Gould, Stinson & Comer, PC

2018 Tax Reform (Tax Matters Newsletter)

Although "tax reform" is constant and ongoing (we get tax law updates and analysis EVERY morning), the changes that have taken place already for 2018 are truly massive. Not only have there been a ton of tax law changes, the tax forms themselves are getting a major overhaul. The tax return will look nothing like the past, with very little on the front page but more schedules behind it. The government is just making us think the tax return is much simpler now, but it is an optical illusion. Someone said "Make it look like a postcard", and the IRS did their best to at least make the front page the size of a large postcard. Don't be fooled… as you will see below, everybody is affected one way or another.

Most taxpayers will see their overall taxes decrease, but some will see increases. Employ**ees** will have seen their federal withholdings reduced in Feb or March (per IRS instructions to employers) due to the anticipated tax decrease. Hence, most employees will be enjoying the lower tax structure "as they go", and not by means of a larger refund. However, in possible situations too numerous to discuss here, the reduction in federal withholdings could cause higher amounts due for those who aren't getting a tax decrease.

For many of our clients, we have already addressed the 2018 tax scenario when completing your 2017 income taxes. Tax projections for 2018 were calculated using either a "same as last year" approach or using new information if we were aware of it. However, to avoid surprises or possible penalties for underpaying, we are available over this next month (December 2018) to prepare tax projections and suggest tax planning or tax payment changes to adjust amounts paid in to better match up with projected amounts. Note: We typically bill for these services at our normal hourly rates.

Here are the most notable *Individual* tax changes taking effect in 2018:

1. Decreases individual tax rates from 0 to 4% from prior rates, depending on the tax bracket. The highest few tax brackets now kick in at much higher income levels, good news for that group.

2. Doubles the standard deduction to $24,000 (joint); $12,000 (single); and $18,000 (head of household).
    a. Prediction is about 20 million fewer filers will itemize in 2018.
    b. Rule changes to the itemized deductions (noted below) will also reduce number of itemizers.

3. Elimination of personal exemptions. These deductions were generally worth about $4,000 for each person claimed on a tax return for 2017 and prior.
    a. This rule change wasn't discussed much by the proponents of the tax changes (for obvious reasons), but this loss of deductions may cost more than the benefit received from the doubled standard deduction. Some other changes discussed here may help soften the blow as well.

4. Doubling of the child tax credit to $2,000 (from $1,000 prior).
    a. $1,400 of the credit is refundable, which means a taxpayer could get the credit even if they don't otherwise have any tax liability.
    b. Children under 17 years of age. Credit phases out at much higher income levels than prior.

    c. Also new, a tax credit of $500 for dependents claimed on a tax return if that dependent does not get a child tax credit (a college student for example).

5. Changes multiple areas of Itemized Deductions (Schedule A of Form 1040):
    a. **Deduction for Taxes Paid** (state and local income taxes, property taxes, etc.) is now limited to $10,000. Besides the doubling of the standard deduction, this change is the next biggest reason many taxpayers will no longer itemize. You can look at your prior year Schedule A if you itemized to see what effect this could have on you.

    b. **Home equity loan interest** is generally no longer deductible. Acquisition loan interest and equity loans to substantially improve your home are still deductible, with certain limitations:
        i. Maximum $750K of total mortgage debt.
        ii. Mortgage interest deduction includes first and second homes.
        iii. Limitation does not include rental or business property.

    c. **Miscellaneous Itemized Deduction** category is eliminated, hence negating the deduction of:
        i. Unreimbursed employee business expenses (business mileage, for example).
        ii. Investment fees and expenses.
        iii. Professional and tax prep fees.

    d. **Charitable contribution** rules generally stay the same, but there may be a few charitable strategies to consider (we can expound on these if you feel your situation warrants it):
        i. Bunching donations into every other year; consider a "donor advised fund".
        ii. Making donations directly from your IRA if it is part of your "Required Minimum Distribution" for those over 70.5 years old (rule made better by Tax Reform).

    e. The **reduction of itemized deductions** at higher income levels no longer applies.

6. Elimination of the deduction for qualified moving expenses. (Only exception is for active military.)

7. Expansion of the use of college savings 529 Plans, allowing distributions to be used for qualifying elementary and secondary school (private schools), up to $10,000 per year.

8. AMT, or Alternative Minimum Tax… the threshold for incurring AMT has been greatly raised, so those taxpayers facing this tax in the past may be happily waving goodbye to it in 2018.

9. Estate and gift tax exemptions doubled to around $11 million per person (for those "lucky" enough for this to be a concern!).

