

# *TAX CUTS AND JOBS ACT OF 2017 AS PRESENTED BY: ELO PROF LLC*

CFMA Quarterly Meeting – March 21, 2018

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*PRESENTERS:*

*PAM OLINGER, CPA*

*MATT BUENZOW, CPA*

*MEGAN OELTJENBRUNS, CPA*



# AGENDA:

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**NEW  
PROVISIONS FOR  
INDIVIDUALS**

**ESTATE AND GIFT  
UPDATES**

**BUSINESS  
UPDATES**

# AGENDA:

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**NEW  
PROVISIONS FOR  
INDIVIDUALS**

# INDIVIDUAL UPDATES

Major changes to rates and brackets

All individual changes currently set to expire December 31, 2025

Top rate reduced to 37% - begins at \$600,000 for married filing jointly

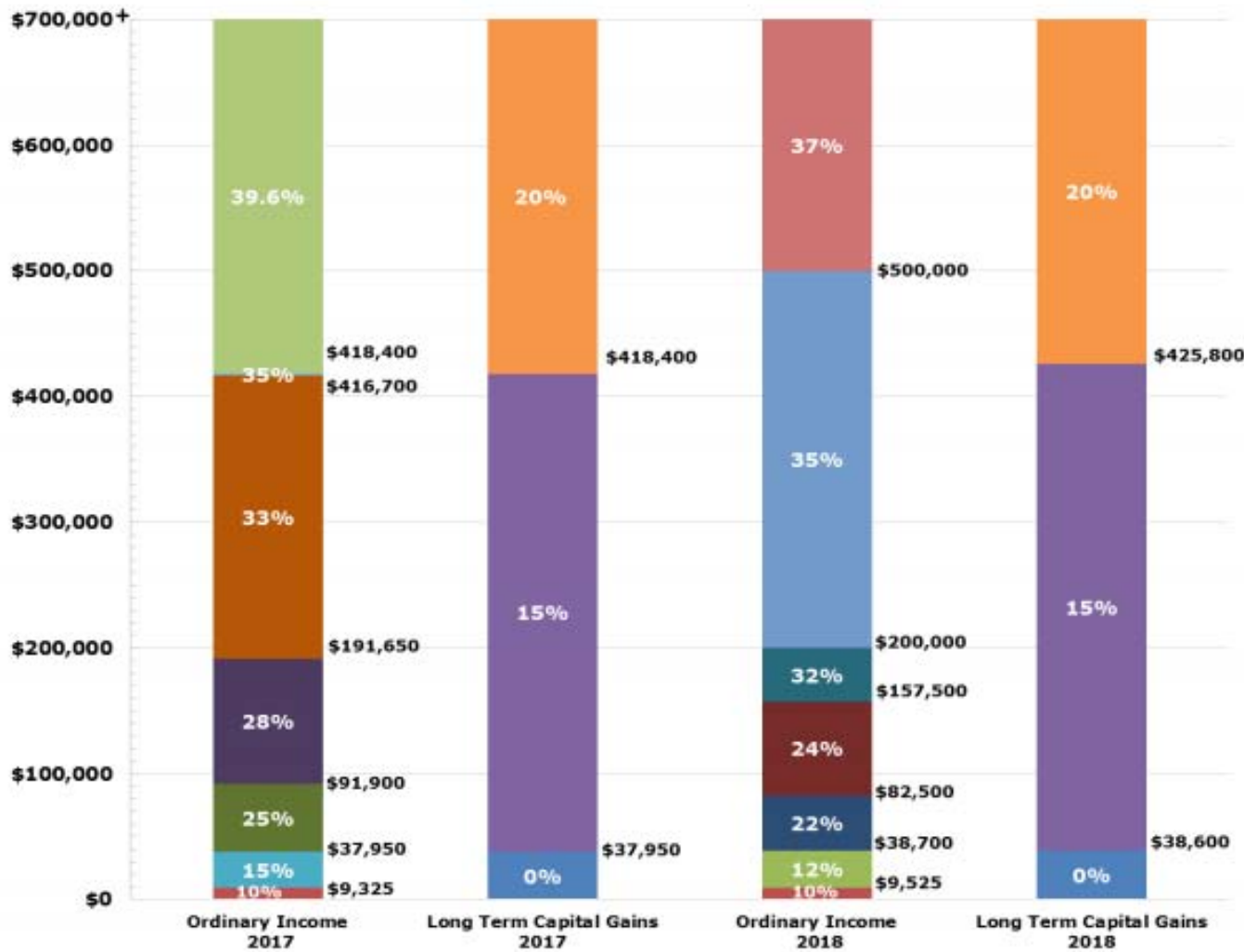


# INDIVIDUAL UPDATES

Major changes to rates and brackets

All individual changes currently set to expire December 31, 2025

Top rate reduced to 37% - begins at \$500,000 for single filers



*INDIVIDUAL  
UPDATES  
(continued)*

***Standard Deductions***

- Standard deduction nearly doubles – \$12,000 single filers, \$18,000 head of household, \$24,000 married filing jointly
- Adjusted for inflation after 2018 - changes expire after 2025

***Elimination of personal exemptions***

- Increasing standard deduction may not offset loss of personal exemptions (currently \$4,050 per person) for some taxpayers

## *Child Tax Credits*

- Increased to \$2,000 per child
- Refundable portion up to \$1,400
- New credit for non-child dependents - \$500
  - Over the age of 16, 19-23 year old and full time student, disabled
- Phase out increased to \$200,000 for singles and \$400,000 for joint filers (currently \$75,000 and \$110,000)

*INDIVIDUAL UPDATES (continued)*

## *Itemized Deductions*

### ***Mortgage interest***

Mortgage interest deduction limit drops to \$750,000 for new mortgage debt after December 15, 2017 (\$375,000 for married filing separately)

