DESROCHES PARTNERS

The Tax Reform Digest 2017

Tax reform has arrived! Learn how it affects you, and what you can do about it.

First, a few action items

1

Consider accelerating your business deductions

If you were planning on deferring deductions to next year, you may not want to. Instead, accelerate those deductions into 2017 when they could be used to offset income taxed at a higher rate. Because...income tax rates are going down next year.

2

Defer taxable income to 2018

Putting off that paycheckwill allow you to take advantage of the lower tax rates that take effect January 1, 2018.

3

A few more things you may consider doing before the end of the year:

- Pay your property tax bill by December 31, 2017.
- Make charitable contributions by December 31, 2017..
- If you're planning on buying a car or any other large, taxable purchases, do it before… you guessed it…December 31, 2017.

Read more on why these strategies will help you. See the rundown, below.

Policy rundown (effective January 1, 2018)

Impacts to personal taxpayers

Revised tax brackets and rates

Good news for earners! The brackets are getting bigger, and the rates are getting smaller. Here's a side-by-side comparison of the 2017 and compared to the 2018 tax brackets.

2017

Tax Rate	Single Filers	Married Filing Jointly
10%	Up to $9,325	$0 - $18,650
15%	$9,326 to $37,950	$18,651 - $75,900
25%	$37,951 to $91,900	$75,901 - $153,100
28%	$91,901 to $191,650	$153,101 - $233,350
33%	$190,651 to $416,700	$233,351 - $416,700
35%	$416,701 to $418,400	$416,701 - $470,700
39.6%	$418,400+	over $470,700

2018

Tax Rate	Single Filers	Married Filing Jointly
10%	Up to $9,525	Up to $19,050
12%	$9,526 to $38,700	$19,051 to $77,400
22%	$38,701 to $82,500	$77,401 to $165,000
24%	$82,501 to $157,500	$165,001 to $315,000
32%	$157,501 to $2w00,000	$315,001 to $400,000
35%	$200,001 to $500,000	$400,001 to $600,000
37%	$500,000+	$600,000+

Larger Standard Deduction Amount

In an attempt to simplify the tax return, the standard deduction has been increased to $24,000 (MFJ) and $12,000 (Single). This was put in place to decrease the number of taxpayers needing to itemize their deductions, while absorbing the deduction for personal exemptions.

2017

Tax Rate	Single Filers	Married Filing Jointly
Exemption	$4,050	$4,050
Standard Deduction	$6,350	$12,700

2018

Tax Rate	Single Filers	Married Filing Jointly
Exemption	$0	$0
Standard Deduction	$12,000	$24,000

Changes to itemized personal deductions

State and Local Tax Deductions (Schedule A)

Previously, you were able to deduct all state income, sales and property taxes. Now the deduction is limited to a combined $10,000 (MFJ) or $5,000 (Single). So if you pay more than that, it might be a good idea to pay those taxes before the new code takes effect on January 1, 2018.

Miscellaneous Itemized Deductions

These are now a thing of the past. This would include your investment advisor expenses, unreimbursed business expenses, and your tax prep fees.

Mortgage Interest Deduction

For mortgages existing before December 15, 2017, the law is unchanged with regards to the mortgage interest deduction. For new mortgages or refinanced mortgages after December 15, 2017, the maximum loan amount eligible to deduct mortgage interest has been reduced to $750,000 (MFJ) and $375,000 (Single). This maximum loan balance applies to primary and second homes combined.

Moreover, the ability to deduct mortgage interest on home equity loans has also been eliminated. In short, having a mortgage just got more expensive.

Other personal tax changes

Estate and Gift Tax

An individuals' lifetime gift exclusion has doubled and is now set at $11.2 million per person through the end of 2025.

The annual gift exclusion remains at $15,000 for 2018.

Alternative Minimum Tax

After much debate, the alternative minimum tax for individuals is still in place. For married couples filing jointly, the exemption has been increased to $109,400, which means fewer taxpayers will be subject to AMT.

Repeal of ACA Individual Mandate

Under the Affordable Care Act, anyone who didn't have adequate health insurance was levied a tax for "failure to maintain essential coverage". This provision has been eliminated for tax returns filed after the 2018 tax year (bear in mind that you're still required to carry insurance for one more year).

Impacts to businesses

Lower corporate income tax rate

Businesses operating as a C-Corporation will see their income tax rate lowered from 35% to 21% in in 2018.

The bill has also eliminated the corporate alternative minimum tax.

Income deduction from pass-through entities

For most businesses operating as a pass-through entity (S-Corporations, Partnerships, LLC's) you will be eligible for a 20% deduction for the non-wage portion of the pass-through income. This deduction, however, does NOT apply to most service businesses (law firms, accounting firms, etc.).

Immediate expensing of qualified property

For the next five years, businesses are able to expense 100% of their qualified capital expenditures with no income limitations.

New limitations on the deductibility of business meals and entertainment

(Hint: it's not so entertaining.)

No deduction is allowed for entertainment expenses. This includes pretty much everything that's not directly business-related: membership dues, recreation activities, sporting events, or amusement facilities even if they directly relate to conducting business.

A 50% deduction applies only to qualified business meals.

Domestic production activities deduction (IRS § 199) has been repealed

The deduction businesses received for producing or manufacturing goods in the United States has been repealed. Prior to 2018, companies received a 9% deduction of their taxable income related to those manufacturing activities.

In conclusion

This is the biggest shakeup in tax reform since 1986 and there are a lot of changes to keep up with. Your CPA knows your financial situation and how these changes will affect you, and some proactive tax planning will save you money.

Call Desroches Partners at 713.360.0800, and get your strategy in place for the new year.