

# How The New Tax Law Affects Individuals



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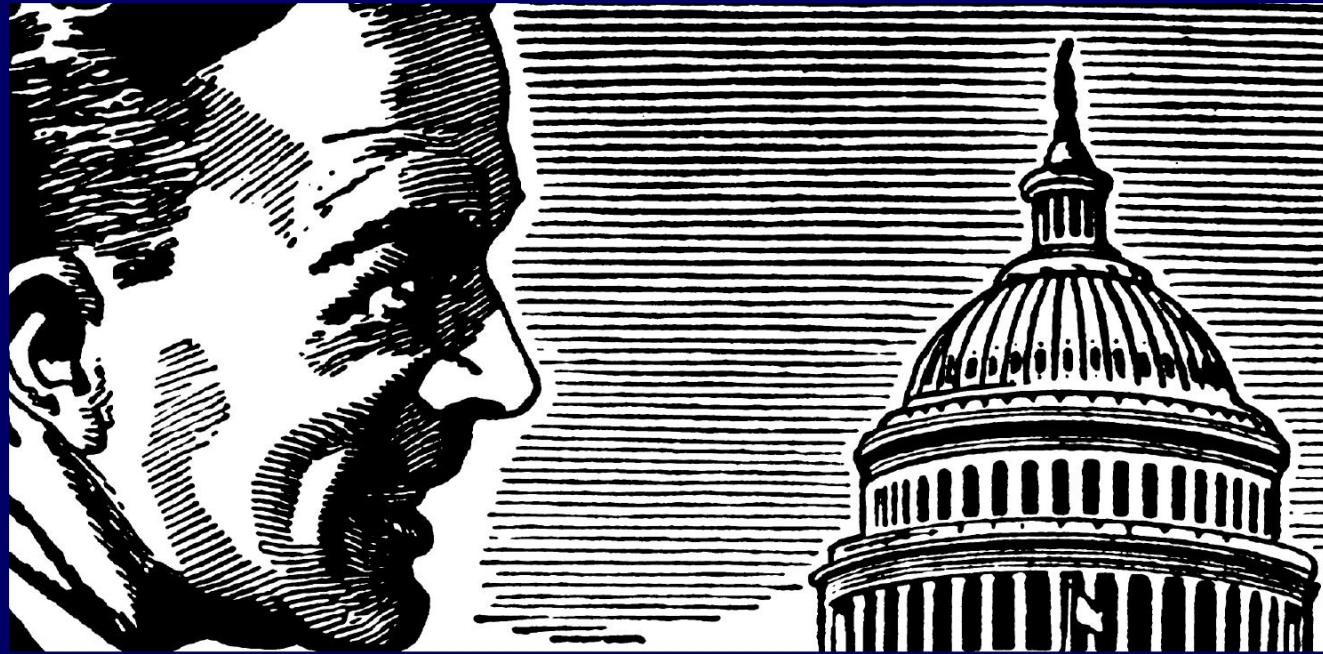


**Larry Powell**



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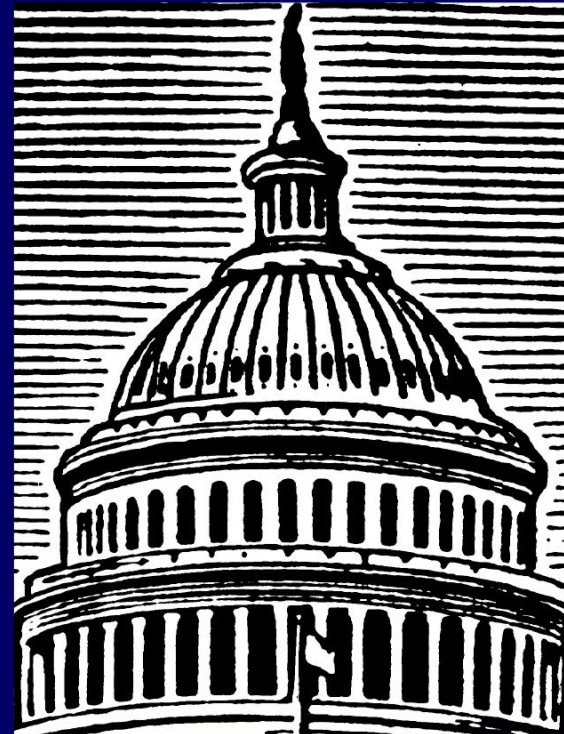
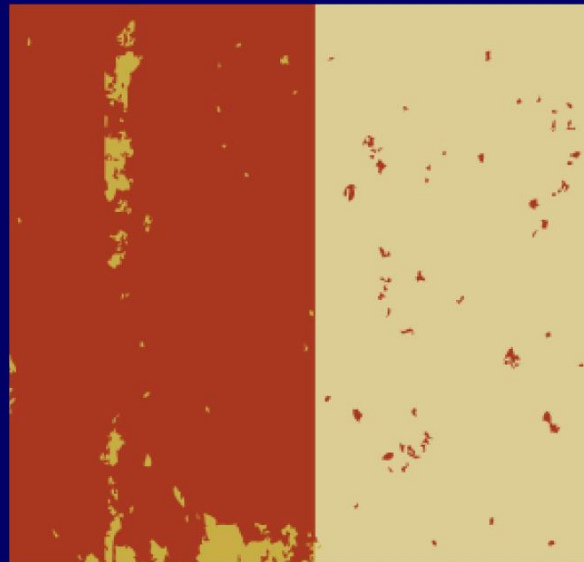
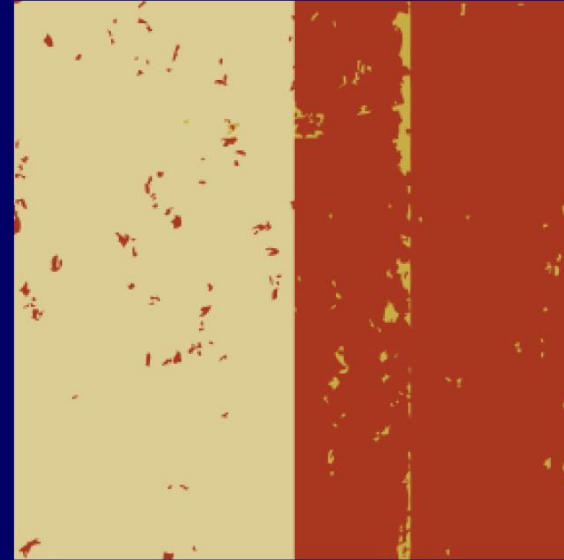