Home equity loan interest deduction allowed if used to buy, build, or substantially improve home securing the loan

- no deduction if used for personal living expenses or vacation home expenses

### ***Charitable contribution deduction***

Increased to 60 percent of AGI limit

No deduction if secures college athletic event seating rights

### ***State and local taxes***

Caps total deduction at \$10,000 (\$5,000 married filing separately)

This includes all currently deductible taxes – state income, real estate, sales, etc...

*INDIVIDUAL UPDATES (continued)*



## *Itemized Deductions*

### ***Medical expenses***

7.5% of AGI floor (reduced from 10% currently) through 2018, also for AMT

### ***Miscellaneous Itemized Deductions***

No deductions that are subject to 2% floor

- Investment expenses
- Unreimbursed employee expenses
- Tax preparation fees

### ***Repeal of overall limit on itemized deductions***

Current phaseout begins at \$261,500 for single filers, \$313,800 married filing jointly

*INDIVIDUAL UPDATES (continued)*

Married Filing Jointly, 2 kids under 17, W2 income only, Itemized at various levels

	<u>2017</u>	<u>2018</u>		<u>2017</u>	<u>2018</u>		<u>2017</u>	<u>2018</u>		
Adjusted Gross Income	80,000	80,000		225,000	225,000		400,000	400,000		
Itemized Deductions	16,000	-		26,000	26,000		33,414	36,000		
Standard Deduction	-	24,000		-	-		-	-		
Personal Exemptions	<u>16,200</u>	<u>-</u>		<u>16,200</u>	<u>-</u>		<u>4,860</u>	<u>-</u>		
Taxable Income	47,800	56,000		182,800	199,000		361,726	364,000		
Tax	6,241	6,339		38,069	36,339		94,587	79,859		
Child Tax Credit	<u>2,000</u>	<u>4,000</u>		<u>-</u>	<u>4,000</u>		<u>-</u>	<u>4,000</u>		
Net Tax	4,241	2,339	<b>1,902</b>	38,069	32,339	<b>5,730</b>	94,587	75,859	<b>18,728</b>	

