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Final Tax Cuts and Jobs Act Summary

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Tax Cuts and Jobs Act: Changes to Business Income Taxation

The effective date is for tax years beginning after December 31, 2017, unless otherwise noted.

- **Repeal of Alternative Minimum Tax (AMT)**
  - The Act repeals the Corporate Alternative Minimum Tax and allows taxpayers 50% of any current AMT credit carryforward in tax years beginning in 2018 through 2021.
  - Taxpayers are able to claim a refund of all remaining carryforward credits in 2021.
- **Modification of C Corporation Tax Rates**
  - The corporate tax rate is a flat rate of 21%, replacing the current graduated rates of 15% to 35%.
  - No special tax rate for personal service corporations (attorneys, accountants, architects, et al).
- **New Qualified Business Income Deduction**
  - The Act follows the Senate version which allows a new 20% deduction for tax years beginning after December 31, 2017 and before January 1, 2026 for taxpayers including trusts and estates who have domestic qualified business income (QBI) from a

partnership, s corporation or sole proprietorship.

- There are two main hurdles for claiming the full 20% deduction. The deduction may be reduced or even eliminated under a test for "specified service businesses" and a "wage and capital" limit.
    - For owners of certain specified service businesses, such as doctors, lawyers, and accountants, the deduction is phased out when taxable income is over the threshold of $157,500 for single filers and $315,000 for joint filers and completely disallowed for taxable income over $207,500 for single filers and $415,000 for joint filers. Engineers and architects are excluded from service business definition.
    - For other taxpayers whose income falls over the thresholds above, their deduction is subject to limitations based on W-2 wages and the unadjusted basis of qualified property.

- **Cash Method of Accounting**
    - The $5 million average gross receipts threshold requiring the accrual method of accounting increases to $25 million (defined as small businesses) regardless of whether the business maintains inventory.
- **Modification of Long-term Contract Accounting**
    - Similar to the modification of the cash method rules, contractors also under the $25 million gross receipts threshold are not required to use percentage of completion, but are permitted to use the completed contract

method or any other permissible exempt contract method.

- **Increased Asset Depreciation Expensing Limitations**
    - Section 179 depreciation expensing increases from $510,000 to $1million, with the phase-out increasing from $2 million to $2.5 million. This provision is indexed for inflation.
    - The Act also expands Section 179 expensing to improvements of roofs, heating, ventilation, and air-conditioning property, fire protection and alarm systems, and security systems made to nonresidential real property.
    - Bonus depreciation expensing increases to 100% of the cost of qualified property acquired and placed in service after September 27, 2017. The Act phases out the 100% bonus by reducing the allowable percentage by 20% each year for years beginning after December 31, 2022. Unlike prior bonus provisions, eligible assets are not required to be original use, but rather the taxpayer's first use (i.e. used assets may qualify).
- **Limitation of Interest Expense Deductions**
    - The Act limits the deduction for net interest expenses incurred by a business in excess of 30% of the business's adjusted taxable income. Adjusted taxable income is computed before depreciation, amortization, and depletion for tax years beginning before January 1, 2022 only. Disallowed interest could be carried forward indefinitely.
    - The Act allows for real property trades or business and farmers that use the alternative

depreciation methods to elect not to be subject to the business interest deduction limitation.

  - This provision does not apply to businesses *under $25 million gross receipts*.

- **Limitation of Net Operating Loss (NOL) Deductions**
  - The Act decreases the current NOL carryforward utilization from 100% to 80% of a taxpayer's taxable income for newly incurred NOLs. The Act eliminates carrybacks (except farming NOLs) and allows unused NOLs to be carried forward indefinitely.
- **Repeal of the Domestic Production Activities Deduction (DPAD)**
  - The Act repeals all deductions allowed for Domestic Production Activities.
- **Disallowance of Corporate Entertainment Expenses**
  - The Act disallows expenses incurred for entertainment, but the deduction for 50% of business meals remains. The Act expands the 50% limit to include amounts paid or incurred after December 31, 2017 for meals provided at the convenience of the employer and eliminates the deduction after December 31, 2025.
- **Repeal of Certain Federal Tax Credits**
  - The Act did not repeal the Work Opportunity Tax Credit and Employer-Provided Child Care Credit.
  - The Act provides for a 20% Rehabilitation Credit claimed ratably over five years with applicable transition rules.
  - There are no changes to the Research &

Experimentation Tax Credit. This remains a permanent fixture in the tax code.