# Today's Agenda

- The Path to Enactment
- Highlights of Individual Tax Provisions
- Highlights of Estate and Gift Provisions
- Looking Forward

# Tax Cuts & Jobs Act

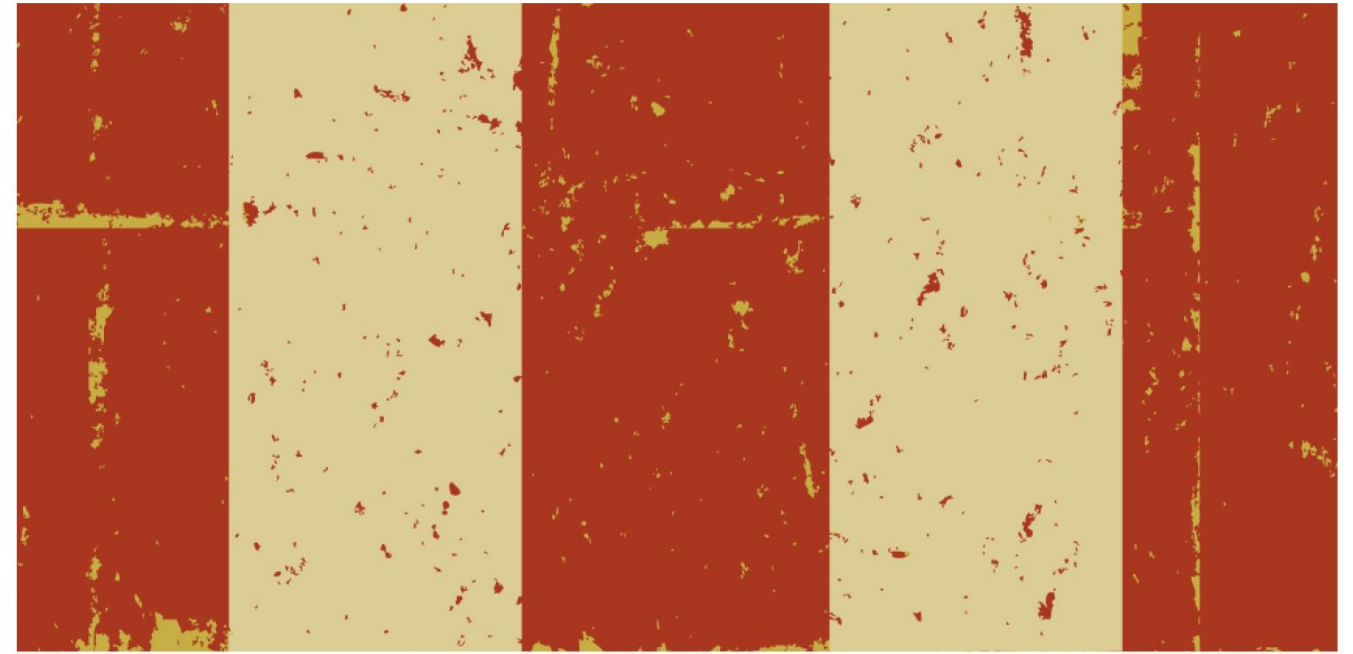
- House Bill (H.R. 1 – introduced on November 2<sup>nd</sup>)
- Passed by the House on November 16<sup>th</sup> by a 227-205 vote



# Tax Cuts & Jobs Act

- Senate Plan – proposal released on November 9<sup>th</sup>, by Senate Finance Committee Chairman Orrin Hatch
- Modified by Senate Finance Committee on November 16<sup>th</sup>
- Passed by the Senate on December 2<sup>nd</sup> by a vote of 51-49





# Tax Cuts & Jobs Act

- Conference committee reached agreement on tax reform bill on December 15<sup>th</sup>
- House passed the conference agreement by a vote of 227-203 on December 19<sup>th</sup>
- Senate modified three provisions of the bill as a result of the budget reconciliation rules. Senate passed the modified bill on December 20<sup>th</sup> by a vote of 51-48.
- House passed the modified bill by a vote of 224-201 on December 20<sup>th</sup>
- President Trump signed the legislation into law on December 22<sup>nd</sup>

