

THE NEW TAX LAW THE TAX CUTS AND JOBS ACT

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MAIN CHANGES OF THE TAX CUTS AND JOBS ACT PASSED DECEMBER 20, 2017-PERSONAL

- Lower tax rates in all but one category of income
- Standard deduction increase
- Elimination of the personal exemption
- Child tax credit increased and phase-out limit increased
- Limits Mortgage deduction
- Limits the state and local tax deductions to \$10,000
- Retains the medical deduction
- Raises the Exemption on the AMT and increases the phase-out threshold
- Repeals the individual mandate penalty on the Affordable Care Act starting in 2019

MAIN CHANGES OF THE TAX CUTS AND JOBS ACT PASSED DECEMBER 20, 2017 - BUSINESS

- Lowers the corporate income tax rate to 21% from 35%
- Pass-through entities (S-corporations, Partnerships, LLCs) small businesses where the business income is taxed on the owners' personal income tax return get a 20% deduction of qualified income with exceptions
- Allows full and immediate expensing of short lived capital assets for the next 5 years
- Increases the section 179 deduction cap from \$500,000 to \$1 Million
- Eliminates the NOL carryback and limits NOL carryforward to 80% of taxable income
- Limits the deductibility of interest expense to 30% of EBITDA for 4 years and then 30% of EBIT thereafter
- Eliminates corporate AMT
- And other provisions



NEW TAX RATES COMPARED TO OLD TAX RATES

	SINGLE FILER		
Old Tax	Rates	New Tax	Rates
Percent	Range	Percent	Range
10	\$0 to \$9,525	10	\$0 to \$9,525
15	\$9,525 to \$38,700	12	\$9,525 to \$38,700
25	\$38,700 to \$93,700	22	\$38,700 to \$82,500
28	\$93,700 to \$195,450	24	\$82,500 to \$157,500
33	\$195,450 to \$424,950	32	\$157,500 to \$200,000
35	\$424,950 to \$426,700	35	\$200,000 to \$500,000
39.6	\$426,700+	37	\$500,000+



NEW TAX RATES COMPARED TO OLD TAX RATES

	MARRIED FILING	JOINTLY	
Old Tax	Rates	New Tax	Rates
Percent	Range	Percent	Range
10	\$0 to \$19,050	10	\$0 to \$19,050
15	\$19,050 to \$77,400	12	\$19,050 to \$77,400
25	\$77,400 to \$156,150	22	\$77,400 to \$165,000
28	\$156,150 to \$237,950	24	\$165,000 to \$315,000
33	\$237,950 to \$424,950	32	\$315,000 to \$400,000
35	\$424,950 to \$480,050	35	\$400,000 to \$600,000
39.6	\$480,050+	37	\$600,000+



PERSONAL TAX CHANGES

- Standard deduction increase
 - Single from \$6,350 to \$12,000
 - Head of Household from \$9,350 to \$18,000
 - Married Filing Jointly from \$12,700 to \$24,000
- Elimination of the personal exemption
 - In 2017 each personal exemption was worth \$4,050 going forward zero
- Child tax credit increased and phase-out limit increased
 - the credit increased from \$1,000 to \$2,000; the refundable portion increased from \$700 to \$1,400
 - the Adjusted Gross Income limit on a joint income tax return to claim the full credit increased from \$110,000 to \$400,000



PERSONAL TAX CHANGES

- Limits Mortgage deduction
 - Deductible interest on mortgages is now limited to \$750,000 of acquisition debt; it was \$1 Million. This is for new acquisitions after 2017. Interest on prior acquisition debt to \$1 Million is still deductible. Also, deductibility of interest on home equity loans is eliminated
- Limits the state and local tax deductions to \$10,000
 - this is a big item for people in high tax states such as New York
- Retains the medical deduction
 - in 2018 medical expenses that exceed 7.5% of Adjusted Gross income are deductible. In 2019 and beyond the threshold increases to 10% of AGI



PERSONAL TAX CHANGES

- Raises the Exemption on the AMT and increases the phase-out threshold
 - Exemption increases to \$70,300 from \$54,300 for single taxpayers and increases to \$109,400 from \$84,500 for married filing joint taxpayers. The phase-out threshold is increased to \$1 Million
- Repeals the individual mandate penalty on the Affordable Care Act starting in 2019. The individual mandate penalty is still in force for the 2018 income tax year. The penalty in 2018 is \$695 per individual and 1/2 of that amount for children under age 18.