- **Like-Kind Exchanges**
  - The rule allowing deferral of gain on like-kind exchanges is modified to allow for exchanges only with respect to real property. Personal property like-kind exchanges are not allowed except for exchanges transitioned at December 31, 2017.

Tax Cuts and Jobs Act: Changes to Individual, Estate, Gift, and Trust Taxation

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The effective date is for tax years beginning after December 31, 2017, unless otherwise noted.

- **Condensed Tax Brackets**
  - Seven tax brackets 10%,12%,22%,24%,32%,35% and highest rate of 37%
- **Capital Gains Rates**
  - The capital gain rates of 0%, 15% and 20% remain unchanged.
- **Increased Standard Deduction**
  - The standard deduction increases to $24,000 for joint filers (and surviving spouses), $12,000 for single filers, or $18,000 for single filers with one qualifying child.
- **Repeal of Personal Exemptions**
  - The Act repeals the deduction for personal exemptions for tax years beginning after December 31, 2017 and before January 1, 2026.

- **Modification of Child Tax Credit**
    - The Child Tax Credit increases from $1,000 per child to $2,000 per child and includes a $500 credit for any non-child dependents. Additionally, the phase-out starts at $400,000 for married filing jointly. The maximum amount refundable is $1,400.
- **Repeal of Certain Nonrefundable Credits**
    - Adoption credit preserved
- **Modification of Educational Savings Accounts**
    - Elementary and high school expenses up to $10,000 per year are considered qualified expenses under a Section 529 plan. No home schooling expenses are allowed.
- **Repeal of Certain Deductions**
    - Suspends the deduction for moving expenses for tax years beginning after December 31, 2017 and before January 1, 2026.
    - Medical deductions are allowed with a decreased medical expense deduction floor to 7.5% for tax years beginning after December 31, 2016, and ending before January 1, 2019.
    - Miscellaneous itemized deductions that are subject to the 2% floor are suspended for tax years beginning after December 31, 2017, and before January 1, 2026
- **Decreased Mortgage Interest Deduction**
    - Under the current law, home mortgage interest is fully deductible up to $1 million of acquisition indebtedness plus home equity indebtedness (regardless of the use of proceeds) of up to $100,000.
    - Under The Act, this mortgage interest limitation is reduced to $750,000 for debt incurred after December 15, 2017. The $1

million limitation remains for debt incurred on or before December 15, 2017.

- Interest deductions for home equity *indebtedness* is *repealed* for tax years beginning after December 31, 2017 and before January 1, 2026. Additional IRS guidance may be needed to determine the application of the deductibility limitations of home equity loans used for substantial home improvements.

- **Decreased State and Local Tax Deductions**
    - The aggregate deduction for state and local income taxes or general sales taxes (if elected) and property taxes is limited to $10,000.
- **No Modification of Gain on Sale of Residence Exclusion**
    - No changes made to treatment of gain from sale of principal residence.
- **Increase of Estate and Gift Tax Credit**
    - The Federal Estate and Gift Tax Unified applicable exclusion amount increased to $11.18 million with inflation adjustments effective for decedents dying and gifts made after 2017 and before 2026.
    - The Act does not provide for a repeal of the estate tax at any point in the future.
- **Repeal of Alimony Income & Deductions**
    - Taxpayers paying or receiving alimony no longer need to include their respective payments as income/deduction items under the new provisions for agreements entered into after 2018.
- **Individual Alternative Minimum Tax Phase-Outs Significantly Increased**

- Although AMT was not repealed in the final version, the phase out exemption amounts were increased to $1 million for joint taxpayers which decreases dramatically taxpayers subject to the tax.

- **Repeal of Affordable Care Act Individual Mandate**
  - Reduces the amount of the individual shared responsibility payment enacted as part of the Affordable Care Act to zero for months beginning after December 31, 2018.
- **Although there were expectations that the following would change, these items remain unchanged:**
  - 401(k) contributions
  - Passive activity rules under IRC §469
  - 3.8% Net Investment Income Tax (NIIT)
  - Higher Education Tax Credits

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