

TAX REFORM

summary



HERBEIN WHITEPAPER

AN OVERVIEW OF THE TAX REFORM AND HOW IT AFFECTS YOU

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law. This whitepaper will summarize some of the key changes of the tax reform bill and how it affects corporations, individuals, and more.

CORPORATIONS

- Corporate tax rate is 21%
- Alternative Minimum Tax (AMT) is repealed
- Dividends received deduction (DRD) modified:
 - 70% deduction reduced to 50%
 - 80% deduction reduced to 65%

PARTNERSHIPS & S-CORPORATIONS

- Deduction for Qualified Business Income (QBI) – 20% deduction from income of partnerships, S-Corporations, and sole proprietorships (C Corporations are not eligible)
- The deduction is not available for specified service trade or businesses (SSTB) for health, law, accounting, consulting, athletics, performing arts, financial, investment and brokerage services (or services where the principal asset is the reputation or skill of one or more of its employees or owners)
- There are safe harbor rules for real estate industry
- Partnerships select a personal representative (PR) to represent the partnership for audits and other matters
- IRS audit adjustments will be assessed at partnership level unless the partnership elects out
- Partnerships need to track and report negative capital balances on tax basis to IRS

INDIVIDUALS

- Highest bracket is 37% of seven new tax brackets (10%, 12%, 22%, 24%, 32%, 35% and 37%)
- Standard deduction is \$12,000 for single filers, \$24,000 for married filing joint (MFJ) filers and \$18,000 for head of household filers
- No personal exemptions are available
- Medical expense deduction if expenses are more than 7.5% of Adjusted Gross Income (AGI), reverts to 10% in 2019
- Real estate, state and local deductions limited to \$10,000
- Mortgage interest deduction limited to \$750,000 for mortgages incurred after December 15, 2017. The \$1 million limitation remains for older debt. Interest on principle residence and a second home are deductible. Interest on home equity indebtedness is no longer deductible
- Cash charitable contributions increased to 60% of AGI
- Elimination of miscellaneous expenses on Schedule A and phase out limitation for itemized deductions is repealed
- Moving expense deduction is eliminated except for members of military
- Alternative Minimum Tax (AMT) exemption increases to \$1 M for married filing joint (MFJ) and \$500,000 for individuals
- Traditional 401(k) limit is \$18,000 (\$24,000 for those aged 50 or older)
- Affordable Care Act, "Obamacare", is repealed starting in 2019
- Child and dependent credits increase to \$2,000, per child under the age of 17 and up to \$1,400 of the credit will be refundable

ESTATES & GIFTS

- Lifetime exemption doubles to \$11.2 million
- Gift tax annual exclusion is \$15,000

MORE TO COME: Wayfair Decision, Accounting Method Automatic Changes, Business Meals and Entertainment, Business Interest Expense Limitation, and Depreciation summary



WAYFAIR DECISION

Sellers "who engage in a significant quantity of business" in a state may now be subject to a sales tax collection obligation, irrespective of whether they have physical presence in a state.

- Provides economic nexus standard
- \$100,000 and/or 200 separate transactions

ACCOUNTING METHOD AUTOMATIC CHANGES

- **Cash method** - Cash method is available for corporations and partnerships with corporate partners with average gross receipts under \$25 million
- **Inventory** - Treating inventory as non-incidental materials and supplies
- **Long-term Contracts** - Increase ceiling for completed contract method, if average gross receipts are under \$25 million
- **Uncap** - Companies with average receipts under \$25 million are no longer required to capitalize certain costs under the uniform capitalization rules

BUSINESS MEALS & ENTERTAINMENT

- Allowable meals remain deductible, subject to the 50% limitation
- If food and beverage provided at an entertainment facility, the food and beverage must be purchased separately from the entertainment or the cost of the food and beverage is stated separately from the cost of the entertainment on the receipt
- The expense must be ordinary and necessary expenses incurred in carrying on a trade or business
- The expense is not lavish or extravagant

BUSINESS INTEREST EXPENSE LIMITATION

- Business interest deduction limited to 30% of AGI (computed based on EBITDA), unless you meet certain exceptions
- Unused amounts can be carried forward indefinitely

DEPRECIATION

- Increase the 50% bonus depreciation to 100% for assets acquired and placed in service after Sept. 27, 2017 and before 2023
- First year additional bonus depreciation is also extended through 2026 with a phase down beginning in 2023
- Bonus depreciation deduction for **new and used** property increases the \$179 expensing limit to \$1 million with phaseout starting at \$2.5 million
- The \$179 expensing for SUVs remains at \$25,000 for 2018. The limit does not apply to bonus depreciation
- Expands the definition of qualified property to include improvements to nonresidential real property placed in service after the date the property was first placed in service and includes: roofs; heating, ventilation, and air-conditioning; fire protection and alarm systems; and security systems

CONTACT US



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