Effects of Individual Rate and Bracket Changes

# INDIVIDUAL UPDATES (continued)

## **AMT**

- Individual AMT survives through 2025 with new thresholds
- New exemption amounts of \$109,400 for joint filers and \$70,300 for single filers (currently \$84,500 and \$54,300)
- New exemption phase-out amounts of \$1,000,000 joint filers and \$500,000 single filers (currently \$160,900 and \$120,700)

***No Deduction for moving expenses***

***No Deduction/Income for New Alimony Payments***

***Repeal of ACA individual mandate and shared responsibility penalty – after 2018***

# AGENDA:

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**ESTATE AND  
GIFT UPDATES**

# *Estate Tax Updates*

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Basic Exclusion Amount doubled to \$11.2 million effective in 2018

- This exclusion will continue to be inflation adjusted in future years
- Also affects GST exemption (generation skipping tax)
- Portability election is unchanged – a married couple should be able to transfer up to \$22.4 million with no federal estate tax

No estate tax repeal

Annual Gift exclusion amount \$15,000 per person – this is indexed for inflation

Sunset provision after 2025, will revert to \$5 million (indexed from 2011)

*Estate Tax Updates (continued)*

*Estate Tax  
Updates  
(continued)*

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“Clawback issues” – a prior lifetime gift covered by the \$10 million exclusion may get “clawed back” to taxable estate if exemption reverts back to \$5 million.

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“Step Up” in basis remains the same

## *Estate Tax Updates (continued)*

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Estate plans should likely be reviewed, particularly if created prior to 2013

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This is not a permanent cut. The exemption is set to revert back to current amounts in 2025



# AGENDA:

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**BUSINESS  
UPDATES**

# BUSINESS UPDATES

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## ***Depreciation***

- Section 179 Expensing (permanent increase)
  - \$1,000,000 annual limitation
  - Phase-out begins at \$2,500,000
  - Indexed for inflation after 2018, including \$25,000 cap on certain vehicles
  - Includes “Qualified Real Property”
    - Qualified Real Property now includes improvements to interior of any nonresidential real estate – not just limited to retail, restaurants, or qualified leasehold improvements
    - New law includes certain structural components such as roofs, HVAC, fire protection, alarm systems, security systems
    - Anything that isn’t elevators, escalators, enlargements, or structural framework

# BUSINESS UPDATES

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## ***Depreciation***

- Bonus Depreciation (sunsets after 2026)
  - 100% first year depreciation – New and Used
  - Placed in service after 9/27/17 through December 31, 2022
  - Phases out after 2022
    - 2023 – 80%
    - 2024 – 60%
    - 2025 – 40%
    - 2026 – 20%
  - For first tax year ending after 9/27/17 – 50% bonus can be elected in lieu of 100%

## ***Like Kind Exchanges***

- Limited to real property (real estate)
- Vehicle and equipment trades will now be treated as a separate sale and purchase
- Gain recognized on sale - however, expanded Section 179 and Bonus Depreciation will allow for offsetting write-offs

BUSINESS  
UPDATES  
(continued)

### *Net Operating Losses*

- Carrybacks period is eliminated for losses after 2017
- Can be carried forward indefinitely
- NOL deduction in any year cannot be more than 80% of taxable income

### *Domestic Production Activities Deduction*

- Repealed after 2017

BUSINESS  
UPDATES  
(continued)

# *BUSINESS UPDATES (continued)*

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## **Section 263A**

- Exemption threshold raised from \$10 million to \$25 million
- Includes
  - Using the cash method of accounting
  - Accounting for inventories
  - Capitalizing overhead costs into inventory (UNICAP)
- Considered a change in accounting method initiated by the taxpayer; Form 3115 would be required – automatic consent

## *BUSINESS UPDATES (continued)*

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### ***Section 460 – Percentage of Completion***

