Tax Cuts and Jobs Act Changes

On December 20, 2017, President Trump signed into law the "Tax Cuts and Jobs Act," which became effective January 1, 2018. The tax cuts contained in the bill represent the most significant tax changes in more than 30 years, which started affecting the 2018 returns. Many of the changes, on the individual level, will expire at the end of 2025, unless further extended by the Congress. I have updated the figures in the Taxing Topics newsletter, but also wanted to provide you with a summary of some of the more important tax updates.

Personal Exemptions—For 2018 thru the end of 2025, there is NO personal exemptions allowed for any taxpayers or dependents on each tax return.

Standard Deduction Amounts—The deduction amount has almost doubled to $12,000 for Individuals , $18,000 for Head of Household and $24,000 for Married Filing Joint.

Child Tax Credit—For 2017 this deduction was $1,000 per qualifying child. New legislation removed the Additional Child Tax credit and merged it with the Child Tax Credit. For 2018 & 2019, the credit amount has increased to $2,000 per qualifying child and will now be "refundable" up to $1,400, subject to phase outs (see phase out thresholds in the Taxing Topics newsletter).

Non-Child Dependent Credit—NEW For tax year 2018, a "nonrefundable" $500 credit will be available for non-child dependents (i.e. elderly or disabled dependents or children over 17).

Schedule A Changes

SCHEDULE A (Form 1040)
Department of the Treasury Internal Revenue Service (99)

Itemized Deductions

▶Information about Schedule A and its separate instructions is at www.irs.gov/schedulea.
▶Attach to Form 1040.

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2017
Attachment Sequence No. 07

Name(s) shown on Form 1040 | Your social security number

Medical and Dental Expenses (1)
Caution: Do not include expenses reimbursed or paid by others.
1 Medical and dental expenses (see instructions) 1
2 Enter amount from Form 1040, line 38 | 2
3 Multiply line 2 by ~~10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by~~ 7.5% (0.075) ~~instead~~ 3
4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- . . . 4

Taxes You Paid (2) (3)
5 State and local (check only one box):
a ☐ Income taxes, ~~or~~ and
b ☐ General sales taxes . . . 5
6 Real estate taxes (see instructions) . . . 6
7 Personal property taxes . . . 7
8 Other taxes. List type and amount ▶ 8
9 Add lines 5 through 8 . . . 9 — Capped at $10,000

Interest You Paid (4)
Note: Your mortgage interest deduction may be limited (see instructions).
10 Home mortgage interest and points reported to you on Form 1098 10
11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶ 11
12 Points not reported to you on Form 1098. See instructions for special rules . . . 12
13 Mortgage insurance premiums (see instructions) . . . 13
14 Investment interest. Attach Form 4952 if required. (See instructions.) 14
15 Add lines 10 through 14 . . . 15

Gifts to Charity (5)
If you made a gift and got a benefit for it, see instructions.
16 Gifts by cash or check. If you made any gift of $250 or more, see instructions. . . . 16
17 Other than by cash or check. If any gift of $250 or more, see instructions. You **must** attach Form 8283 if over $500 . . . 17
18 Carryover from prior year . . . 18
19 Add lines 16 through 18 . . . 19

Casualty and Theft Losses (6)
Only for federal disaster areas
20 Casualty or theft loss(es). Attach Form 4684. (See instructions.) . . . 20

~~**Job Expenses and Certain Miscellaneous Deductions**~~ (7)
~~21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶~~ 21
~~22 Tax preparation fees~~ 22
~~23 Other expenses—investment, safe deposit box, etc. List type and amount ▶~~ 23
~~24 Add lines 21 through 23~~ 24
~~25 Enter amount from Form 1040, line 38~~ 25
~~26 Multiply line 25 by 2% (0.02)~~ 26
~~27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-~~ 27

Other Miscellaneous Deductions
28 Other—from list in instructions. List type and amount ▶ 28

Total Itemized Deductions (8)
29 Is Form 1040, line 38, over $155,650?
☐ **No.** Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. 29
☐ ~~**Yes.** Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.~~
30 If you elect to itemize deductions even though they are less than your standard deduction, check here . . . ▶ ☐

For Paperwork Reduction Act Notice, see Form 1040 instructions. Cat. No. 17145C Schedule A (Form 1040) 2016

1. **Medical & Dental Expense** For 2019, the "floor" rises from 2018 rate of 7.5% back to 10%—which means you can only deduct those expense which exceed 10% of your AGI.

2 & 3. **State & Local Texas (SALT)** Deductions for state and local sales, income and property taxes remain in place, but limited to a combined total of $10,000 ($5,000 for married filing separate). These taxes, which are deductible on Schedules C, E or F are not capped.

