DESROCHES PARTNERS

YEAR-END NEWSLETTER 2018

Due to major tax reform enacted in December 2017, tax planning is more crucial than ever, and we're here to help. There's still time before the year ends to take advantage of this new legislation and maximize opportunities for tax savings.

Individuals

Most of the modifications affecting individuals are scheduled to expire after 2025, unless a future Congress acts to extend them. Following is a summary of some of the pertinent changes that could affect many taxpayers.

The Tax Cuts and Jobs Act reduced most tax rates for 2018.

This means that starting this year, most people will pay less tax.

2018 Tax Rates

Rate	Unmarried Individuals Taxable Income Over...	Married Individuals Filing Joint Returns Taxable Income Over...	Heads of Households Taxable Income Over...
10%	$0	$0	$0
12%	$9,525	$19,050	$13,600
22%	$38,700	$77,400	$51,800
24%	$82,500	$165,000	$82,500
32%	$157,500	$315,000	$157,500
35%	$200,000	$400,000	$200,000
37%	$500,000	$600,000	$500,000

Most taxpayers will still have a choice of either taking a standard deduction or itemizing.

The standard deduction has been substantially increased for each filing status.

2018 Standard Deductions

Filing Status	Deduction Amount
Single	$12,000
Married Filing Jointly	$24,000
Head of Household	$18,000

Estate & Gift Tax

The lifetime estate & gift tax basic exclusion amount (BEA) has been temporarily raised to $11.18 million per person in 2018 and effectively $22.4 million for couples. In 2019, the BEA will be $11.4 million and adjusted annually for inflation. This exclusion amount will apply to gifts made between January 1, 2018 and December 31, 2025, and to estates of persons who die in the same tax period.

The annual gift exclusion for 2018 and 2019 is $15,000 per recipient. These gifts do not count towards the gift tax or estate exemptions.

Highlights for Individuals

In addition to nearly doubling the standard deductions, the Tax Cuts and Jobs Act changed several deductions that can be claimed on schedule A, Itemized Deductions. The old rule that limited the total itemized deductions for certain higher-income individuals has been suspended. So, if you do itemize, your deductions are no longer limited if your adjusted gross income is over a certain amount.

Medical Expenses

You're allowed a deduction for unreimbursed medical expenses in excess of 7.5% of your 2018 adjusted gross income (the threshold was previously 10% of your AGI). Deductions for state/local income, sales and property taxes is now limited to a combined total of $10,000 ($5,000 if married filing separately). You get no benefit for amounts paid above this amount. You also get no deduction for foreign real property taxes.

Mortgage Interest

The deduction for mortgage interest is limited to interest paid on a loan secured by your primary or second home that you used to buy, build, or substantially improve the home. If your loan originated on or before December 5, 2017, you may deduct interest on up to $1,000,000 ($500,000 if married filing separately) in qualifying debt. If your loan originated after that date, you may only deduct interest on up to $750,000 ($375,000 if married filing separately) in qualifying debt.

Cash Contributions

The limit on cash contributions to qualified charitable organizations has increased from 50% to 60% of your adjusted gross income. Contributions exceeding the 60% limit are generally allowed to be carried forward and deducted for up to five years, subject to the later year's ceiling.

Miscellaneous Itemized Deductions

The Tax Cuts and Jobs Act suspended all miscellaneous itemized deductions including unreimbursed employee expenses (such as uniforms, business-related meals and entertainment, travel), and investment expenses (such as investment management fees, safe deposit box fees, and investment expenses from pass-through entities). In prior years, these needed to exceed 2% of your adjusted gross income to be deductible. They are no longer allowed.

Personal Exemptions & Child Tax Credit

Personal exemptions (the $4,050 deduction for each exemption claimed on a 2017 return) have been suspended. This will be offset by an enhanced child tax credit of $2,000 per child under age 17 (up from $1,000). Up to $1,400 of the credit can be refundable for each qualifying child as an additional child tax credit. The new law significantly increases the income phase-out thresholds beginning at $400,000 gross income for couples and $200,000 for all other filers. A non-refundable $500 credit for each dependent who is not a qualifying child has also been added. The qualifying dependent must be a U.S. citizen, U.S. national, or U.S. resident alien. You may be able to claim this credit if you have an elderly parent, or a disabled child in your household. This credit would phase out under the same income thresholds as the child tax credit.