- Small contractor exemption raised from \$10 million to \$25 million
- Considered a change in accounting method initiated by the taxpayer; Form 3115 would be required – automatic consent
- Applied on a “cutoff” basis for contracts entered into after December 31, 2017 – no 481(a) adjustment

BUSINESS  
UPDATES  
(continued)

## *Business Interest*

- Business interest expense deduction is limited to the sum of business interest income + 30% of adjusted taxable income (adjusted for depreciation & amortization)
- Any disallowed interest expense deduction can be carried forward indefinitely
- Computed at the taxpayer level, except that partnerships and S corporations compute at the entity level
- Could potentially hurt businesses that had a bad year; possibly no deduction for business interest allowed
- Does not apply to taxpayers below \$25 million of average annual gross receipts



## *Meals & Entertainment*

- Entertainment expenses are no longer deductible
- Business meals provided on employer premises are now 50% deductible rather than 100%

BUSINESS  
UPDATES  
(continued)

## *Corporate Tax Rates*

- Tiered rates capped at 35% are replaced with 21% flat rate
- Includes personal service corporations
- Dividends received deductions are also reduced
  - 70% goes to 50%
  - 80% goes to 65%
- Corporate AMT is repealed

*BUSINESS*  
*UPDATES*  
*(continued)*

## ***Qualified Business Income Deduction***

- Commonly referred to as “Pass Through Deduction”
- Do NOT have to be a pass-through entity to qualify – sole proprietorships and single-member LLC’s would qualify
- Intended to equalize the benefits afforded to C corporations with the 21% corporate rate
- Generally equates to a 20% deduction for “Qualified Business Income” (QBI)

*BUSINESS UPDATES (continued)*

# *BUSINESS UPDATES (continued)*

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## ***Qualified Business Income Deduction (continued)***

- Qualified Business Income
  - Net amount of income, gain, deduction, and loss relating to any qualifying trade or business
  - Does not include investment income, interest, dividends, capital gains
  - Does not include compensation paid as an employee, or guaranteed payments paid to partners for services rendered to the business
  - Net losses are carried over to offset future QBI net income
  - Rental income is not specifically identified in the code, however generally rental activities have not been considered “trade or business”

## *BUSINESS UPDATES (continued)*

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### ***Qualified Business Income Deduction (continued)***

- Applied at the owner level
- Deduction from AGI before Taxable Income
- Available whether taking the standard deduction or itemizing
- Limitation begins to apply when taxable income exceeds thresholds
  - \$157,500 for single; \$315,000 for married couples
  - Phaseout complete at \$207,500 and \$415,000, respectively

# BUSINESS UPDATES (continued)

## *Qualified Business Income Deduction (continued)*

- Example – John is married and owns a small construction company operated as a sole proprietorship. His net income from the business is \$100,000. His wife works outside the home and earns \$50,000. They have no other deductions other than the standard deduction.

Wages	\$ 50,000
Business Income	<u>100,000</u>
AGI	150,000
Standard Deduction	<u>(24,000)</u>
Preliminary Taxable Income	126,000
QBID	<u>(20,000)</u>
Net Taxable Income	<u>\$ 106,000</u>

Net Taxable Income	\$ 106,000
QBID	<u>(20,000)</u>

# *BUSINESS UPDATES (continued)*

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## ***Qualified Business Income Deduction (continued)***

- Limitation
  - Lesser of 20% of QBI or Taxable Income (pre-QBID)
  - Limited to the greater of
    - 50% of W-2 wages with respect to the business or
    - 25% of W-2 wages + 2.5% of the cost basis of qualified property
    - Qualified Property is generally depreciable assets used in the business that are still within their depreciable life

