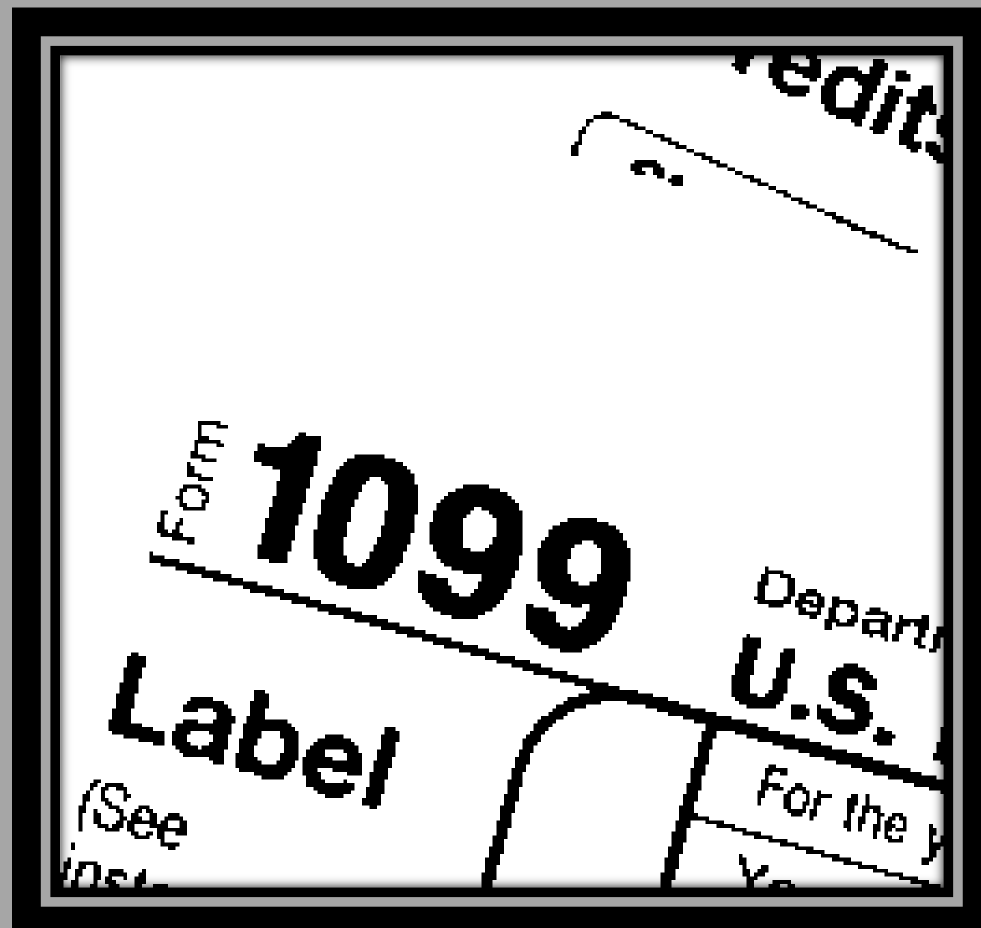
# 2018 TAX SEMINAR

## OPPORTUNITIES

## & IMPACTS

- Tax Cuts and Jobs Acts – Enacted December 22, 2017
- Most changes go into effect January 1, 2018