- Ordinary income tax rates for individuals – retains seven rate brackets, but lowering top marginal rate to 37%
- Tax rates of 10%, 12%, 22%, 24%, 32%, 35% and 37%
- Retains 0%, 15% and 20% tax rate for long-term capital gains and qualified dividends

## **Tax Rates – Individuals**

- Retains 3.8% net investment income tax and additional 0.9% FICA surtax on earned income
- New deduction for certain business income of individuals

# Individual Income Tax Rates

## Current Law for 2018 Tax Year

Married Couples Filing Jointly

Ordinary Income Tax Rate	Taxable Income over (\$)	But not more than (\$)
10.0%	--	19,050
15.0%	19,050	77,400
25.0%	77,400	156,150
28.0%	156,150	237,950
33.0%	237,950	424,950
35.0%	424,950	480,050
39.6%	480,050	

## Tax Cuts and Jobs Act

Married Couples Filing Jointly

Ordinary Income Tax Rate	Taxable Income over (\$)	But not more than (\$)
10.0%	--	19,050
12.0%	19,050	77,400
22.0%	77,400	165,000
24.0%	165,000	315,000
32.0%	315,000	400,000
35.0%	400,000	600,000
37.0%	600,000	



# Kiddie Tax

- Earned income of a child is taxed under the rates for single individuals
- Net unearned income of a child is taxed according to the tax brackets applicable to trusts and estates





# Tax Rate Structure for Small Businesses

- Allow an individual taxpayer to deduct 20% of domestic qualified business income from a pass-through entity or sole proprietorship
- Deduction limited to 50% of W-2 wages or 25% of W-2 wages plus 2.5% of the unadjusted basis of qualified property after wage limitation phase-in

# Tax Rate Structure for Small Businesses

- Specified service businesses generally not eligible, exception for taxpayers with taxable income under \$315,000 (MFJ)
- Trusts and estates are eligible for the deduction
- Sunsets December 31, 2025



# Operating Trade or Business

## Impact of Tax Cuts and Jobs Act

	Current Law <u>2017</u>	20% Rule Tax Law 2018 <u>2018</u>
S Corporation Income (using projected taxable income from year end planning)	\$4,000,000	\$4,000,000
Pass Through Deduction	<u>0</u>	<u>\$(800,000)</u>
Taxable Income	\$4,000,000	\$3,200,000
Income Tax (highest marginal rate 39.6% in 2017; 37% in 2018)	\$1,584,000	\$1,184,000
Net Investment Income Tax	\$-	\$-
Federal Tax Savings from State and local income tax deduction	\$(71,280)	\$-
State Tax on income (assumed 4.5% rate for all states combined)	\$180,000	\$180,000
<b>Total Tax under 2018 Tax Law</b>		<b>\$1,364,000</b>
<b>Total Tax under 2017 Tax Law</b>	<b>\$1,692,720</b>	
Savings under new tax law		<b>\$328,720</b>

# Real Estate Business With Income

## Impact of Tax Cuts and Jobs Act

	Current Law <u>2017</u>	20% Rule Tax Law 2018 <u>2018</u>
Partnership Income (using projected taxable income from year end planning)	\$750,000	\$750,000
Pass Through Deduction	<u>0</u>	<u>\$(150,000)</u>
Taxable Income	\$750,000	\$600,000
Income Tax (highest marginal rate 39.6% in 2017; 37% in 2018)	\$297,000	\$222,000
Net Investment Income Tax	\$-	\$-
Federal Tax Savings from State and local income tax deduction	\$(13,365)	\$-
State Tax on income (assumed 4.5% rate for all states combined)	\$33,750	\$33,750
<b>Total Tax under 2018 Tax Law</b>		<b>\$255,750</b>
<b>Total Tax under 2017 Tax Law</b>	<b>\$317,385</b>	
Savings under new tax law		<b>\$61,635</b>

