may be excluded for individuals and $22.4 may be excluded for couples if both file estate tax returns.

Changes for Businesses

There are several changes for businesses under the Act. The most significant change is the reduction of the corporate tax rate from a maximum of 35% to a flat 21% rate for most corporations. The Act also eliminates the alternative minimum tax for businesses.

The business income deduction is limited to 30% of the business's adjusted taxable income, excluding depreciation. The Act also limits the net operating loss deduction to 80% of taxable income. New capital purchases of larger equipment and property made in 2018-2023 may now be fully expensed rather than depreciated. The Act increases the expensing limitation from $500,000 to $1 million. The Act changes the research and development expenditures deduction so the expenditures must be gradually written off. In addition to these changes, there are several credits and deductions that were repealed or limited under the Act.

For more information about the changes to the tax code and for questions about how this may affect your taxes liability, please call us at (772) 234-4200. Information compiled from H.R. 1, 115th Congress 2017-2018; Wilson Andrews and Alicia Parlapiano, *What's in the Tax Bill*, New York Times (accessed Dec. 27, 2017); Ran Lieber and Tara Siegel Barn ord, *What's in the Tax Bill, and How It Will Affect You*, New York Times (accessed December 27, 2017).

Happy Holidays

Everyone at E. Steven Lauer, P.A. hopes you had a wonderful holiday season!

2017 Holiday Office Party

2017 Christmas Parade

2017 Christmas Parade Party