*Seminar sponsored by Ann Laufman of ALA Financial Group LLC*

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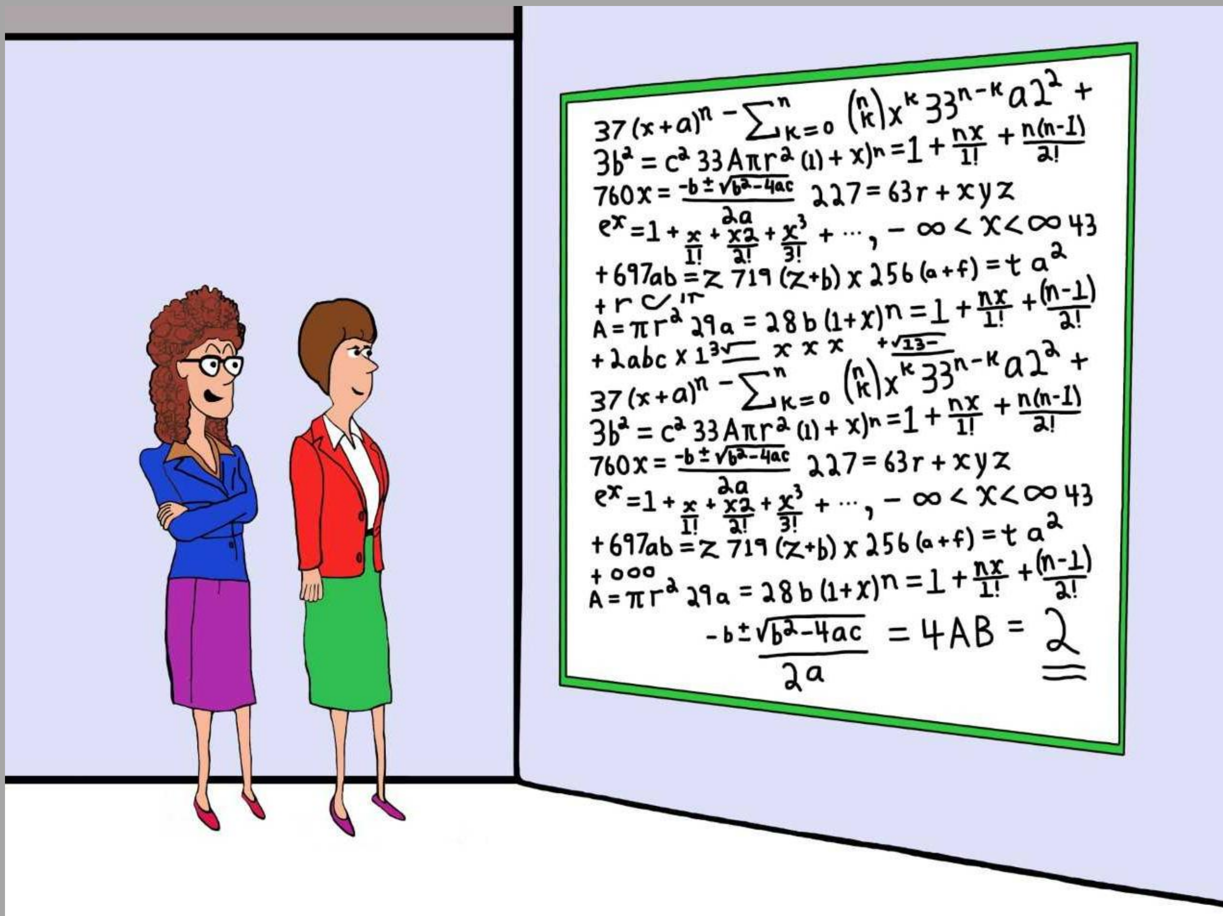


"This is the most straightforward tax plan I've ever seen."

# *Outline*

1. Summary of Major Changes

   Individuals

   Businesses

2. Explanation of Changes

   Individuals

   Businesses

3. Summary of Tax Savings Idea

# Major Changes - Individuals

- Tax rates lowered 3-4%, and brackets expanded, resulting in an approximate 5% tax reduction.
- Top tax rate lowered to 37% and starts at taxable income of $600,000 for married filing jointly.
- Standard deduction nearly doubles to $24,000 for married filing jointly, and $12,000 filing single.
- Deduction for exemptions eliminated.
- Limits property and sales tax deduction to $10,000 per year.
- Limits mortgage interest on new loans to a loan amount of $750,000.