10. **For 2019 tax year**, the Individual Mandate (the penalty for NOT carrying minimum essential health coverage) is repealed. So even though this change is part of the 2018 tax reform act, unlike all the other changes effective in 2018, this change takes place in 2019. Hence, 2018 tax returns could still have penalties for not carrying health insurance.

11. Also starting in 2019, alimony will no longer be deductible by the payor or includible in income by the recipient, for divorce decrees finalized after 2018.

Business Tax Changes for 2018

1. Replacement of the graduated corporate tax rate structure (15% to 35%) to a flat corporate rate of 21%. This would mainly affect C-Corporations with tax liability, with no effect for S-Corporations or partnerships, including multiple member LLC's.

2. Enhanced depreciation rules that will allow expensing or deducting the full cost of most equipment purchases. Business vehicle depreciation is also increased in the year of purchase, but there remain limitations (unlike equipment).

3. Business NOL's (net operating losses) are less effective under the new rules. You can no longer carry an NOL back two years to recover taxes, and you can only offset a maximum of 80% of your taxable income rather than 100%. NOL's that are unused are still carried forward.

4. NEW and BIG, for most of our business clients: **20% Qualified Business Income (QBI) Deduction**. NOTE: *Our CPA's and tax preparers have spent MANY hours this year wading through the complexities and subjectivity of this new law. In some cases, the calculation may be simple, in other cases it may be quite complex. Tax prep fees may increase for 2018 tax returns, and this could be one of the main reasons.*

    a. Available for "flow-through" businesses like S-Corporations, partnerships, and LLC's, in addition to sole proprietorships.

    b. Basically, it is a totally new and additional deduction of 20% of business net (taxable) income.

    c. There are various limitations:
        i. Calculation is relatively simple if total taxable income on the tax return is under $315,000 joint or $157,500 single.
        ii. If taxable income is over those amounts, wages paid and investment in the business come into play when calculating the QBI deduction.
        iii. Certain "specified service businesses" have further limitations or are excluded from taking the 20% deduction when taxable income exceeds the amounts noted above. This is where things get dicey (from the potential subjectivity of who gets included or excluded from this group). The definition is basically "where the principal asset of such business is the reputation or skill of one or more of its employees". Of course, it seems that that would be every business, but the main list is fairly short (fields of

health, law, accounting, actuarial science, performing arts, consulting, athletics, financial or brokerage services).

d. This is a new and unique deduction that gets more complicated to calculate as overall tax return taxable income exceeds the base amounts above. Taxpayers whose income exceeds those amounts (with their main income from business activities) should consider a 2018 tax projection and related tax planning to adjust their quarterly estimated taxes and possibly help to avoid underpayment penalties.

Top answers to 2016 questionnaire contest question: If you were given the resources to develop and market any "app" for cell phones, what would it be and what would it do? We are working on 2017's answers!

I don't know what an "app" is.

An app that removes Mondays from your phone calendar.

Fart detector app that proves who really did it.

The Repeator App: repeats things six times to children, or about the time it takes them to respond to a parent.

An app that reminds spouse (husbands) to complete household tasks… "Hello, I notice you are watching Netflix; have you done the dishes yet?"

App that turns off Facebook after 30 minutes.

App for females you could activate while your husband or boyfriend is speaking and it would add the words necessary to give you the full picture. App for males that activates when wife or girlfriend is talking and it would tell you what they are really saying.

An app that would actually print out what wife said so husband could review and be more attentive and sensitive during conversations. It's the "No More 'HUH'" app.

An app that generates winning answers to our Questionnaire Contest.

An app that automatically completes the tax organizer we send out.

An app that "zaps" dog poop so you don't have to pick it up.

Tracks expenditures and categorizes them into categories ranging from Prudent (10) to What was I Thinking (0).

An app that would display on self-checkout lanes that would "identifies over 12 items" so that all can see, or "time limit exceeded… see a cashier".

An app that reminds you why you went into a particular room in the house.

An app that tells you when your last bowel movement was.

An app driven by GPS that sends a message to the road commission when your car hits a pothole.

App that reminds you where you are or where you are going, for maturing people.

App that shows you where the nearest public bathroom is, and the shape it's in.

App called the Slacker Tracker… monitors downtime of employees.

An app that organizes all of your apps… The Appganizer.

The “Times-a-wastin” app keeps track or the time you spend on your phone unproductively each week.

Automatic turn off app: turns off your cell phone every time you enter a church, movie, funeral, or dinner.

Most often submitted answer by far: An app that does various nasty things to the driver who texts while driving! Second most app choice… apps that limit the amount of political commentary; that’s the nicest way we can describe.

The B.S. app: automatically detects when someone is spewing false information (especially politicians) and renders them mute for a while.