Tax Cuts and Jobs Act – Trump's Tax Reform provisions – Highlights Summary

by Haim (Hemik) Hovav UPDATES IN PROGRESS
Hovav Tax & Accounting Serving Individuals, Corporations & Partnerships (www.hovavtax.com)
4675 Stevens Creek Blvd. Ste 110, Santa Clara, CA 95051
Office: (408) 490-4750 Cell: (408) 426-6296 Fax: (408) 668-2900 Haim@HovavTax.com

Summary – Very high-level list of some tax changes I thought might have an affect or be of some interest to you. All will be in effect for 2018 or later. I encourage you to read through the summary and in more details later in this document. If you believe any of the changes require an immediate action on your part and would like to discuss it with me - Please schedule time for a phone call by using our friendly on-line scheduling system at http://www.hovavtax.com/**schedule-a-meeting-online**.html - otherwise we can discuss it when we meet for the 2018 Tax Preparation and plan for 2019.

- **Individual tax rates & Standard deduction** – New lower tax brackets and double the standard deduction. You will probably owe less income tax.
- **Repeal of the deduction for personal exemptions** – No more personal exemptions.
- **Alternative Minimum Tax** – Increasing the AMT exemption to $500,000 for single taxpayers and $1 million for couples. You will probably pay no AMT or much less.
- **The Affordable Care Act's individual mandate** – No more Obamacare tax penalty if no health insurance. If you have health insurance- it doesn't affect you.
- **State, Property and local taxes** – Capped at $10,000. Consider early payment if no AMT in 2017 (If no AMT in 2016 and similar income in 2017 – probably no AMT in 2017).
- **Home Mortgage interest deduction** – Capped the allowable interest deduction on mortgages of up to $750,000. Your current mortgage or ReFi is not affected.
- **Deductions for student loan interest and medical expenses** – Student interest remain deductible; Lower medical deduction threshold to 7.5% of income until 2020.
- **Child tax credit** - increased to $2,000 and is fully refundable up to $1,400. AGI limits increased ($400K for MFJ).
- **Repeal of deduction for alimony payments** – Effective for new divorce agreements signed after 12/31/2018. Existing alimony will not be affected.
- **Section 529 qualified tuition programs** – The new provision will allow to withdraw money out (and not pay tax on the gains in the plan) for Elementary, Secondary (High School) private school and Homeschooling, of up to $10K per year per kid. This is in addition to the current unlimited withdrawal allowed for qualified higher

education tuition (Usually College). The provision does not talk about the timing of the contribution, but only on the distribution from it after 12/31/2017.

- **Repeal of deduction and the exclusion for moving expense -** The provision generally suspends the deduction for moving expenses and repeal the exclusion of moving expenses reimbursement from wages.
- **Repeal of special rule permitting recharacterization of IRA contributions** – Conversion is still permitted**.**
- **Estate tax** - doubles the current basic exclusion levels to about $11 million. Consider some "Estate Planning" if your worth is above the basic exclusion. I hope you live long and healthy.
- **Corporate tax rates** – One rate of 21%. What a tax cut !!! If you have a business with high net income - Let's consider a C-Corp for your business.
- **Pass-through businesses** - gives businesses a new 20 percent of net business income as a deduction from overall taxable income. Personal service business excluded. You will probably pay less taxes in the future but for very high-income business maybe a C-Corp should be considered.
- **Limitation on losses for taxpayers** – Disallowed for deduction, but can be carried forward as NOL.
- **Modification of net operating loss (NOL) deduction** – Limited to 80% of taxable income but may be carried forward indefinitely.
- **Business Entertainment expenses** – Disallowed
- **Bonus Depreciation for businesses -** 100 percent bonus depreciation for property purchased and it doesn't have to be new.
- **Sec. 179 expensing new business property increased to $1,000,000**

*** * * * ***

The changes to the law in more details – listed in the same order as in the summary above, with a reference to the Old Law and the changes to it as signed into law by President Trump.

