

# *The Tax Cuts and Jobs Act* An Overview of Key Provisions

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## For Individuals - Disappearing Exemptions and Deductions

- ▶ Personal exemptions have been eliminated (formerly \$4,150 per person claimed)
- ▶ The deduction for ALL state and local taxes combined is now capped at \$10,000 (income taxes, sales taxes, property taxes)
- ▶ With certain exceptions, interest paid on home equity lines/loans will no longer be deductible (beware of the refinance pitch)
- ▶ The deduction for home mortgage interest is limited to the first \$750,000 for homes purchased AFTER December 14, 2017



# Disappearing Exemptions and Deductions Continued.....

- ▶ Miscellaneous itemized deductions over 2% of AGI have been eliminated
- ▶ The deduction for moving expenses has been eliminated (except for members of the military)
- ▶ Also gone is the deduction for theft and casualty losses (except for those in federally declared disaster areas)
- ▶ Alimony payments will no longer be deductible (or reportable by recipient) for divorce or separation agreements signed after December 31, 2018
- ▶ The deduction for tuition and fees was not extended by the TCJA

## So, what isn't disappearing?

- ▶ Charitable contributions
- ▶ Retirement savings
- ▶ Student loan interest deduction up to \$2,500
- ▶ \$250 teacher deduction
- ▶ The American Opportunity and Lifetime Learning education credits
- ▶ \$500,000 gain exclusion on sale of primary residence (\$250,000 for single filers)
- ▶ Medical expense deduction was actually expanded
- ▶ Credit for electric vehicles up to \$7,500

# Okay, but where are the Tax Cuts?

## Old Vs. New Tax Brackets For Single Filers

### Old brackets

Taxable income	Tax rate
\$0-\$9,525	10%
\$9,526-\$38,700	15%
\$38,701-\$93,700	25%
\$93,701-\$195,450	28%
\$195,451-\$424,950	33%
\$424,951-\$426,700	35%
\$426,701+	39.6%

### New brackets

Taxable income	Tax rate
\$0-\$9,525	10%
\$9,526-\$38,700	12%
\$38,701-\$82,500	22%
\$82,501-\$157,500	24%
\$157,501-\$200,000	32%
\$200,001-\$500,000	35%
\$500,001+	37%

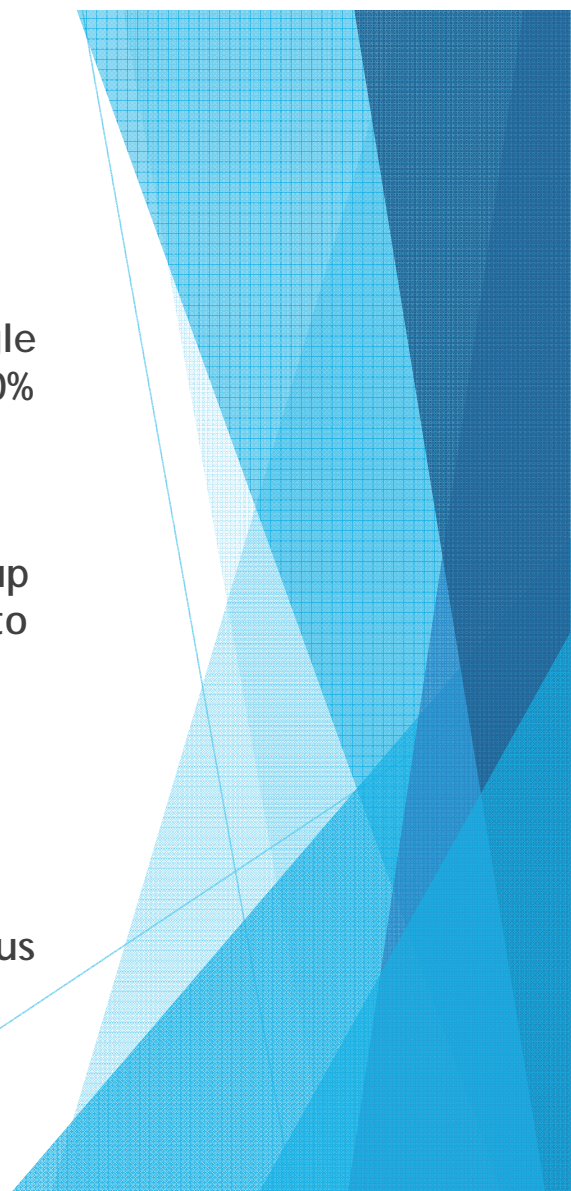
Sources: docs.house.gov, taxfoundation.org