PERSONAL TAX CHANGES

- Other miscellaneous changes:
 - 529 Plan savings can now be used for all education, K-12 was added.
 - Student loan interest is still deductible with the same income limitations
 - the \$4,000 tuition deduction is eliminated
 - unreimbursed business expense deduction on Schedule A is eliminated
 - tax preparation fees and investment fee deduction on schedule A is eliminated
 - Alimony deduction to the payer is eliminated and the receiver will no longer include alimony as taxable income
 - the federal estate exemption increases from \$5.6 Million per person to 11.7 Million per person



PERSONAL TAX CHANGES

- ALL THE ABOVE PERSONAL PROVISIONS EXPIRE AT THE END OF 2025!
- Do not expect that these tax law changes will make it all the way to 2025 before congress makes additional changes or deletions
- BUT, precedent has been set:
 - elimination of exemptions could remain
 - capping of state and local taxes at \$10,000 could remain
 - elimination of many miscellaneous itemized deductions could remain
 AND tax rates could go back to what they were before or higher!



EXAMPLES

Married Filing Joint Tax Return

	Old Law
Gross	\$140,000
Exemptions	8,100
Standard Deduction	<u>12,700</u>
Taxable Income	<u>119,200</u>
Tax	\$21,277

	New Law
Gross	\$140,000
Exemptions	-0-
Standard Deduction	<u>24,000</u>
Taxable Income	<u>116,000</u>
Tax	\$17,399



EXAMPLES

Married Filing Joint Tax Return

	Old Law
Gross	\$140,000
Exemptions	8,100
Itemized Deductions	
Real Estate Tax	4,000
NYS Income Tax	3,500
Mortgage Interest	6,300
Contributions	<u>2,000</u>
Standard Deduction	
Taxable Income	<u>116,100</u>
Tax	\$20,252

	New Law
Gross	\$140,000
Exemptions	-0-
Itemized Deductions	
Real Estate Tax	
NYS Income Tax	
Mortgage Interest	
Contributions	
Standard Deduction	<u>24,000</u>
Taxable Income	<u>116,000</u>
Tax	\$17,399



EXAMPLES

Married Filing Joint Tax Return

	Old	Law
Gross		\$280,000
Exemptions		8,100
Itemized Deductions		
Real Estate Tax		15,000
NYS Income Tax		12,400
Mortgage Interest		9,550
Contributions		<u>5,000</u>
Taxable Income		<u>229,950</u>
Tax		\$51,270

	New	Law
Gross		\$280,000
Exemptions		-0-
Itemized Deductions		
Real Estate Tax		10,000
NYS Income Tax		
Mortgage Interest		9,550
Contributions		<u>5,000</u>
Taxable Income		<u>255,450</u>
Tax		\$49,887



EXAMPLES

Married Filing Joint Tax Return

	Old	Law
Gross		\$400,000
Exemptions		8,100
Itemized Deductions		
Real Estate Tax		21,000
NYS Income Tax		32,000
Mortgage Interest		12,500
Contributions		<u>10,000</u>
Taxable Income		<u>316,400</u>
Tax		\$79,629

	New	Law
Gross		\$400,000
Exemptions		-0-
Itemized Deductions		
Real Estate Tax		10,000
NYS Income Tax		
Mortgage Interest		12,500
Contributions		<u>10,000</u>
Taxable Income		<u>367,500</u>
Tax		\$80,979



EXAMPLES

Married Filing Joint Tax Return – 3 children under 17

	Old	Law
Gross		\$110,000
Exemptions		20,250
Standard Deduction		<u>12,700</u>
Taxable Income		<u>77,050</u>
Tax		10,740
Child Credit		<u>3,000</u>
Net Tax		\$7,740