Individual tax rates & Standard deduction

OLD LAW

There are now seven individual tax rates — 10 percent, 15 percent, 25 percent, 28 percent, 33 percent, 35 percent and 39.6 percent.

There's also a standard deduction of $6,350 for single filers and $12,700 for married couples that helps create a de facto 0 percent bracket.

NEW TAX REFORM LAW

The top tax rate would be set at 37 percent.

The standard deduction would be doubled to $24,000 for married individuals filing a joint return, $18,000 for head of-household filers, and $12,000 for all other individuals.

There would remain seven brackets — 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent and 37 percent. Individuals face the 37 percent rate when their incomes exceed $500,000. For joint filers, the threshold is $600,000. For individuals, the 35 percent bracket begins at $200,000, the 32 percent bracket starts at $157,500, the 24 percent bracket kicks in at $82,500, the 22 percent bracket begins at $38,700, the 12 percent bracket starts at $9,525 and the rate is 10 percent for income less than $9,525. For joint filers, the 35 percent bracket begins at $400,000, the 32 percent bracket starts at $315,000, the 24 percent bracket kicks in at $165,000, the 22 percent bracket begins at $77,400, the 12 percent bracket starts at $19,050 and the rate is 10 percent for income less than $19,050.

Repeal of the deduction for personal exemptions

OLD LAW

Personal exemptions generally are allowed for the taxpayer, his or her spouse, and any dependents. For 2017, the amount deductible for each personal exemption is $4,050. The personal exemption amount is phased out in the case of an individual with AGI in excess of $313,800 for married taxpayers filing jointly, $287,650 for heads of household, $156,900 for married taxpayers filing separately, and $261,500 for all other filers. In addition, no personal exemption is allowed in the case of a dependent if a deduction is allowed to another taxpayer.

NEW TAX REFORM LAW

The conference agreement suspends the deduction for personal exemptions.

Alternative Minimum Tax

OLD LAW

The alternative minimum tax, or AMT, is effectively a minimum tax on the wealthy. On the individual side, it can affect joint filers with incomes of $78,750 or more.

NEW TAX REFORM LAW

Ends the AMT for corporations but keeps it for individuals, while boosting the exemption to $500,000 for single taxpayers and $1 million for couples.

The Affordable Care Act’s individual mandate

OLD LAW

Obamacare requires individuals to buy health insurance or pay a tax penalty.

NEW TAX REFORM LAW

Repeals the individual mandate beginning in 2019.

State, Property and local taxes

OLD LAW

Taxpayers who itemize currently can deduct unlimited state and local income, sales and property taxes.

NEW TAX REFORM LAW

Allows taxpayers to take a property tax deduction in addition to deducting either income taxes or sales taxes, up to a $10,000 limit for all combined.

Home Mortgage interest deduction

OLD LAW

Taxpayers can now deduct interest payments on up to two mortgages worth up to a combined $1 million plus up to $100K of qualifying home equity indebtedness (such as HELOC).

NEW TAX REFORM LAW

Sets the interest cap at $750,000 for mortgages (including 2nd home) issued after Jan. 1, 2018 and suspends the deduction of interest on qualifying home equity indebtedness (such as HELOC). The $1M limitation remains for taxpayer who refinance or has entered into a binding written contract before December 15, 2017 to close on the purchase of a principal residence before January 1, 2018, and who purchases such residence before April 1, 2018.

Deductions for student loan interest and medical expenses, and a credit for adoption expenses.

OLD LAW

Eligible taxpayers can now deduct up to $2,500 a year in interest on student loans. Eligible taxpayers can deduct, with some exceptions, medical expenses that exceed 10 percent of a taxpayer's adjusted gross income for a year. Eligible taxpayers can receive a maximum tax credit of $13,570 for qualified adoption expenses.

NEW TAX REFORM LAW

Preserves the deduction for medical expenses above 10 percent of adjusted gross income but lowers it to 7.5 percent for 2018 and 2019, and then it rises to 10 percent in 2020. Tuition waivers received by graduate students remain tax-free, students can still deduct loan interest payments and bonds that colleges use for construction stay interest-free.

