PREPARING FOR THE NEW TAX LAW

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The Tax Cuts and Jobs Act of 2017 (TCJA) passed towards the end of last year. Most of the provisions in this tax bill had an effective date of January 1, 2018. Many of these same provisions will expire (or "sunset") on December 31, 2025.

The changes in the TCJA were sweeping, and there are very few taxpayers who won't be impacted by something in this bill. As tax planning season begins, we've highlighted the larger changes in the TCJA, and some observations that might help reduce your 2018 taxes:

Individual Tax Rates

In 2017, there were seven different tax rates: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. In 2018, there are also seven: 10%, 12%, 22%, 24%, 32%, 35%, and 37%, but the taxable income thresholds have changed:

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%

Observation: These taxable income thresholds aren't all or nothing. You only pay tax at the higher rate on the income that exceeds the corresponding threshold.

Standard Deduction and Personal Exemptions

The standard deduction was 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) now get an $18,000 standard deduction. In 2017, the personal exemption deduction was $4,050 per person. This has now been eliminated.

Observation: This change was part of the tax simplification goal. Close to 29 million taxpayers will no longer have to file itemized deductions because of this increase to the standard deduction.

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 children.

Observation: The child tax credit is for qualifying children 16 years or younger. Also of interest is the new $500 tax credit for qualifying dependents other than children, such as parents. Both of these credits are subject to overall income limitations.

Limitation on State and Local Taxes/ Property Taxes

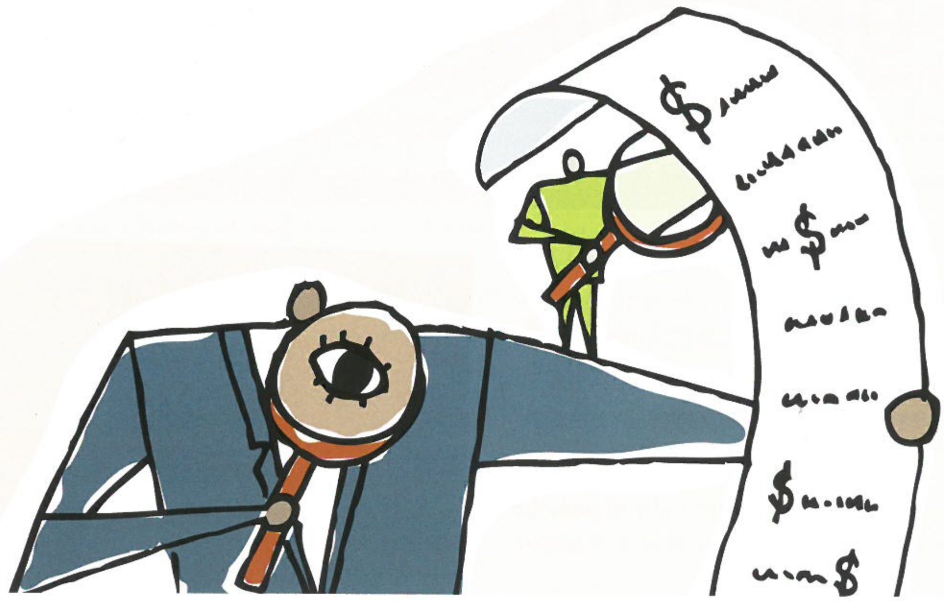
A total deduction of $10,000 is the maximum permitted for personal state income and home property taxes on your 2018 tax return. This is a very low number for most taxpayers, but especially those who live in states with high tax rates and/or high property values (like California).

Observation: A popular tax planning tool used to be prepaying some of these state income or property taxes to get the deduction in the current year. Now, it's doubtful this maneuver will make sense. However, the limitation on property taxes only relates to your personal residence(s). It does not apply to any rental property you might own. If you happen to own the commercial building where your veterinary practice operates, there is no limitation on the property taxes that can be paid in a given year.

Curbing the Mortgage Interest Deduction

For newly purchased homes (after December 15, 2017), the limit on indebtedness will be reduced to $750,000, from the current $1.1 million.

Observation: Taxpayers with a home mortgage in place prior to December 14, 2017 will still be allowed to deduct the interest paid, assuming the loan balance is $1,100,000 or less. For taxpayers with mortgages initiated after this date, the deduction will be limited to interest paid on the first $750,000 in loan amount only. Paying down your mortgage in excess of $750,000 should be a priority, if possible.



Pass-through Entity Deduction

Individuals will be allowed to deduct 20% of "qualified business income" from a pass-through entity. 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;

"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;

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.

Observation: A pass-through entity is considered to be a sole proprietorship, an S-Corporation, or a partnership (LLC/LLP). Employees are not eligible. Service businesses (veterinarians included) are carved out and limited by taxable income. The deduction is based on your Qualified Business Income, which factors in owner compensation, employee W2s, and several other factors. Talk to a tax professional about your eligibility for this deduction.

Miscellaneous

Alternative Minimum Tax (AMT) was not be repealed, but the exemption amounts were increased, causing fewer taxpayers to be caught;

Long-Term Capital Gain/Qualified Dividend tax rates are unchanged;

The Obamacare Taxes - 0.9% Medicare surtax on wages or self-employment income, and 3.8% on net investment income - remain unchanged;

Observation: These three important tax areas – left alone in the TCJA - have gotten lost in the shuffle. Be sure to consider when making year-end tax planning or investment decisions.

New Equipment

For small businesses, one area that was enhanced in the TCJA was the Section 179 expense. Veterinary practices can still write-off the cost of qualifying new equipment (digital x-ray or computers, for example) placed in service, but that number was increased to $500,000 in a given year. This provision provides financial assistance to veterinarian looking to improve or expand her/his practice.

Observation: As long as the equipment is signed for and in service by the end of the year, this deduction can be taken. Equipment acquired through a capital lease also qualifies. **P**

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