	New	Law
Gross		\$110,000
Exemptions		-0-
Standard Deduction		<u>24,000</u>
Taxable Income		<u>86,000</u>
Tax		10,799
Child Credit		<u>6,000</u>
Net Tax		\$4,799



EXAMPLES

Married Filing Joint Tax Return – 3 children under 17

	Old	Law
Gross		\$110,000
Exemptions		20,250
Itemized Deductions		
Real Estate Tax		4,000
NYS Income Tax		3,500
Mortgage Interest		6,300
Contributions		<u>2,000</u>
Standard Deduction		
Taxable Income		<u>73,950</u>
Tax		10,160
Child Credit		<u>3,000</u>
Net tax		\$7,160

	New	Law
Gross		\$110,000
Exemptions		-0-
Itemized Deductions		
Real Estate Tax		
NYS Income Tax		
Mortgage Interest		
Contributions		
Standard Deduction		<u>24,000</u>
Taxable Income		<u>86,000</u>
Tax		10,799
Child Credit		<u>6,000</u>
Net tax		\$4,799



EXAMPLES

Single Filer tax Return

	Old	Law
Gross		\$80,000
Exemption		4,050
Standard Deduction		<u>6,350</u>
Taxable Income		<u>69,600</u>
Tax		\$13,139

	New	Law
Gross		\$80,000
Exemption		-0-
Standard Deduction		<u>12,000</u>
Taxable Income		<u>68,000</u>
Tax		\$10,900



EXAMPLES

Single Filer tax Return

	Old	Law
Gross		\$80,000
Exemption		4,050
Itemized Deductions		
Real Estate Tax		3,000
NYS Income Tax		2,800
Mortgage Interest		2,200
Contributions		<u>500</u>
Standard Deduction		
Taxable Income		<u>67,450</u>
Tax		\$12,601

	New	Law
Gross		\$80,000
Exemption		-0-
Itemized Deductions		
Real Estate Tax		
NYS Income Tax		
Mortgage Interest		
Contributions		
Standard Deduction		<u>12,000</u>
Taxable Income		<u>68,000</u>
Tax		\$10,900



EXAMPLES

Single Filer tax Return

Old	Law
Gross	\$160,000
Exemption	4,050
Itemized Deductions	
Real Estate Tax	7,000
NYS Income Tax	12,000
Mortgage Interest	8,000
Contributions	<u>2,000</u>
Taxable Income	<u>126,950</u>
Tax	\$28,528

New	Law
Gross	\$160,000
Exemption	-0-
Itemized Deductions	
Real Estate Tax	10,000
NYS Income Tax	
Mortgage Interest	8,000
Contributions	<u>2,000</u>
Taxable Income	<u>140,000</u>
Tax	\$27,890



BUSINESS TAX CHANGES

- Lowers the corporate income tax rate to 21% from 35%
if income and expenses stayed the same in a corporation for 2018 as it was in 2017, net income would increase 14%
- Pass-through entities (S-corporations, Partnerships, LLCs) small businesses where the business income is taxed on the owners' personal income tax return get a 20% deduction of qualified income with exceptions
doctors, lawyers, accountants (personal service businesses) except architects and engineers have the 20% phased out for income on a joint income tax return between \$350,000 and \$450,000
entity creativity has begun already



BUSINESS TAX CHANGES

- Allows full and immediate expensing of short lived capital assets for the next 5 years
 - computer equipment, chairs and desks, etc. can be deducted immediately in the year of purchase rather than being depreciated over 3 to 5 years
- Increases the section 179 deduction cap from \$500,000 to \$1 Million
 - longer lived assets (not buildings) can be written off immediately under this provision.



BUSINESS TAX CHANGES

- Eliminates the NOL carryback and limits NOL carryforward to 80% of taxable income
 - prior law allowed 3-year carryback and carryforward allowed 100% of taxable income write-off in a future year
- Limits the deductibility of interest expense to 30% of EBITDA for 4 years and then 30% of EBIT thereafter
- Eliminates corporate AMT
 - with the lowering of corporate tax rates and faster write-off of asset purchases, this elimination is BIG for corporations



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Questions

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