What's New in the 2018 Tax Cuts and Jobs Act

Changes Effecting Business Taxes

- The maximum corporate tax rate is reduced to 21% beginning 2018. For 2017, the top tax rate was 35%. Dividend tax rates remain unchanged.

- Pass-through entity income (S-Corp and Partnerships) income will be capped at 25% income tax. For 2017, the top tax rate was 39.6% (individual tax rate). Business entertainment, amusement and recreational expenses are no longer allowed. Employers may only deduct meals served through an in-house cafeteria. Old law allowed up 50% deduction for M&E expenses.

- Section 179 expensing limitations have been increased to $1 million and threshold increased to $2.5 million in expenditures. Prior law allowed up $500K expensing and threshold at $2 million in expenditures.

- Domestic Production Activities Deduction is repealed. Old law allowed an up to 9% deduction to businesses that created or built any new property i.e. contractors, engineers, even wholesale bakers (Krispy Kreme). This has been replaced by a 20% deduction by certain **pass-through** entities. Specific service industries such as health, law, and professional services are excluded once their taxable income reached $315K married filing jointly or $157,500 for other filers. This deduction is subject to wages paid by the business, fixed asset and phase-out limitations. Please consult with your tax advisor for more specific information.

- Limits deductibility of net interest expense to 30% of earnings before interest, taxes, depreciation and amortization for 4 years and 30% of earnings before interest and taxes thereafter.

- Net operating loss (NOL) carrybacks are eliminated and limits carryforwards to 80% of taxable income. Old law allowed for 2-year carryback and 100% use of NOL.

Changes Effecting Individual Taxes

- New individual tax brackets: 10%, 12%, 22%, 24%, 32%, 35% and 37%. Old law rates: 10%, 15%, 25%, 28%, 33%, 35% and 39.6%

- Child Tax Credit increased from $1,000 to $2,000. The phase-out for married filers has been increased from $110K to $400K. Big increase from prior law.

- Personal Exemptions are 100% repealed. This is partly due to increase in standard deduction and child tax credit. Prior law gave $4K deduction for each member of the household.

- Standard deductions has doubled for both married and other taxpayers. The standard deduction for married filers increases from $12,700 to $24K and from $6,350 to $12K for single filers. Head of household standard deduction increases to $18K, up from $9,350.

- State and Local Tax expenses is now limited to $10K per year. Not a huge hit to Nevadans however, taxpayers in high-income state tax states will be affected.

- Limits mortgage interest deduction to first $750K of principal loan amount. Old law allowed up to $1.1 million. Applies to new loans originated in 2018 and going forward.

- Eliminates Job expenses and certain miscellaneous deductions, i.e. unreimbursed employee expense, investment expenses, safe deposit box, tax preparation fees. Prior law allowed amounts over 2% of AGI to be deducted.

- Eliminates alimony deduction for divorces beginning 2018 and after. Old law allowed expense of alimony to payer and taxable to payee.

- The individual mandate has been repealed lowering penalty to $0 beginning 2019.

- Estate tax exemption is now doubled from $5.6 million to $11.2 million.

Most of these laws are set to expire 2025 unless Congress acts to extend them. These are mainly an overview of the new changes and should only be analyzed and interpreted with the assistance of your tax advisor.

If you would like additional information, please email info@lvcpapros.com or contact us at the number below to set up an appointment for a free consultation!

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