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Happy New Year Clients and Friends:

While most of us were preparing for Christmas, the historic new tax law was signed on December 2, 2017 by President Trump. The named "Tax Cuts and Job Acts (TCJA), includes the most comprehensive set of law changes in more than 30yrs. The TCJA cuts tax rates for individuals and corporations, eliminates several long-standing tax breaks and modifies others. It will have a significant impact on individuals and businesses alike.

Most of the provisions in the new law take effect as of **January 1, 2018**, so personal and business tax returns for the 2017 tax year may not be affected. Significantly, many changes related to individuals are scheduled to "sunset" after 2025, while the changes for businesses are generally permanent. Keep this in mind for future tax planning.

Accordingly, we have prepared the following letter, **Highlights of the Tax Cuts and Jobs Act**, to keep you informed. For your convenience, the letter is divided into two sections: one on Individual Tax Planning and one on Business Tax Planning. As you read it, remember that the letter provides only a general overview of the new tax law. Please contact me, **Joseph G Runkle CPA and until his well-deserved retirement date April 15, 2018 your loyal trusted advisor, Z-MAN.** to determine how these provisions or other aspects of the TCJA will affect your personal situation.

INDIVIDUAL TAX PLANNING

Individual Tax Rate Structure

Prior to the new tax law, the seven tax rates for individuals were 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The new law replaces those with rates of 10%, 12%, 22%, 24%, 32%, 35% and 37%. It also adjusts the income ranges for the brackets.

The new tax law changes the index used to figure future increases in bracket amounts from the Consumer Price Index (CPI) to a "chained CPI" method. This is expected to produce smaller increases.

Long-term capital gains and qualified dividends continue to receive tax-favored treatment under the new law. A 0% rate applies to certain low-income taxpayers, a 15% rate for most middle-income taxpayers and a 20% rate for certain high-income taxpayers.

Standard Deduction and Personal Exemptions

Taxpayers may claim the standard deduction or itemize deductions when they file their returns. The standard deduction is essentially doubled to $12,000 for single filers and $24,000 for joint filers.

In addition, taxpayers could previously claim personal exemptions for themselves and qualified dependents. All personal exemptions are eliminated, beginning in 2018, along with the personal exemption phaseout (PEP) rule.

TAX IMPACT: Due to these changes and modifications in the rules for itemized deductions, many more taxpayers are likely to claim the standard deduction in 2018 than in 2017.

Itemized Deductions

The new law temporarily repeals several itemized deductions and modifies others while eliminating the "Pease rule" reducing deductions for high-income taxpayers. This includes the following changes:

*The deduction for mortgage interest is limited to interest paid on the first $750,000 of new acquisition debt, down from $1 million. No deduction is allowed for home equity debt.

*Deductions for state and local taxes (SALT) are limited to $10,000 annually. The SALT deduction may include (1) property taxes or (2) income taxes or sales taxes or (3) a combination.

*Charitable deductions are generally preserved, while the annual deduction limit is increased from 50% of adjusted gross income (AGI) to 60% of AGI, among other modifications.

*Casualty and theft loss deductions are eliminated, except for losses occurring in federal disaster areas.

*The threshold for deducting medical and dental expenses is restored to 7.5% of AGI, down from 10% of AGI, for 2017 and 2018 only.

Family Taxes

The TCJA increases the child tax credit (CTC) from $1,000 to $2,000 and raises the refundable portion of the CTC to $1,400. It also creates a $500 nonrefundable credit for non-child dependents.

TAX IMPACT: The tax benefits of these credits are phased out for single filers with a modified adjusted gross income (MAGI) of $200,000 and joint filers with a MAGI of $400,000.

Existing tax credits for adoption expenses and dependent care expenses are preserved under the new law. For divorce and separation agreements entered into after 2018, alimony will no longer be deductible by the payer and will not be taxable to the recipient.

Alternative Minimum Tax

Despite calls to completely repeal the alternative minimum tax (AMT) for individuals, the new law retains the AMT, albeit with key modifications. Specifically, the exemption amounts are increased significantly, while the thresholds for phasing out exemptions are raised to $500,000 for single filers and $1 million for joint filers.

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TAX IMPACT: Because of these changes, many taxpayers who are liable for the AMT in 2017 will be able to avoid it in 2018.

Education Tax Breaks

Although it did not revive the tuition deduction, which expired after 2016, the new law preserves the two credits for higher education—the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC). It also retains the above-the-line deduction for student loan interest.

The new law also expands use of Section 529 plans to cover up to $10,000 of annual expenses for public or private K–12 schools. Previously, use of funds was limited to higher-education expenses.

Other Provisions

*Deductions for miscellaneous expenses, and moving expenses (except for active duty military personnel) are eliminated. Also, the tax exclusion for moving expense reimbursements is no longer available.

*For 2018, the “kiddie tax” generally applies to unearned income above $2,100 received by a child under age 19 or a full-time student under age 24. The method of calculating the tax is modified.