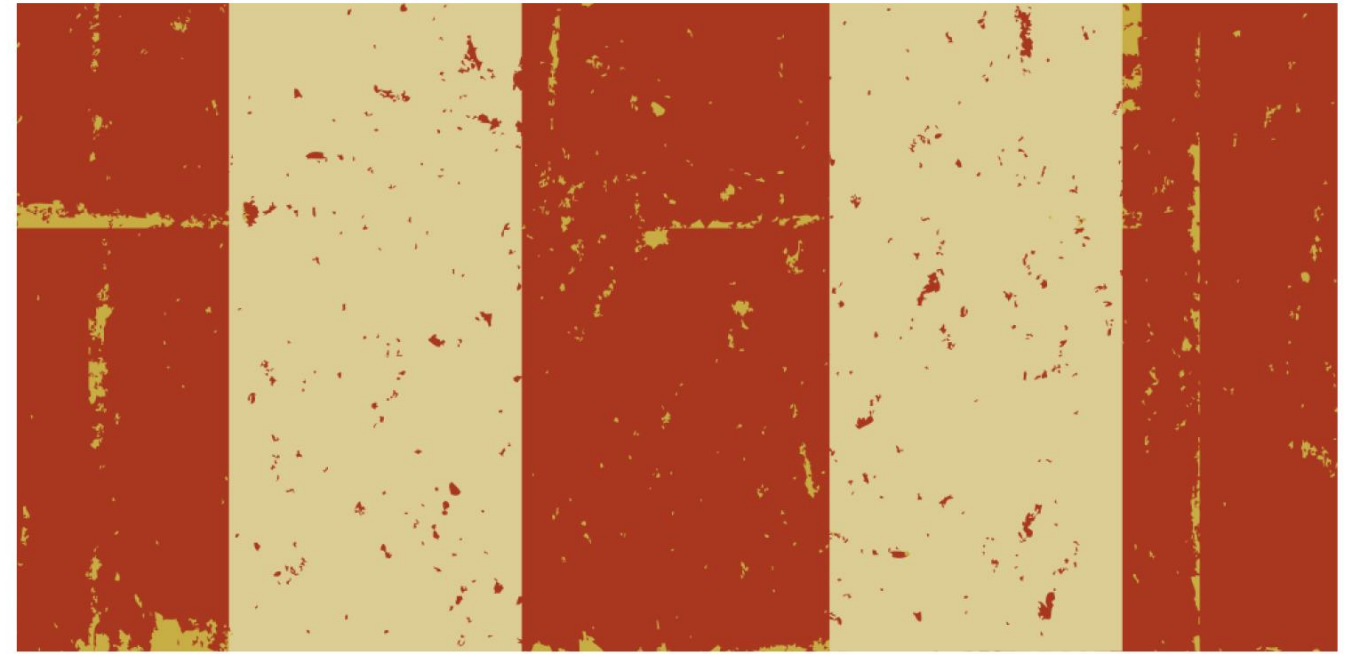
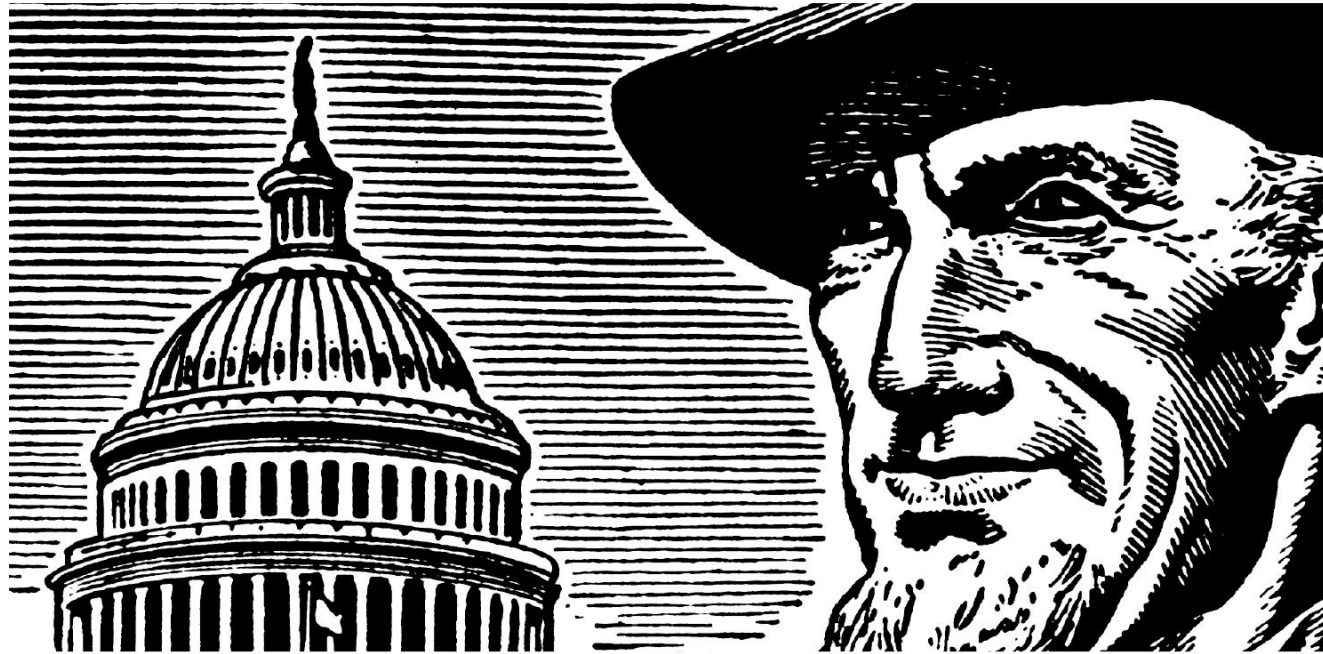
# Real Estate Business With Loss

## Impact of Tax Cuts and Jobs Act

	Current Law <u>2017</u>	20% Rule Tax Law 2018 <u>2018</u>
Partnership Income (using projected taxable income from year end planning)	\$(500,000)	\$(500,000)
Pass Through Deduction	<u>0</u>	<u>\$-</u>
Taxable Income	\$(500,000)	\$(500,000)
Income Tax (highest marginal rate 39.6% in 2017; 37% in 2018)	\$(198,000)	\$(185,000)
Net Investment Income Tax	\$-	\$-
Federal Tax Savings from State and local income tax deduction	\$8,910	\$-
State Tax on income (assumed 4.5% rate for all states combined)	\$(22,500)	\$(22,500)
<b>Total Tax under 2018 Tax Law</b>		<b>\$(207,500)</b>
<b>Total Tax under 2017 Tax Law</b>	<b>\$(211,590)</b>	
Savings (cost) under new tax law		<b>\$(4,090)</b>