# Major Changes – Individuals Cont.

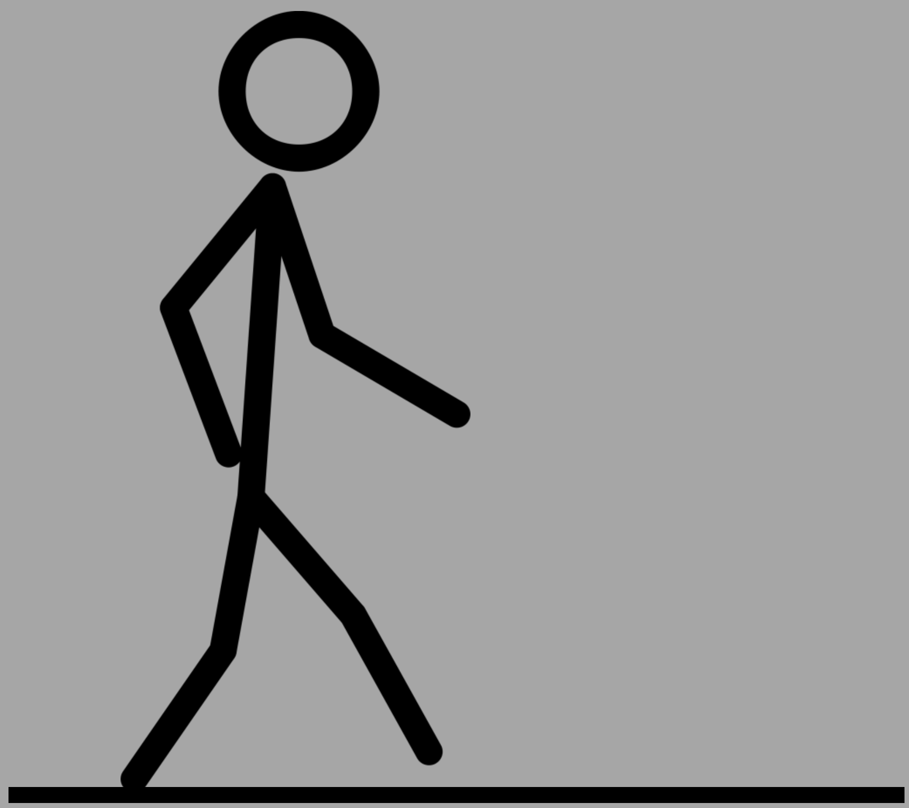
- No interest deduction for HELOC not used to improve or purchase a residence.
- Eliminates Miscellaneous Itemized Deductions including unreimbursed business expenses and investment advisor fees.
- Eliminates penalty for not having health insurance effective January 1, 2019.
- Increased the estate tax exemption to $1.2 million indexed for inflation, but only through 2025 when it reverts to current level of $5.6 million (adjusted for inflation).

**<u>Most individual changes expire after 2025.</u>**

# Major Changes – Business

- Flat tax rate for C corporations of 21%.
- 20% deduction for many pass through entities (S corporations and partnerships) as well as sole proprietors. The deduction is eliminated for certain service businesses that earn over $315,000 married filing jointly or $157,500 filing single.
- Business entertainment expense such as tickets to sporting events is eliminated.
- 100% bonus depreciation includes used equipment good through 2022.

# Individual Taxes



# Individual Tax Return Format – Prior to New Tax Law

Income:

W-2 Income
Investment Income
Business Income (Schedule C, pass through from S Corp. & Partnerships)
Other Income: Retirement, Social Security, etc.

Adjustments: Retirement contributions, moving exp., student loan interest, etc.

AGI: Total Income less Adjustments is Adjusted Gross Income (AGI)

# Individual Tax Return Format Cont.

Standard Deduction or Itemized Deduction (take greater)

Itemized Deductions include:

- Medical Expenses greater than 7.5% of AGI
- Sales Tax
- Property Tax
- Mortgage Interest
- Charitable Contributions
- Casualty Loss
- Miscellaneous Itemized Deductions in excess of 2% of AGI

  - Includes: unreimbursed job expenses, investment expenses, legal & accounting expenses

Deduction for Exemptions: Previously $4,050 per dependent

Taxable Inc. AGI less standard or itemized deductions less exemptions.

Tax: Tax on taxable income, less credits, plus alternative minimum tax

# Seven Individual Tax Brackets

- 10%
- 12%
- 22%
- 24%
- 32%
- 35%
- 37%

The same number of brackets, but the income breaks are in different places, and cap at 37% rather than 39.6%

# Standard Deduction

Increased Standard Deduction

- $24,000 for Married Filing Jointly
- $18,000 for Head of Household
- $12,000 for All Other Taxpayers

More Good News: This will be adjusted for inflation following 2018.

- As consistent with current law, additional deductions apply for the elderly and blind

- **Tax Saving Idea:** "Bunch" the few remaining itemized deductions such as charitable contributions or medical expenses.

# State And Local Tax Deduction

- Limited to a total of $10,000 for real estate,  state and local income taxes
- **Note:** property taxes on rental real estate and business property are still 100% deductible

# Mortgage Interest

- Deduction is limited to indebtedness of up to $750,000 (or $375,00 if Married Filing Separately) on qualified residences for new loans.

- Bad News: The deduction for Home Equity Loans has been eliminated for new or existing loans.

# Casualty and Theft Loss Deduction

- Mostly eliminated, with the exception of losses incurred in a federally declared disaster area.

# 2% Miscellaneous Itemized Deductions

- Eliminated

  Includes:

  - Unreimbursed Business Expenses
  - Investment Advisor Fees
  - Legal and Accounting Fees

**Tax Saving Idea:** Find a way to generate income not reported on a W-2 since business, legal, and accounting fees are still deductible against Schedule C or S corporation income

# Personal Exemption Deduction

- Eliminated

# Taxable Income of a Child

- Net unearned income of a child is taxed according to the brackets applicable to estates and trusts.

