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HIGHLIGHTS OF THE TAX CUTS AND JOBS ACT OF 2017

Summer is in full swing here on the Oregon coast! The 2017 tax filing season is mostly behind us, but it is no time for us to rest quite yet. As you are no doubt aware, in late December of 2017, a tax bill was passed and signed into law called the Tax Cuts and Jobs Act. This will significantly change how your tax return will be filed for 2018. Many people have expressed their concern and confusion over this new tax law. Below is a very general overview of some of the major changes to keep in mind as we move forward through the year. Most of these changes are set to expire after 2025.

Personal Items:

- **Lower tax rates.** There are still seven tax brackets, however, they have all been lowered from 10%, 15%, 25%, 28%, 33%, 35% and 39.6% down to 10%, 12%, 22%, 24%, 32%, 35% and 37%, respectively.
- **Standard vs. Itemized Deductions.** The standard deduction has nearly doubled which will result in many individuals claiming the standard deduction on the Federal return instead of itemizing. **However, please keep in mind that it may still be worth itemizing on your state income tax return**.
- **Personal exemptions.** Personal and dependent exemptions have been eliminated.
- **Child tax credits.** To compensate for a lack of dependency exemptions, the maximum child tax credits are doubling from $1,000 to $2,000. In addition, a credit for non-child dependents over the age of 17 of $500 is also allowed. These credits are direct reductions of your tax liability rather than deductions.
- **Modified and eliminated itemized deductions.** Medical expenses and charitable contributions are still allowed as deductions. However, mortgage interest deductions on loans originated after 2017 are capped at a loan amount of $750,000 and home equity loan interest deductions are no longer allowed. Miscellaneous itemized deductions such as unreimbursed employee expenses and tax preparation fees are eliminated. Finally, state and local income tax and property tax deductions are capped at $10,000.
- **Affordable Care Act Individual Mandate.** The penalty for not having health insurance will be repealed starting in tax year 2019. **Unfortunately, we still have this penalty for the 2018 tax year**.

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- **Estate tax exclusion.** The estate tax exclusion has increased to $11,180,000. However, Oregon's estate tax exclusion remains at $1,000,000.

Business Items:

- **Corporate tax rates.** The corporate income tax rate was permanently lowered to 21% starting in 2018. The corporate AMT has also been repealed.
- **IRC section 179 expensing and bonus depreciation.** The maximum deduction for capital expenditures under IRC section 179 has increased to $1,000,000 of qualifying property. The definition of qualifying property has also been expanded. This deduction is also now allowed for capital expenditures related to rental property. 100% bonus depreciation is also now available for qualifying capital expenditures.
- **Qualified business income deduction.** This establishes a fairly generous deduction of up to 20% of qualified business income from certain pass-through businesses at the federal level. This includes individuals who file a schedule C. This deduction does not affect the calculation for self-employment tax, but it will help lower your regular income tax. **<u>In general, Oregon conforms to federal tax law, however, it will not allow this deduction on the Oregon income tax return.</u>**
- **Like-kind exchanges (IRC section 1031).** Like-kind exchanges will be limited to exchanges of real property only. This means that exchanges of tangible personal property, such as vehicle trade ins, may realize taxable gains.

These changes are not set in stone and continue to change as new legislature is passed. We will let you know if there are major changes that will dramatically impact taxes moving forward. I hope this information has been helpful.

If you have any major financial events coming up and would like to meet to discuss tax planning for these events, please don't hesitate to call or email.

Sincerely,

Bryan Williams, CPA