# Excess Business Loss Limitation

- Disallows an individual taxpayer's excess business loss deduction in current year and carried forward as part of net operating loss (NOL)
- Excess business loss is the excess of aggregate business deductions over the sum of aggregate business income plus a threshold amount (\$500,000 MFJ)
- Applies at partner or shareholder level for pass-through entities



# Net Operating Loss (NOL)

- Carryback of NOL no longer permitted
- NOL deduction limited to lesser of 80% of taxable income or aggregate NOL carryforward/carryback
- Carryforward period for NOL is indefinite

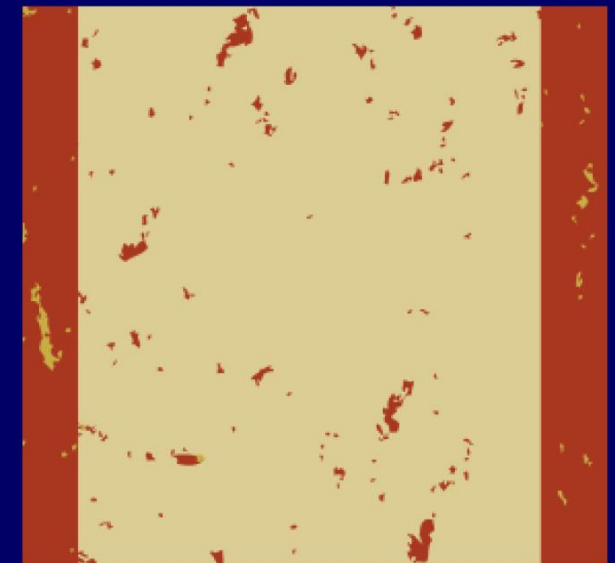
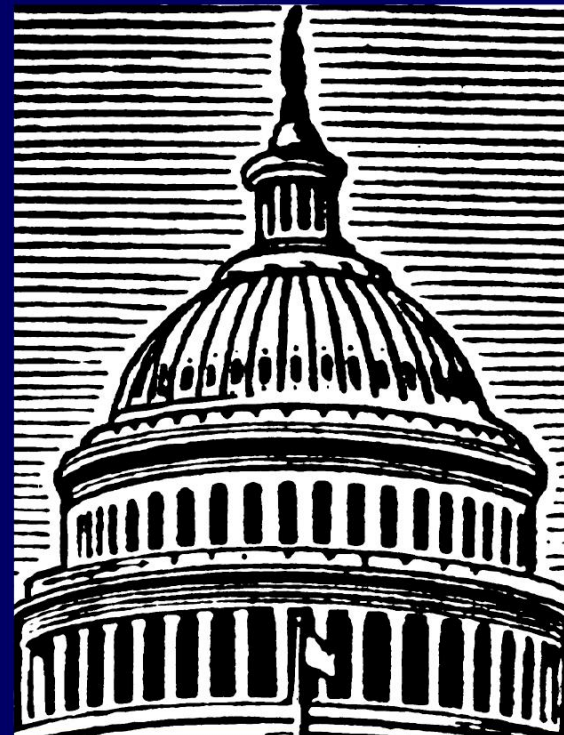
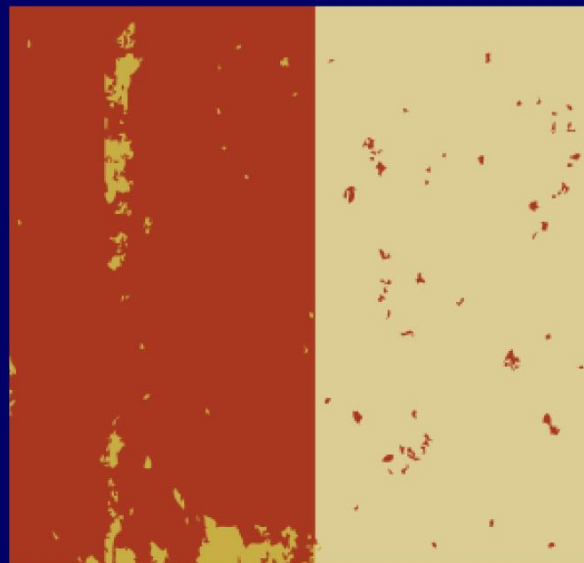
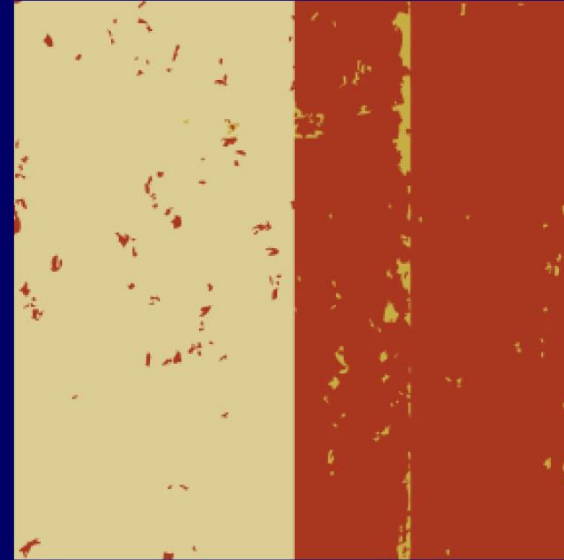


