Certified Public Accountants

Gatto McFerson

December 20, 2017

Dear Friends and Colleagues,

The Tax Cuts and Jobs Act has been passed and signed into law.

Most of the provisions in this tax bill will have an effective date of January 1, 2018. Many of these same provisions will expire (or “sunset”) on December 31, 2025.

Below, we have tried to summarize areas that have changed, and those that remained the same:

Individual Tax Rates

Currently, there are seven different tax rates: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. The final bill also has seven: 10%, 12%, 22%, 24%, 32%, 35%, and 37%

Taxable income thresholds would be as follows:

Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Married filing jointly

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

Standard Deduction

The standard deduction will be increased from $6,350 to $12,000 for single taxpayers, and from $12,700 to $24,000 for married filing jointly. Single filers with at least one qualifying child (Head of Household) will get an $18,000 standard deduction.

Personal exemptions

Currently, the personal exemption deduction is $4,050 per person. This will be eliminated.

Child Tax Credit

The amount of the child tax credit has been increased to $2,000 per qualifying child. The act also introduces a new nonrefundable $500 credit for qualifying dependents who are not qualifying children. The credit begins to phase out for married taxpayers with adjusted gross income of $400,000. The threshold is $200,000 for all other taxpayers.

Deductions

Several deductions for individual taxpayers would be eliminated or tweaked.

- Medical Expense Deduction – Will be retained, and the threshold will actually be lowered to 7.5% of Adjusted Gross Income for tax years 2017 and 2018;
- Alimony deduction – Will be eliminated for divorce agreements executed after 12/31/18;
- Casualty and theft loss deduction – Taxpayers can only take a deduction if the loss is attributable to a presidentially declared disaster;
- Moving expenses – Has been eliminated, unless related to the armed services;
- Employee expenses for out-of-pocket costs attributable to the business of performing services as an employee will be eliminated;
- Mortgage Interest – For newly purchased homes (after December 15, 2017), the limit on indebtedness will be reduced to $750,000, from the current $1 million. Effective 1/1/18, no deduction will be allowed on home equity loan interest;
- State and Local Taxes/Property Taxes – Will limit the annual deduction to $10,000;
- Charity - The deductibility of charitable contributions remains virtually unchanged. The current 50% limitation will be increased to 60%.

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Pass-through Entities

- Individuals will be allowed to deduct 20% of "qualified business income" from a partnership, S corporation, or sole proprietorship. A limitation on the deduction is phased in based on W-2 wages above a threshold amount of taxable income. The deduction is disallowed for specified service trades or businesses with income above a certain threshold;
- As referred to above, "qualified business income" essentially means typical revenue less typical expenses with respect to the qualified trade or business of the taxpayer. This would not include specified investment-related income, deductions, or losses;
- "Qualified business income" will not include an S corporation shareholder's reasonable compensation or guaranteed payments;
- "Specified service trades or businesses" include any trade or business in the fields of accounting, health, law, consulting, athletics, financial services, brokerage services, or any business where the principal asset of the business is the reputation or skill of one or more of its employees. <u>While the definition does not specifically mention veterinarians, we assume the industry will be included in this group;</u>
- The exclusion from the definition of a qualified business for specified service trades or businesses phases out for a single taxpayer with taxable income in excess of $157,500, or $315,000 in the case of a joint return.

Education Related

- The American opportunity tax credit, the Hope scholarship credit, and the lifetime learning credit will be retained;
- The deduction for interest on education loans will be retained;
- The deduction for qualified tuition and related expenses will be retained.

(These items had been on the chopping block in the early House bill).

Other

- Alternative Minimum Tax (AMT) will not be repealed, but the exemption amounts will be increased, causing fewer taxpayers to be caught;
- Estate Tax will not be repealed, but the estate and gift tax exclusion amounts will double;
- Long-Term Capital Gain/Qualified Dividend rates will remain unchanged;
- The Obamacare Taxes - 0.9% Medicare surtax on wages or self-employment income, and 3.8% on net investment income –will remain unchanged;
- Changing the requirements for excluding the gain from the sale of a principal residence ($500,000 for those filing married-joint) had been discussed. However, no changes were made to this existing provision.

There is a lot to absorb with this new legislation, and many details are still being fleshed out. Should you have any questions about the above, please feel free to contact our office.

Sincerely,

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