Child tax credit

OLD LAW

Taxpayers may claim a $1,000 credit for each qualifying child under 17. The child credit begins to phase out at $75,000 of adjusted gross income for single taxpayers and $110,000 for married couples.

NEW TAX REFORM LAW

The existing credit is increased to $2,000 for single filers and married couples and is fully refundable up to $1,400. It begins to phase out for families making more than $400,000. Parents must provide a child's valid Social Security Number in order to receive the full benefit.

Repeal of deduction for alimony payments

OLD LAW

Alimony and separate maintenance payments are deductible by the payor spouse and includible in income by the recipient spouse. Child support payments are not treated as alimony.

NEW TAX REFORM LAW

Alimony and separate maintenance payments are not deductible by the payor spouse. The conference agreement repeals the Code provisions that specify that alimony and separate maintenance payments are included in income. the conference agreement is effective for any divorce or separation instrument executed after December 31, 2018, or for any divorce or separation instrument executed on or before December 31, 2018, and modified after that date, if the modification expressly provides that the amendments made by this section apply to such modification.

Section 529 qualified tuition programs

OLD LAW

Under current law for qualified tuition programs, a contributor establishes an account for the benefit of a particular designated beneficiary to provide for that beneficiary's **higher education** expenses. For purposes of receiving a distribution from a qualified tuition program that qualifies for favorable tax treatment under the Code, qualified higher education expenses mean tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution.

NEW TAX REFORM LAW

The provision modifies section 529 plans to allow such plans to distribute not more than $10,000 in expenses for tuition incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a public, private or religious **elementary or secondary school**. This limitation applies on a per-student basis. The provision also modifies the definition of higher education expenses to include certain expenses incurred in connection with a **homeschool**.

Repeal of deduction for moving expenses

OLD LAW

Individuals are permitted an above-the-line deduction for moving expenses paid or incurred during the taxable year in connection with the commencement of work by the taxpayer as an employee or as a self-employed individual at a new principal place of work. Employers can exclude moving expenses reimbursements from gross pay.

NEW TAX REFORM LAW

Generally suspends the individual deduction for moving expenses for taxable years 2018 through 2025. The provision also repeals the exclusion from gross income and wages for qualified moving expense reimbursements.

Repeal of special rule permitting recharacterization of IRA contributions

OLD LAW

If an individual makes a contribution to an IRA (traditional or Roth) for a taxable year, the individual is permitted to recharacterize the contribution as a contribution to the other type of IRA (traditional or Roth) by making a trustee-to-trustee transfer to the other type of IRA before the due date for the individual's income tax return for that year.

NEW TAX REFORM LAW

The provision repeals the special rule that allows IRA contributions to one type of IRA (either traditional or Roth) to be recharacterized as a contribution to the other type of IRA. Thus, for example, under the provision, a conversion contribution establishing a Roth IRA during a taxable year can no longer be recharacterized as a contribution to a traditional IRA (thereby unwinding the conversion). A conversion is permitted - an individual may still make a contribution to a traditional IRA and convert the traditional IRA to a Roth IRA, but the provision precludes the individual from later unwinding the conversion through a recharacterization.

Estate tax

OLD LAW

Estates passed on to heirs now face a top tax rate of 40 percent, with basic exclusion this year of up to $5.49 million. The basic exclusion amount is indexed for inflation.

NEW TAX REFORM LAW

Keeps the estate tax but doubles the current basic exclusion levels to $10.92 million.

Corporate tax rates

OLD LAW

The top corporate rate of 35 percent now applies to taxable income over $10 million a year. There are three other corporate tax brackets — 15 percent, 25 percent and 34 percent.

NEW TAX REFORM LAW

Sets a single corporate tax rate at 21 percent, starting in 2018.

Pass-through businesses

OLD LAW

Business income from partnerships, S corporations and sole proprietorships is taxed at the individual tax rates.