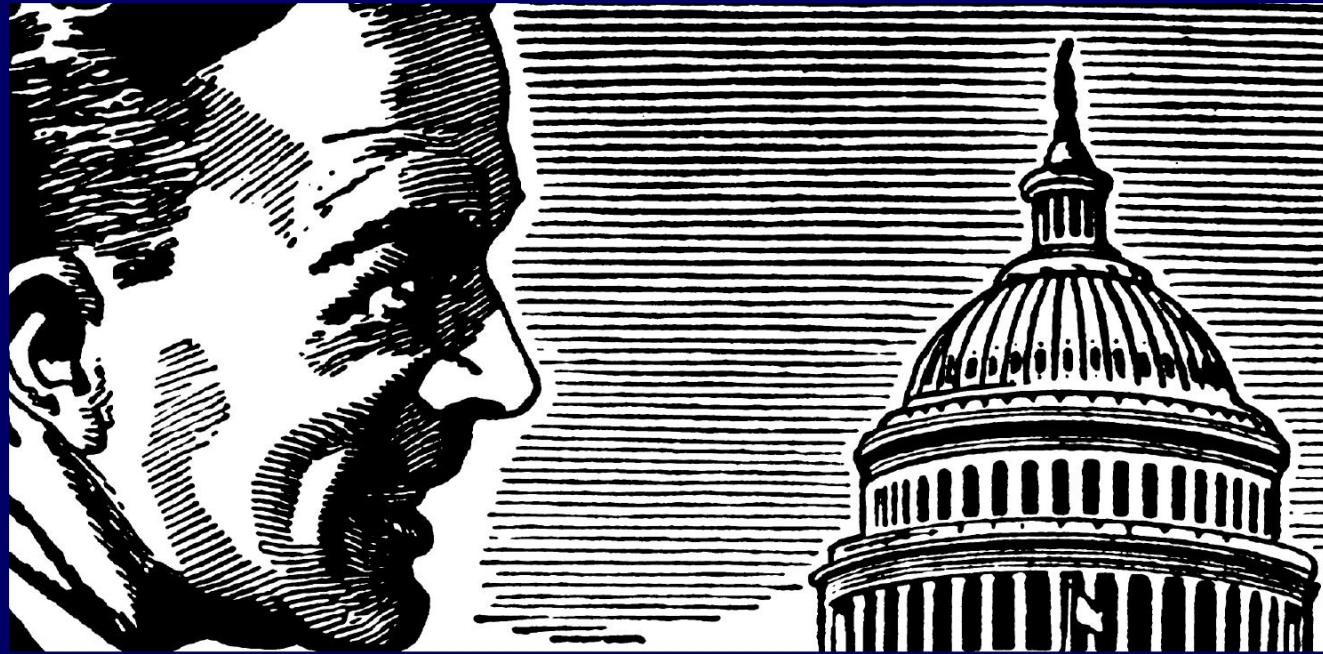
- Increase standard deduction to \$24,000 (MFJ) from projected \$13,000
- Increase standard deduction to \$12,000 (Single) from projected \$6,500
- Repeal deduction for personal exemptions. Currently \$4,050 for taxpayer, spouse and dependents.

## **Standard Deduction & Personal Exemptions**

# Itemized Deductions

- Retroactive 7.5% of AGI floor for medical expense deduction through 2018, regardless of age
- Limit deduction for state and local taxes to \$10,000 (MFJ). Combines real property taxes, personal property taxes, income taxes and sales taxes (if elected).
- Limit mortgage interest deduction on loans up to \$750,000 (MFJ). Debt incurred before 12/15/17 is grandfathered and subject to \$1,000,000 limitation.





# Itemized Deductions

- Suspend the deduction for interest on home equity indebtedness for tax years 2018 through 2025
- Increase AGI limitation for cash charitable contributions from 50% of AGI to 60% of AGI
- Repeal deduction for contributions to higher education institutions if related to right to purchase tickets or seating at an athletic event