## *BUSINESS UPDATES (continued)*

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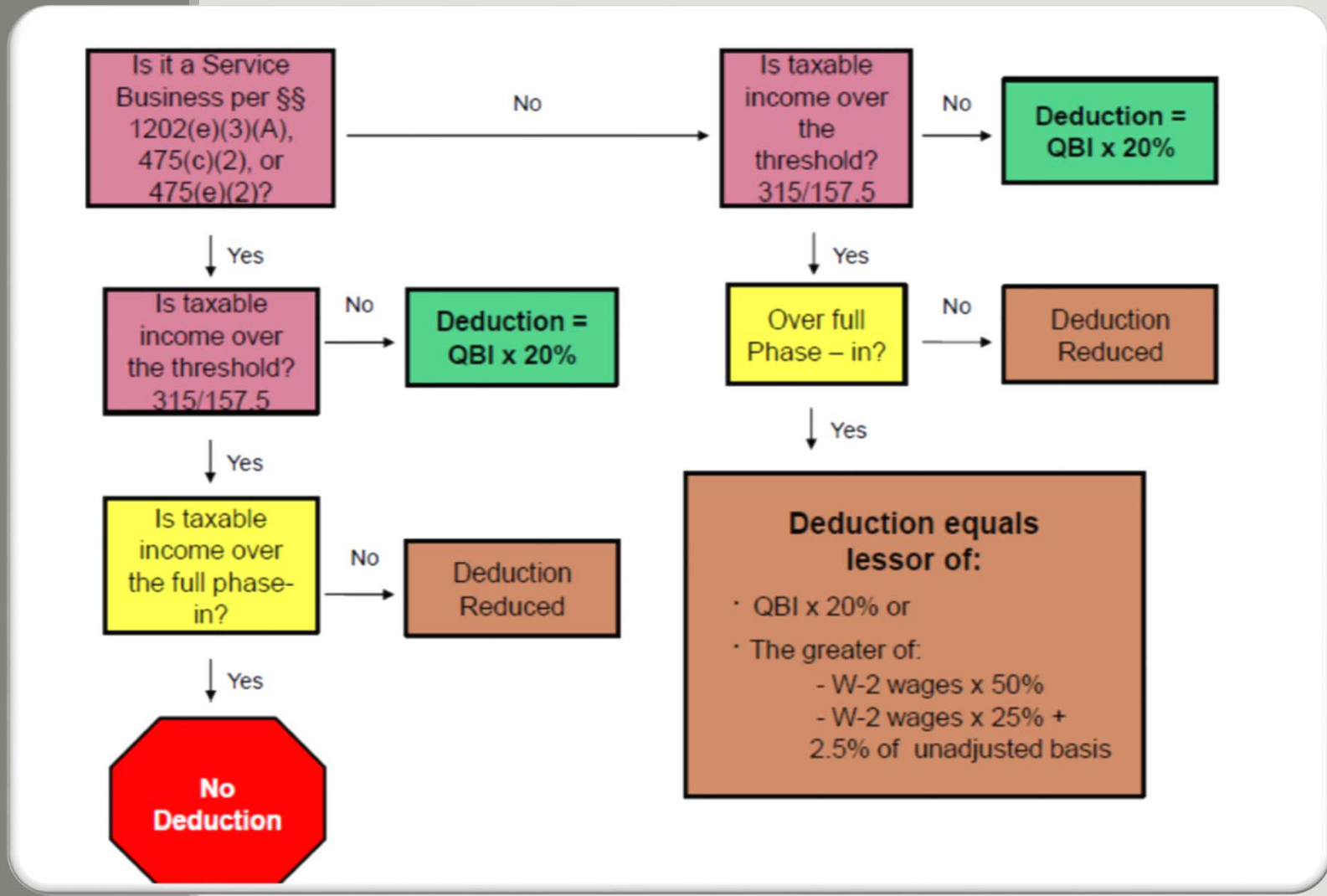
### ***Qualified Business Income Deduction (continued)***