    - No longer tied to the parents' return.

- Child's earned income is taxed at the single individual rates.

**Tax Saving Idea:** Have your children work for you. They can earn up to $12,000 tax free and next $19,050 taxed at 10% (plus 15.3% payroll tax)

# Alimony

- Alimony and maintenance payments are not deductible by the payor spouse, and are not included in the income of a payee spouse.

- This is only applicable to alimony paid with respect to agreements after 2018.

# Moving Expenses

- Have been eliminated as deductible, with the exception of members of the military on active duty (and their families) who move pursuant to a permanent change of station military order.

# Alternative Minimum Tax

2018 AMT exemption amounts are:

- $109,400 for Married Filing Jointly
- $79,300 for single or

  Head of Household
- $54,700 for Married Filing Separately

Exemptions are reduced by 25% of AMT taxable income over:

- $1,000,000 for Married Filing Jointly
- $500,000 for Single, Head-of-Household or Married Filing Separately.

Amounts are indexed for inflation after 2018.

# QTPs – Qualified Distributions

- Educational expenses are expanded to include tuition at elementary or secondary public, private or religious schools – up to $10,000 per tax year.

# Child Tax Credit

The child tax credit has doubled to $2,000 per qualifying child under 17.

Adjusted Gross Income (AGI) levels at which  the credit phases out are:

- $400,000 for Married Filing Jointly
- $200,000 for all other taxpayers

*These amounts are not indexed for inflation.

# Child Tax Credit – Non Child Dependents

- A $500 non-refundable credit is provided for dependents other than qualifying children.

- This is a new provision.

