On December 22, President Trump signed into law the “Tax Cuts and Jobs Act” (P.L. 115-97), a sweeping tax reform law that will entirely change the tax landscape. The legislation reflects the largest major tax reform in over three decades.

The “Tax Cuts and Jobs Act” has largely taken shape at a breakneck speed over a two-month period, with the House passing its version of the bill on November 16 and the Senate passing its version on December 2. The two versions were then reconciled into a single piece of legislation which, due to a procedural complication, underwent a number of small revisions prior to final passage by the Senate and House. Among the few last-minute revisions to the bill was a new title: “An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018.” This article refers to the law by its commonly used name: “Tax Cuts and Job Act” (or simply, the “Act”).

This comprehensive tax overhaul dramatically changes the rules governing the taxation of individual taxpayers for tax years beginning before 2026, providing new income tax rates and brackets, increasing the standard deduction, suspending personal deductions, increasing the child tax credit, limiting the state and local tax deduction, and temporarily reducing the medical expense threshold, among many other changes. The legislation also provides a new deduction for non-corporate taxpayers with qualified business income from pass-throughs.

For businesses, the legislation permanently reduces the corporate tax rate to 21%, repeals the corporate alternative minimum tax, imposes new limits on business interest deductions, and makes a number of changes involving expensing and depreciation. The legislation also makes significant changes to the tax treatment of foreign income and taxpayers, including the exemption from U.S. tax for certain foreign income and the deemed repatriation of off-shore income.

The first item issued for detailed review was the Tax Cuts & Jobs Act – Joint Conference Report. This was 1,097 pages long and sadly created as much confusion as it provided information due to inclusion of parts of the house and senate bills that were later scrapped. While this legislation is considered a major overhaul of the prior tax code, it is important to realize that a given taxpayer is likely to be impacted (positively or negatively) by just a few changes. The changes are likely to work back and forth, with some increasing taxes (☺) and others decreasing taxes (☺☺) for each taxpayer. Projecting the net result of the changes for your specific case will be something to consider once we prepare your 2017 tax returns. While a comprehensive list and explanation is impossible at this point we have listed some of the items expected to impact our valued clients going forward. Each of these requires more detail than can adequately be provided in a short form synopsis, so please view this as a summary and do not rely on this as the full-version of how any/all of the following will impact your taxes:

Effective immediately (2017):
1. The floor for deducting medical expenses, which was 7.5% of adjusted gross income (AGI) for taxpayers 65 and over and 10% for everyone else in 2016, was scheduled to be 10% for everyone beginning with 2017 returns. The new tax reform lowered the floor to 7.5% of AGI for tax years 2017 & 2018. ☺
Effective beginning with tax year 2018:

1. Standard deductions for single, head of household, married filing joint, and married filing separately will nearly double (first round down to the nearest thousand, then double) from 2017 to 2018. 😊

2. Personal exemption deductions ($4,050 per household member in 2016 & 2017) will no longer exist. 😞

3. Child tax credit, previously up to $1,000 per child 16 years of age or younger (depending on the income of the parent(s) claiming the credit), increases to a potential $2,000 per qualified child (still subject to income restrictions). 😊

4. Miscellaneous itemized deductions subject to the 2% of AGI floor (including employee expenses, personal tax return preparation fees, investment advisory fees, safe deposit box fees, etc.) are no longer deductible. 😞

5. A limit of $10,000 is applied to claiming state and local tax (includes sales or income tax paid to Arizona, real estate taxes paid, and vehicle license tax portion of auto registration). 😊

For small business owners:

6. Bonus depreciation, giving the ability to immediately deduct the cost for new business assets, have been greatly improved. Both new and used assets are now eligible for 100% deductions in the year they are paid for and placed in service in most cases. 😊

7. A new “Business Income Deduction” will give owners up to a 20% for business owners with flow-through income (from partnerships, s-corporations, and LLCs treated as such) as long as the owner’s taxable income is below the threshold for their filing status. Some limitation of the deduction will be applied if the threshold is exceeded. 😊

8. Entertainment, amusement, recreation expenses are no longer deductible. 😞

9. Business meals are still 50% deductible. Onsite meals will also be limited to 50%. 😊

If you have questions regarding these, or anything else included in the Tax Cuts & Jobs Act please don’t hesitate to contact our office to schedule a consultation with one of our CPAs.