- Specified service trades are not eligible once phaseout threshold is reached
  - health, law, accounting, actuarial services, consulting, athletics, financial services, brokerage services, or any business where principal asset is reputation and skill of employees or owners, or which involves services of investing and investment management trading, or dealing in securities, partnership interests or commodities



# BUSINESS UPDATES *(continued)*

## *Qualified Business Income Deduction (continued)*



# BUSINESS UPDATES (continued)

## ○ Qualified Business Income Deduction (continued)

### ○ QBID Phaseout Example

Jack, married, owns a pass-through construction company with net business income of \$1,000,000 in 2018. Jack and his wife have \$50,000 of other income and will have \$60,000 of itemized deductions (\$10,000 real estate and state taxes + \$50,000 charitable donations) in 2018. The construction company has \$250,000 of W-2 wages and \$100,000 of assets (unadjusted cost basis).

	<b>2018</b>
Net business income	\$ 1,000,000
Other income	<u>50,000</u>
Adjusted Gross Income	1,050,000
Less Itemized Deductions	<u>(60,000)</u>
Taxable Income	990,000
QBI Deduction	<u>(125,000)</u>
Net Taxable Income	<u>\$ 865,000</u>

#### QBI Limitation Factors

Lesser of:

20% of Net business income = \$200,000 or

20% of Adjusted Taxable Income = \$198,000

Greater of:

50% of Wages = \$125,000 or

25% of Wages + 2.5% of Assets = \$65,000

# BUSINESS UPDATES (continued)

## ○ **Qualified Business Income Deduction (continued)**

### ○ Net Tax Liability Comparison

Assume the same facts as the previous example. Net tax savings of \$50,000!

	<b>2017</b>	<b>2018</b>
Net business income	\$ 1,000,000	\$ 1,000,000
Other income	50,000	50,000
DPAD	<u>(90,000)</u>	<u>-</u>
Adjusted Gross Income	960,000	1,050,000
Less Itemized Deductions	<u>(40,600)</u>	<u>(60,000)</u>
Taxable Income	919,400	990,000
QBI Deduction	<u>-</u>	<u>(125,000)</u>
Net Taxable Income	<u>\$ 919,400</u>	<u>\$ 865,000</u>
Tax @ MFJ schedule	<u>\$ 309,300</u>	<u>\$ 259,400</u>

Domestic Production Activities Deduction repealed after 2017

Limitation on itemized deductions suspended for 2018 through 2025

Top tax rate 39.6% in 2017; 37% in 2018

Tax @ MFJ schedule \$ 309,300 \$ 259,400

	<i>S-Corp</i>	<i>C-Corp</i>
Business Income	\$ 1,000,000	\$ 1,000,000
QBID @ 20%	<u>(200,000)</u>	<u>-</u>
Taxable Income	<u>\$ 800,000</u>	<u>\$ 1,000,000</u>
Income Tax	<u>\$ 235,400</u>	<u>\$ 210,000</u>
Available for Dividends	\$ 764,600	\$ 790,000
Tax on Dividends @ 18.8%	<u>-</u>	<u>148,520</u>
Net to Shareholder	<u>\$ 764,600</u>	<u>\$ 641,480</u>
Effective Tax Rate	23.5%	35.9%

	<i>S-Corp</i>	<i>C-Corp</i>
Business Income	\$ 500,000	\$ 500,000
QBID @ 20%	<u>(100,000)</u>	<u>-</u>
Taxable Income	<u>\$ 400,000</u>	<u>\$ 500,000</u>
Income Tax	<u>\$ 91,380</u>	<u>\$ 105,000</u>
Available for Dividends	\$ 408,620	\$ 395,000
Tax on Dividends @ 18.8%	<u>-</u>	<u>74,260</u>
Net to Shareholder	<u>\$ 408,620</u>	<u>\$ 320,740</u>
Effective Tax Rate	18.3%	35.9%

## *BUSINESS UPDATES (continued)*

*SHOULD I OPERATE AS A C-CORPORATION?*

# QUESTIONS?



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