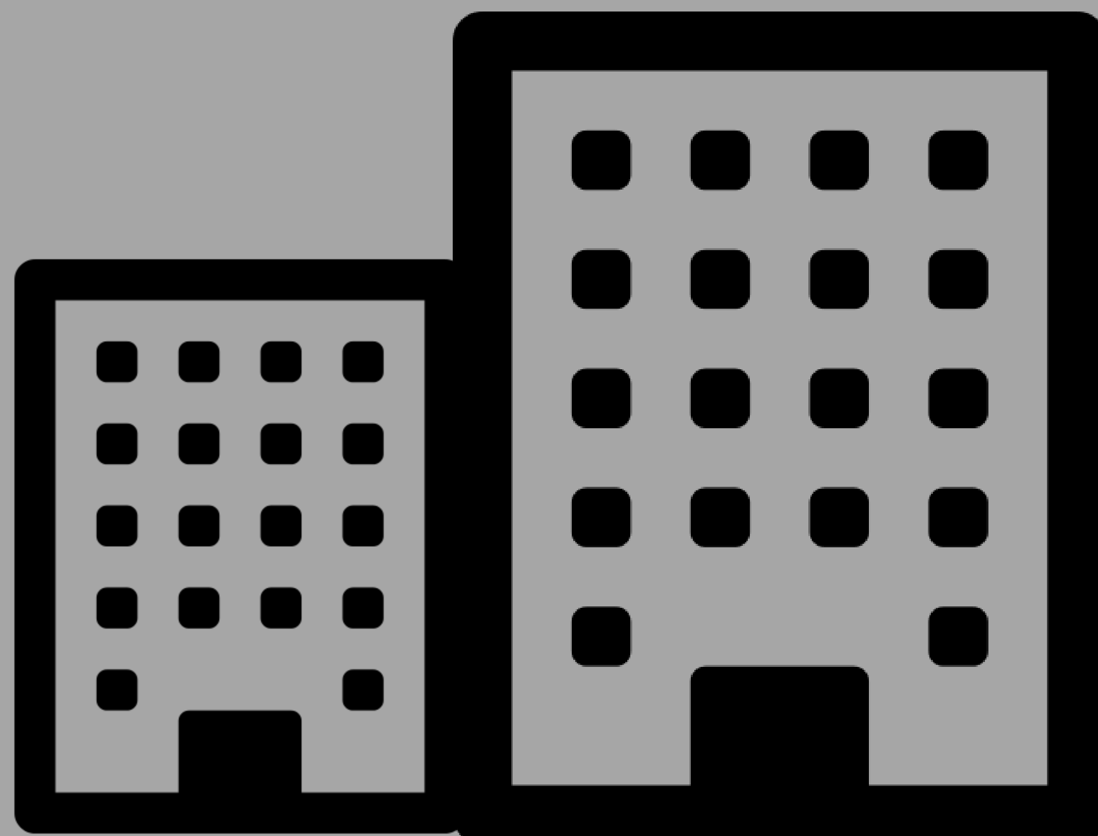
# Child Tax Credit – Refundability

- To the extent the child tax credit exceeds the taxpayer’s tax liability, the taxpayer is eligible for an increased refundable credit of up to $1,400 per qualifying child, (up from $1,000, and adjusted for inflation) and the earned income threshold for the refundable portion of the credit is decreased from $3,000 to $2,500.

# Affordable Care Act Individual Mandate

- The shared responsibility payment, or penalty for not being covered by a minimum essential health coverage has been permanently reduced to zero for months after 12/31/2018.

# Business Taxes



# Income Tax Rates

- Lowered to a flat 21%, for all C corporations, including personal service corporations (PSCs).

- This is down from graduated rates that topped out at 35%.

# Alternative Minimum Tax

- Corporate AMT has been eliminated for C Corporations.

# Deductions for Qualified Business Income

- This is a *new* deduction.
- Generally speaking, 20% of qualified business income is deducted from QBI to arrive at the taxable portion.
- Limited to 50% of W-2 wages OR 25% of W-2 wages plus 25% of the unadjusted tax basis of property in the business.

**Tax saving idea**: See if there is any way to convert existing W-2 or other income to business income in order to qualify for this deduction.

# Deductions for Qualified Business Income Cont.

This is **not** a deduction for specified service businesses, including:

- Health, Law, Accounting, Actuarial Science, Performing Arts, Consulting, Athletics, Financial Services, Brokerage Services
- Any other trade or business where the principal asset is the reputation or skill of one or more employee or owner, or
- Any trade of business involving the performance of services that consist of investing and investment trading, or dealing in securities, partnership interests or commodities.
- UNLESS the taxpayer has taxable income below $157,500 single or $315,000 married.
- Tax Saving Idea: Use defined benefit plan to bring income under threshold.

# Immediate Expensing of Qualifying Business Assets

- First year (bonus) depreciation deduction of 100% (up from 50%) is allowed for qualified property, and now applies to used as well as new property. Beginning in 2023, this first-year deduction phases down to zero in 2027.
- For certain property with longer production periods, and certain aircraft, the phase down begins in 2024 to zero in 2028.
- The definition of qualified property is expanded to include certain qualified film or television productions and qualified live theatrical productions.

**Tip:** Consider buying used equipment, and plan to purchase equipment prior to 2023.

# Expensing and Depreciating Property

Section 179 Deduction Limits:

- The maximum deduction and phase-out thresholds are increased to $1 million and $2.5 million, respectively, and will be indexed for inflation.

(Previously, the maximum Section 179 deduction was $520,000, and the qualifying property phase-out threshold was $2,070,000)

# Luxury Automobile Depreciation  Limits Increased

The annual limits on the amount of depreciation  allowed, for which bonus depreciation is not claimed is:

- $10,000 for the placed-in-service year
- $16,000 for the second year
- $9,600 for the third year
- $5,760 for the fourth and later years.

These amounts will be indexed for inflation. For passenger autos eligible for bonus depreciation, additional bonus depreciation of up to $8,000 may be claimed.

# Real Property – Recovery Period

- The separate definitions of qualified leasehold improvement, qualified restaurant and qualified retail improvement property are eliminated. A 15-year recovery period (20 years for ADS) applies to *qualified improvement property*.

  - *Qualified improvement property* means any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date such building was first placed in service.

- This property qualifies for bonus deprecation.
- Subject to a technical correction by Congress.

# Net Operating Losses (NOLs)

- NOLs can no longer be carried back, but can be carried forward indefinitely. The NOL deduction is limited to 80% of taxable income.

- Exceptions: The old two-year carryback rule still applies to certain losses incurred in a farming business, and property and casualty insurance companies can carry their NOLs back two years and forward 20 years to offset 100% of taxable income.