Education

The new law allows families to spend up to $10,000 a year from tax-advantaged 529 savings plans to cover K-12 tuition for a public, private or religious school of the beneficiary's choosing. This total is per beneficiary, regardless of the number of contributing plans.

Kiddie Tax

There are new tax rates applicable to a child's unearned income of more than $2,550 (the so-called Kiddie Tax). In the past, earnings subject to the Kiddie Tax were taxed at the parents' tax rate. Under the new law, these rates are more in line with the rates that apply to trusts and estates at 24%, 35%, and 37%.

Businesses

Highlights for Businesses

Lower Corporate Tax Rate

The Tax Cuts and Jobs Act slashes the 2018 tax rate for C corporations from 35% to 21% and permanently repeals the corporate alternative minimum tax. Companies that have an alternative minimum tax credit for AMT paid in prior years will be allowed to use the credit, subject to limits, in full before 2022.

Section 199A Deduction

For 2018, section 199A of the Internal Revenue Code provides a deduction for many business owners of up to 20% for qualified business income from a qualified trade or business operated directly (e.g. sole proprietor) or through a pass-through entity (e.g. partnership or S-corporation). For taxpayers with taxable income that exceeds $315,000 for a married couple filing a joint return or $157,000 for all other taxpayers, the deduction is subject to limitations such as the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid by the qualified trade or business, and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. Income earned through a C-corporation or by providing services as an employee is not eligible for the deduction.

Depreciation & Section 179

The new law temporarily allows 100% expensing for business property acquired and placed in service after September 27, 2017 and before January 1, 2023. The 100% allowance generally decreases by 20% per year in taxable years beginning after 2022 and expires January 1, 2027. In addition, the maximum for section 179 deduction has been increased to $1 million with a phaseout threshold for acquisitions of $2.5 million.

Interest Expense

For businesses with $25 million or less in average annual gross receipts, business interest expense is limited to business interest income plus 30% of the business's adjusted taxable income and floor-plan financing interest. Disallowed interest above this limit may be carried forward indefinitely, with special rules for partnerships.

Cash Basis Accounting

Small business taxpayers with average annual gross receipts of $25 million or less (formerly $5 million or less) in the prior three-year period can use the cash basis method of accounting. Eligible businesses are exempt from certain accounting rules for inventories, cost capitalization, and long-term contracts.

Net Operating Loss

Net operating losses incurred prior to January 1, 2018 can be used to offset 2018 net income without any limit. Any additional net operating losses sustained in 2018, need to be accounted for separately. The Tax Cuts and Jobs Act limits the amount of NOL that may be deducted in any one year to 80% of taxable income (determined without regard to the NOL deduction).

Meals & Entertainment

In general, deductions for any expenses related to activities considered entertainment, amusement, or recreation have been eliminated. Taxpayers, can however, continue to deduct the cost of business meals (at 50% or 100%) if the taxpayer (or an employee of the taxpayer) is present, and the food or beverages are not considered extravagant.

Meals & Entertainment Events	Amount Deductible for Tax Year 2018		
	100%	50%	Zero
Meals with clients and prospects		x	
Entertainment with clients and prospects			x
Employee meals for convenience of employer		x	
Employee meals for required business meeting		x	
Meal served at Chamber of Commerce meeting		x	
Meals while traveling away from home overnight		x	
Year-end party for employees and spouses	x		
Golf outing for all employees and spouses	x		
Year-end party for customers			x
Meals for general public at marketing presentation	x		
Team-building recreational event for all employees	x		
Golf, theater, or football game with your best customer			x

This list is not meant to be exhaustive, but highlights some of the changes that will affect most of our clients. To get a handle on your individual situation, please feel free to schedule an appointment before the end of the year so that we can assist you in making the decision that's right for you.

We appreciate your continued business
and wish everyone a safe and happy holiday season!

DESROCHES
PARTNERS