NEW TAX REFORM LAW

Business income from partnerships, S corporations and sole proprietorships is taxed at the individual tax rates, but the new provision gives businesses a new 20 percent of the income as a deduction from taxable income. For each qualified trade or business, the taxpayer is allowed a deductible amount equal to the lesser of 20 percent of the qualified business income with respect to such trade or business or 50 percent of the W-2 wages with respect to such business (the “wage limit”). Wage Limit - To discourage high earners from recharacterizing regular wages as pass-through income, the deduction would be capped using a formula based on W-2 wages and qualified property.

Certain industries, including health, law and financial services (“Specified Services”), are excluded, unless taxable income is below $157,500 (for single filers) and twice that amount (or $315,000) in the case of a joint return, indexed. A specified service trade or business means any trade or business involving the performance of services in the fields of health, law, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management trading, or dealing in securities, partnership interests, or commodities.

Limitation on losses for taxpayers

OLD LAW

Passive loss rules limit the deductions and credits that individuals, estates, trusts and closely held corporations may claim attributable to passive trade or business activities, allowing passive losses to be deducted only against passive gains. Deductions and credits from passive losses that may not be claimed in one year generally may be carried forward to the next tax year; suspended losses from a passive activity may deducted in full when the taxpayer disposes of his entire interest in the activity to an unrelated party.

NEW TAX REFORM LAW

The provision would disallow excess business losses, including the excess farm loss, for taxpayers other than C corporations. These losses may be carried forward and treated as part of the taxpayer's net operating loss (NOL) carryforward. An excess business loss is: the excess of the taxpayer's aggregate deductions attributable to the taxpayer's trades or businesses over the sum of the taxpayer's aggregate gross income or gain, plus a threshold amount ($500,000 for married taxpayers filing jointly; $250,000 for other individuals). For partnerships or S corporations, the provision would apply at the partner or shareholder level.

Modification of net operating loss (NOL) deduction

OLD LAW

A net operating loss ("NOL") generally means the amount by which a taxpayer's business deductions exceed its gross income. In general, an NOL may be carried back two years and carried over 20 years to offset taxable income in such years.

NEW TAX REFORM LAW

The provision limits the NOL deduction to 80 percent of taxable income (determined without regard to the deduction) for loses arising in taxable years beginning after December 31, 2017.

Carryovers to other years are adjusted to take account of this limitation, and may be carried forward indefinitely.

The provision repeals the two-year carryback and the special carryback provisions, but provides a two-year carryback in the case of certain disaster losses incurred in the trade or business of farming.

Entertainment, etc. expenses

OLD LAW

If the taxpayer establishes that entertainment expenses are directly related to (or associated with) the active conduct of its trade or business, the deduction generally is limited to 50 percent of the amount otherwise deductible.

NEW TAX REFORM LAW

The provision provides that no deduction is allowed with respect to an activity generally considered to be entertainment, amusement or recreation. Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel).

Bonus Depreciation for Businesses

OLD LAW

Under prior law, there was a 50 percent bonus depreciation for property placed in service in 2017, 40 percent for 2018, and 30 percent for 2019. Qualified property has to be new, not used.

NEW TAX REFORM LAW

Under the new law, there’s 100 percent bonus depreciation for property placed in service after Sept. 27, 2017, and before 2023, 80 percent for 2023, 60 percent for 2024, 40 percent for 2025 and 20 percent for 2026. The acquisition date for property purchased with a written contract is the date of the contract.

Qualified property includes property acquired by purchase if a taxpayer has not previously used the property, so the property does not have to be new, as long as it's not acquired from a related party.

Sec. 179 expensing new business property increased to $1,000,000

NEW TAX REFORM LAW

Section 179 expensing has also increased to include roofs, HVAC systems, fire protection, alarm systems and security systems, with the allowable expense increased from $500,000 to $1,000,000 in 2018, and the phase-out deduction increased to $2.5 million. These rules now include tangible personal property acquired for rental properties, furniture and appliances.

* * * * *

If you believe any of the changes require an immediate action on your part and would like to discuss it with me - Please schedule time for a phone call by using our friendly on-line scheduling system at http://www.hovavtax.com/**schedule-a-meeting-online**.html - otherwise we can discuss it when we meet for the 2018 Tax Preparation.