# Domestic Producers Deduction

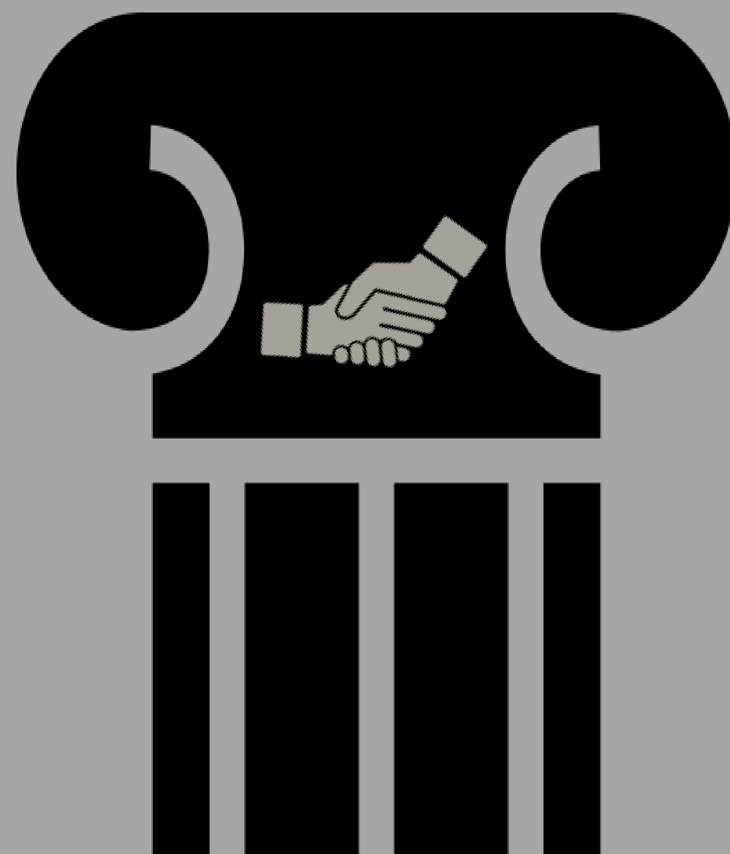
- This deduction has been eliminated.

# Cash Method of Accounting

- The availability of the cash method is expanded to include taxpayers (other than tax shelters) that satisfy a $25 million gross receipts test, regardless of whether the purchase, production or sale of merchandise is an income-producing factor.

- In addition, such taxpayers are not required to account for inventories. Instead, they may treat inventories as non-incidental materials and supplies or conform to their financial accounting treatment of inventories.

# Trusts and Estates



# Trusts & Estates - New Brackets

*Previous Brackets*

- 15%
- 25%
- 28%
- 33%
- 39.6%

*New Brackets*

- 10%
- 24%
- 35%
- 37%

**Tax Saving Idea:** Distribute trust and estate earnings to beneficiaries to avoid the compressed trust and estate tax brackets

# Estate and Gift Taxes Exemption Amount

The exemption for 2018 is:

- $11.2 million for individuals
- $22.4 million per married couple
- Amounts are good through 2025 when the exemption returns to the <u>previous</u> amount of $5.6 million.

**Tax Saving Idea**: need to base estate planning on <u>previous</u> amount of $5.6 million since the $11.2 million exemption is not permanent.

# Tax Saving Ideas - Recap

- Have your children work for you
- Purchase used equipment now eligible for 100% bonus depreciation
- Bunching of itemized deductions if possible
- Do not rely on estate tax exemption of $11.2 million since that will revert to previous amount of $5.6 million after 2025.
- Find ways to convert income from a W-2 to business income to be able to deduct business expenses and possibly qualify for the 20% deduction for qualified business income.
- Distribute trust and estate earnings to beneficiaries to avoid the compressed tax brackets for estates and trusts

# Additional Tax Saving Ideas

- Maximize contributions to retirement plans and health savings plans or set up a retirement plan for your business. Consider a defined benefit plan if your income is high enough. A defined benefit plan may enable a service business to qualify for the 20% flow through business deduction.
- If you are currently in a high tax bracket, consider investments that do not generate ordinary income. Examples included municipal bonds, stocks and real estate that will generate capital gains, and annuities that defer tax on earnings.
- If you are reporting significant income on Schedule C, consider setting up an S corporation which to reduce your self-employment taxes.
- Determine if you qualify for the R&D credit.
- Consider a cost segregation study to find components of commercial real estate that are eligible for accelerated depreciation.

# Conclusion

This seminar is sponsored by Ann Laufman.

I have worked with Ann for 15+years to provide additional services to my clients including: life, disability and long-term care insurance, social security planning, retirement planning, and estate planning.

Our goal is to help you - **protect** what you have, **prepare** for unexpected events, and **plan** for retirement.

Please take a few minutes to complete the evaluation form, and let us know if there are any areas that you are interested in talking about with Ann.



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