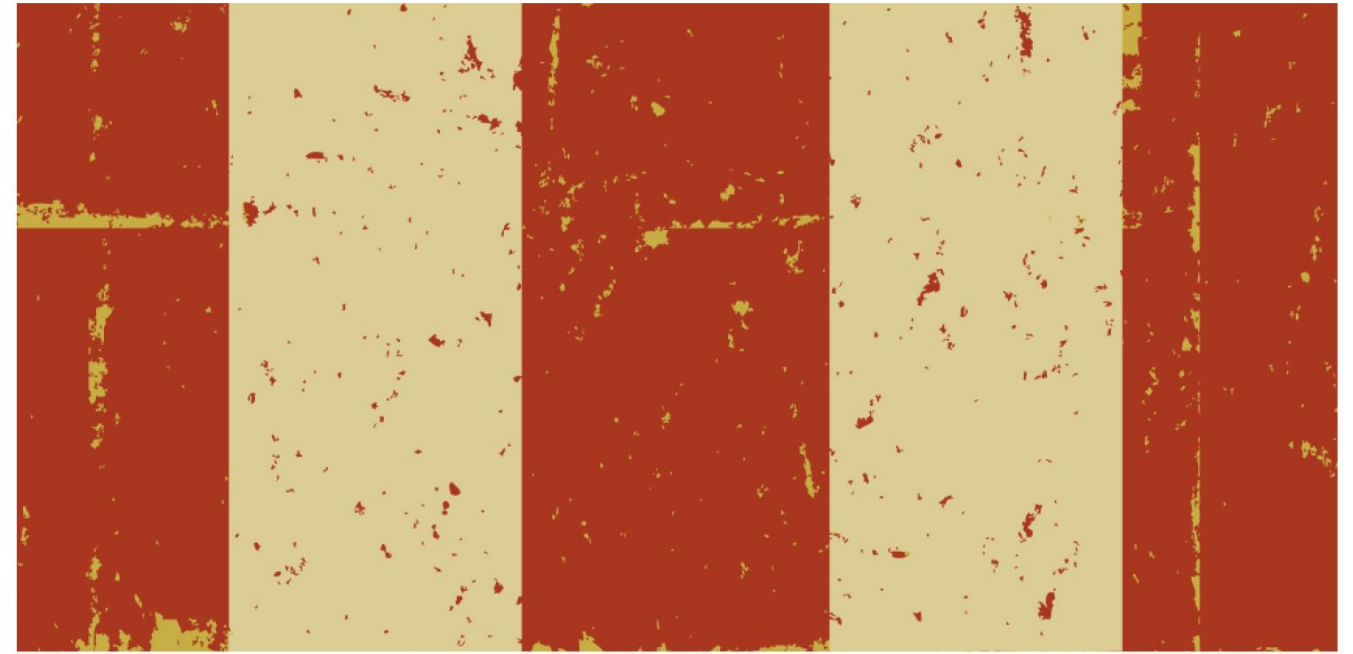
# Itemized Deductions

- Suspend deduction for personal casualty losses, except for federally-declared disasters
- Suspend the deduction for miscellaneous itemized deductions that are subject to the 2% AGI floor
- Suspend 3% limitation on itemized deductions for taxpayers with AGI over threshold amount (Pease limitation)

# Alternative Minimum Tax

- Retain the individual alternative minimum tax (AMT)
- Increase the AMT exemption amount for individuals to \$109,400 (MFJ) and \$70,300 (Single)
- Increase AMT phase-out threshold from \$164,100 to \$1,000,000 (MFJ)
- No change to exemption amount and phase-out amount for trusts and estates





# Other Provisions

- Increase child tax credit from \$1,000 to \$2,000 for each qualifying child (phased-out based on modified AGI). Increase AGI phase-out from \$110,000 to \$400,000 for joint filers.
- Temporarily provide a \$500 nonrefundable credit for dependents other than qualifying children
- Repeal deduction for alimony payments for payor spouse and no income inclusion for the payee spouse. Effective for any divorce or separation agreement executed after December 31, 2018.

- Repeal of special rule permitting recharacterization of IRA contributions
  - Repeal rule that allows taxpayers to recharacterize a contribution to a traditional IRA as a contribution to a Roth IRA, or vice versa
  - Repeal rule that permits taxpayers to recharacterize a conversion of a traditional IRA to a Roth IRA
  - Effective for tax years beginning after December 31, 2017

## Other Provisions

# Other Provisions (cont.)

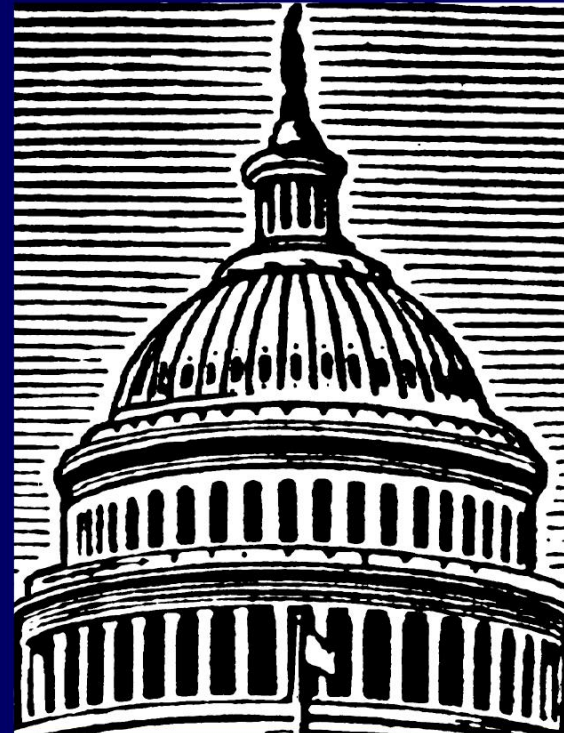
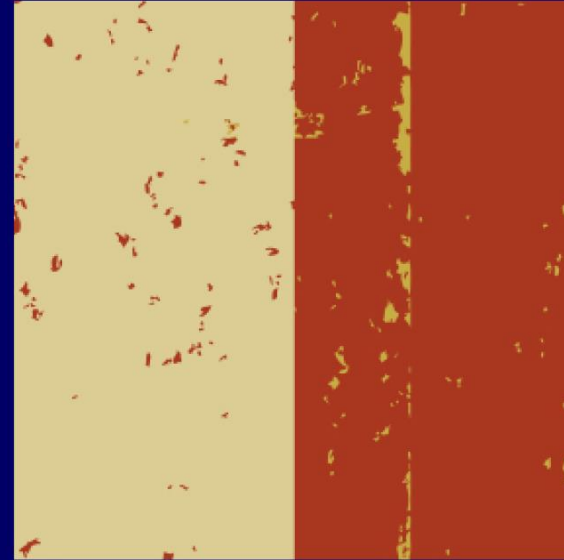
- Suspend deduction for moving expenses incurred in connection with a new job. Benefit is maintained for members of the armed services.
- Suspend the exclusion from employee's income for qualified moving expense reimbursements provided by an employer. Exception provided for active duty military.
- Elementary and high school expenses of up to \$10,000 per year would be qualified expenses for Sec. 529 plans