## Old Vs. New Tax Brackets For Marrieds Filing Jointly

Old brackets		New brackets	
Taxable income	Tax rate	Taxable income	Tax rate
\$0-\$19,050	10%	\$0-\$19,050	10%
\$19,051-\$77,400	15%	\$19,051-\$77,400	12%
\$77,401-\$156,150	25%	\$77,401-\$165,000	22%
\$156,151-\$237,950	28%	\$165,001-\$315,000	24%
\$237,951-\$424,950	33%	\$315,001-\$400,000	32%
\$424,951-\$480,050	35%	\$400,001-\$600,000	35%
\$480,051+	39.6%	\$600,001+	37%

Sources: docs.house.gov, taxfoundation.org

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- ▶ The new law almost doubles the standard deductions to \$12,000 for single filers and \$24,000 for joint filers (currently estimated that more than 90% of individual returns filed will use these standard deduction amounts)
  - ▶ The law doubles the Child Tax Credit to \$2,000 per child under age 17 (up to \$1,400 now refundable) and the phase-out income level is increased to \$200,000 for single filers and \$400,000 for joint returns
  - ▶ There is a new \$500 credit for non-child dependents
  - ▶ 529 savings plans can now be used for K-12 tuition at private and religious schools



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- ▶ The federal estate tax exemption is increased to \$11.2 million for singles and \$22.4 million for married couples
  - ▶ The annual gift tax exclusion increased from \$14,000 to \$15,000 for 2018
  - ▶ The individual mandate penalizing those without health insurance has been eliminated
  - ▶ While not eliminated, fewer filers will feel the sting of AMT (exemption increased to \$70,300 for single filers and \$109,400 for married couples)

# Changes on the Business Side - The Give.....

- ▶ There is now a 21% flat tax rate for C corporations, including Personal Service Corporations
- ▶ The corporate AMT has been eliminated
- ▶ Section 179 expense limit has been increased to \$1 million
- ▶ Bonus depreciation increased to 100% of eligible property placed in service after September 27, 2017 through 2022 (then phased down by 20% annually through 2026)
- ▶ Increased eligibility to use the *cash method* of accounting

# The Qualified Business Income Deduction

- ▶ Currently, 92% of all privately-owned businesses in the US are passthrough entities (partnerships, S corporations AND sole proprietorships)
- ▶ The law provides a new 20% deduction for Qualified Business Income from these passthrough entities
- ▶ Qualified Business Income is the net domestic business taxable income, excluding investment income and wages/guaranteed payments to owners
- ▶ The deduction is calculated on an entity-by-entity basis, NOT on net aggregate passthrough income
- ▶ The deduction is in addition to any standard or itemized deduction
- ▶ The deduction is subject to limitations and phase-out when individual TAXABLE income exceeds \$157,500 single and \$315,000 joint



## And the Take.....

- ▶ Business interest expense deduction is now limited to 30% of adjusted taxable income + any interest income (does not apply to real estate)
- ▶ DPAD deduction has been repealed
- ▶ NOL carrybacks have been eliminated for most (NOL carryforwards are now indefinite but subject to new limitations)
- ▶ Like-kind exchanges are now limited to real property only
- ▶ Entertainment expenses are now disallowed (meals remain 50% deductible)
- ▶ Fringe benefits paid for employee transportation no longer deductible

# The Wrap Up

- ▶ Most benefits of the new law will go to corporations
- ▶ The majority of individual taxpayers will likely see neither a tax cut nor a tax hike
- ▶ While the business tax cuts are permanent, most individual provisions (including the doubled estate tax deduction and the passthrough business income deduction) are set to expire after 2025
- ▶ Questions....