*The rule allowing a recharacterization of a Roth IRA back to a traditional IRA after a conversion is repealed.

*The new law abolishes the individual health insurance mandate under the Affordable Care Act (ACA), effective in 2019. However, it does not address other tax provisions in the ACA, including the 3.8% surtax on net investment income (NII) and the 0.9% additional Medicare tax on wages.

*The maximum federal estate-tax exemption is doubled from $5 million to $10 million. With inflation indexing, the exemption will be about $11.2 million for 2018.

BUSINESS TAX PLANNING

Corporate Tax Rates

Prior to the new law, corporations were taxed under a graduated rate structure with a top rate of 35% and a “bubble rate” of 38%. Personal service corporations were taxed at a flat 35% rate. Beginning in 2018, the new law replaces the corporate tax structure with a flat 21% rate.

Also, the cash method of accounting was generally restricted by a gross receipts test of $5 million. The new law replaces this rule with a gross receipts test of $25 million.

Pass-through Entities

Under prior law, net income of pass-through businesses—including partnerships, S corporations, limited liability companies (LLCs) and sole proprietors—was effectively taxed at individual tax rates, with no deduction. The new law creates a 20% deduction for pass-through entities, subject to certain limitations.

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The deduction is not available for taxpayers in personal service businesses, excluding architecture and engineering. However, this restriction does not apply to single filers with taxable income up to $157,500, and $315,000 for joint filers.

Section 179 Deductions

Under Section 179 of the tax code, a business could previously elect to expense (i.e., currently deduct) up to $500,000 of the cost of qualified property placed in service, subject to a phaseout threshold of $2 million. Among other modifications, the new law doubles the maximum allowance to $1 million and raises the phaseout threshold to $2.5 million. These amounts will be indexed for inflation.

TAX IMPACT: Many small businesses will be able to expense the entire cost of qualified property placed in service during the year. However, as under prior law, the deduction is still limited to the amount of taxable business income.

Bonus Depreciation

The percentage for first-year "bonus depreciation," which was 50% for the cost of qualified property placed in service in 2017, has fluctuated in recent years. The new law doubles the percentage to 100% for 2018. The deduction will be gradually reduced after five years and then sunsets after 2026. Bonus depreciation is also expanded to include used property that otherwise qualifies.

The 100% bonus depreciation deduction is available for qualified property placed in service after September 27, 2017. Therefore, a business can elect to claim either 50% or 100% bonus depreciation for certain expenses in 2017.

Deductions for Luxury Vehicles

The tax code imposes limits on so-called "luxury cars" used for business driving. However, the new law raises the caps on depreciation deductions allowed for luxury cars for which bonus depreciation is not claimed, under the following schedule:

Year	New law	2017
First year	$10,000	$3,160
Second year	$16,000	$5,100
Third year	$9,600	$3,050
Each succeeding year	$5,760	$1,875

These figures are based on 100% business use. For instance, if the business use of a car is 75% in the first year, the deduction is limited to $7,500.

In addition, the maximum first-year bonus depreciation allowance for passenger cars remains at $8,000.

Other Provisions

*The new law repeals the Section 199 deduction for qualified domestic property activities. This deduction was frequently claimed by manufacturing firms.

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*The corporate AMT is repealed. This change will enable some businesses to realize the full tax benefits of the research credit.

*The deduction for entertainment that is "directly related to" or "associated with" a business is repealed.

*Deductions for qualified transportation fringe benefits are repealed, but such benefits remain tax-free to employees.

*Deductions for business interest expenses are capped at 30% of adjusted taxable income, subject to certain special rules. A small business with annual average gross receipts of $25 million or less for the past three years is exempt.

*Rules regarding cost recovery periods for certain building improvements are consolidated, and a 15-year recovery period generally applies.

*The rule allowing a business to carry back a net operating loss (NOL) for two years before carrying it forward for 20 years is modified. Now NOLs generally cannot be carried back and may be carried forward indefinitely, but are limited to 80% of taxable income.

*A new tax credit equal to 12.5% to 25% of wages is available for employer-paid family or medical leave through 2019.

*A one-time repatriation tax of 15.5% for liquid assets and 8% for illiquid assets is imposed on earnings from overseas activities. Also, a complex new tax regime is implemented for foreign earnings of U.S. corporations.

CONCLUSION

Remember that **Highlights of the Tax Cuts and Jobs Act** provides only a basic overview of new law provisions affecting individuals and businesses. We would be glad to schedule a meeting with you to assess your personal tax-planning needs under the new law.

Very truly yours,
Joseph G. Runkle, CPA

This tax-planning letter is published for our clients, friends and professional associates. It is designed to provide accurate and authoritative information with respect to the subject matter covered. The information contained in this letter is not intended or written to be used for avoiding any penalties that may be imposed under federal tax law and cannot be used by you or any other taxpayer for the purpose of avoiding such penalties. Before any action is taken based on this information, it is essential that competent, individual, professional advice be obtained.

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