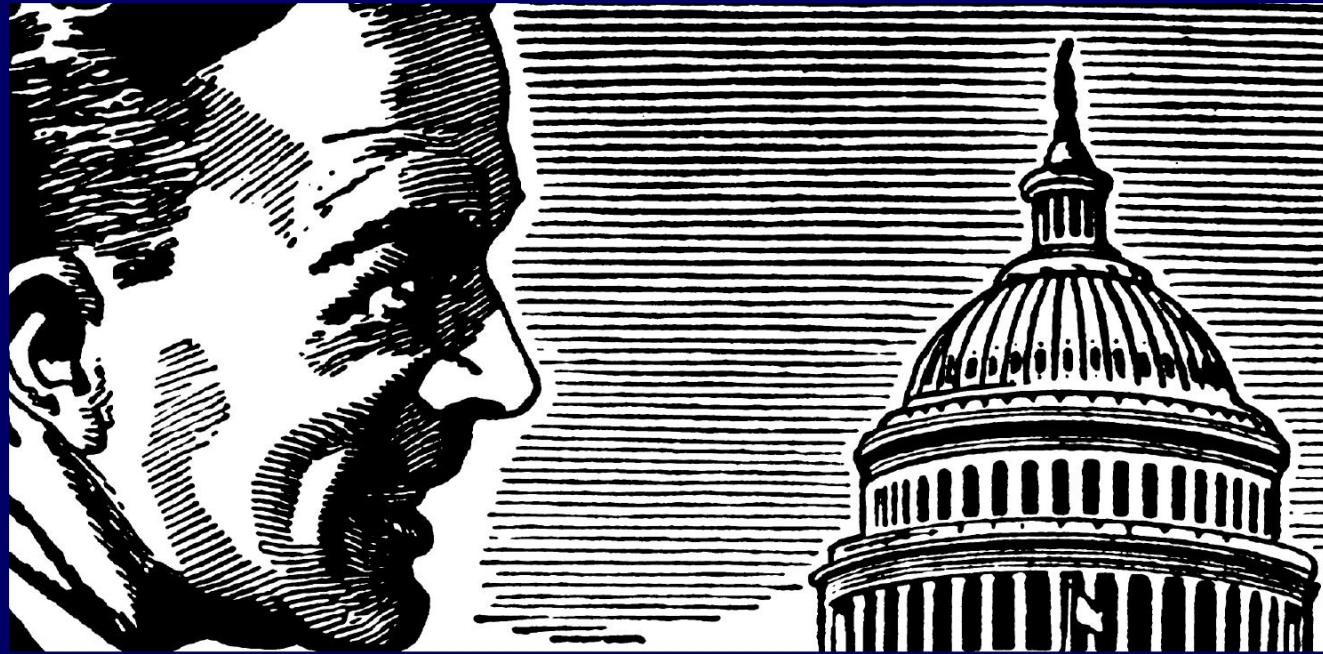
# Entertainment Expenses

The TCJA disallows deductions for entertainment, amusement or recreation activities under all circumstances. It would also disallow transportation fringe benefits, benefits in form of on-premises gym/athletic facilities or for any personal amenities not directly related to employer's trade or business.



# Meals & Entertainment Changes Under Tax Reform

	2017 Expenses (Old Rules)	2018 Expenses (New Rules)
Office Holiday Parties	100% Deductible	100% Deductible
Entertaining Clients	50% Deductible	Meals – 50% deductible
	Event tickets, 50% deductible for face value of ticket; anything above face value is non-deductible  Tickets to qualified charitable events are 100% deductible	No deduction for entertainment expenses
Employee Travel Meals	50% Deductible	50% Deductible
Meals Provided for Convenience of Employer	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits; otherwise, 50% deductible	50% Deductible (nondeductible after 2025)



# Estate & Gift Tax

- Retain current transfer tax system with an increase in the applicable exclusion amount (including GST) to \$10 million (indexed for inflation) for transfers occurring after December 31, 2017
- 2018 exemption expected to be \$11.2MM
- Continue basis step-up to fair market value on date of death
- Increased exemption amount would sunset after December 31, 2025



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# Questions?



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**Thank You!**