4. **Home Mortgage Interest** Only interest on mortgage used to buy, build or improve your home is deductible up to $750,000 ($375,000 for married filing separate). For mortgages before December 15, 2017, the limit is $1,000,000 ($500,000 for married filing separately). For 2018 through 2025, there is no deduction for interest on home equity debt, unless proceeds are used to buy, build or substantially improve the home securing note.

5. **Charitable Donations** New rules are basically the same except the percentage limit for charitable cash donations has increased—taxpayers can now deduct as much as 60% of their income (up from a 50% cap).

6. **Casualty & Theft Losses** Deduction for these losses is eliminated for 2018 through 2025, except for losses attributable to a federal disaster area.

7. **Job Expense & Miscellaneous Deductions** Miscellaneous deductions which exceed 2% of your AGI are eliminated for 2018 thru 2025. This includes unreimbursed employee expenses, tax preparation and investment fees. ***These expenses also include unreimbursed travel and mileage, as well as the home office deduction.*** For business owners filing Schedule C, your business-related deductions are not affected.

8. **Total Itemized Deductions** Pease limitations on itemized deductions is suspended for the 2018 through 2025.

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Over →

Sect. 199A—Self-Employed & Pass-Through Entities 20% Deduction

One of the most significant changes under tax reform is tax treatment of businesses. Changes to the business tax scheme are permanent. It would be impossible to address all of the changes, so I'm focusing on how the new rules will affect pass-through entities and small businesses such as sole proprietors, partnerships, LLCs, LPs and S-Corps.

While new law provides for a flat 21% tax rate for corporations, business income passing through to individuals from a pass-through entity, including sole proprietor or rental property, is taxed at individual rates less deduction of up to 20% of income.

The deduction, however, is subject to limits and restrictions. I will provide a basic look at how it will effect most of my clients.

To qualify for the 20% deduction, you need two things:

1. You need Qualified Business Income (QBI) from one of the business types mentioned above.
2. You need ***taxable*** income of —
   - $315,000 or less if married filing a joint return, or
   - $157,500 or less if filing as a single taxpayer.

You must apply the 20% to the lesser of your *taxable* or *qualified business income*. The deduction decreases as income increases above thresholds.

Some unfriendly and much more complicated rules apply to what Sect. 199A calls a "specified service trade or business" or "out-of-favor group" (i.e. attorneys, accountants, doctors, actors). But, if taxable income is less than the thresholds above, they still qualify for the full 20% deduction on QBI.

Two important definitions:

Qualified Business Income (QBI). QBI is net income from your business, without regard for any amount paid by an S corporation that is treated as reasonable compensation to a partner for services outside their capacity as a partner and also does not include short or long-term capital gains or losses, dividend or interest income. QBI is determined on a per business, not a per taxpayer basis.

Specified service trade or business. A specified service trade or business is any business involving the performance of services in the fields of health, law, consulting, athletics, financial services, brokerage services, or "any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners." Think of it this way: if the success of your business depends on you and not on something that you sell, you're pretty much included (except for engineering and architecture services, which were specifically excluded).

If you are above the threshold amount, you are subject to limitations and exceptions which are determined by your occupation and a wage (and capital) limit.

If you are a specified service business and your taxable income exceed the threshold amount plus the phase in range ($207,500 for individual taxpayers and $415,000 for married taxpayers filing jointly), then you lose the deduction completely.

Is It Really the IRS Calling?

Many taxpayers have encountered individuals impersonating IRS officials – in person, over the telephone and via email. Don't get scammed. The IRS initiates most contacts through regular mail delivered by the United States Postal Service. However, there are special circumstances in which the IRS will call or come to a home or business, such as when a taxpayer has an overdue tax bill, to secure a delinquent tax return or a delinquent employment tax payment, or to tour a business as part of an audit or during criminal investigations.

The IRS does NOT:

- Demand you use a specific payment method (e.g. prepaid debit card, credit card or wire transfer). The IRS will not ask for your debit or credit card numbers over the phone.
- Demand you pay taxes without the opportunity to question or appeal the amount they say you owe. Generally, the IRS will first mail you a bill if you owe any taxes.
- Threaten to bring in local police, immigration officers or other law-enforcement to have you arrested for not paying. The IRS also cannot revoke your driver's license, business licenses, or immigration status. Threats like these are common tactics scam artists use to trick victims into buying into their schemes.

If an IRS representative visits you, they will always provide two forms of official credentials called a pocket commission and a HSPD-12 card. HSPD-12 is a government-wide standard for secure and reliable forms of identification for Federal employees and contractors. You have the right to see these credentials.

The IRS can assign certain cases to private debt collectors but only after giving the taxpayer and his or her representative, if one is appointed, written notice. Payment by check should be payable to the U.S. Treasury and sent directly to the IRS, not the private collection agency.

IRS criminal investigators may visit a taxpayer's home or business unannounced while conducting an investigation. However, these are federal law enforcement agents and they will not demand any sort of payment.