BOYLE & COMPANY, P.A.

To: **Boyle & Company Clients and Friends**

From Robert D. Boyle, CPA

Date/Time **July 10, 2018** at 1:56PM

Subject **Tax Cuts and Jobs Act**

Dear Clients and Friends:

On December 22, 2017, President Trump signed The Tax Cuts and Jobs Act. The provisions of this new Tax Act will affect each of you in one way or another. Either in your business or personally. I have put together the following summary list of changes that I hope you will find beneficial and of interest.

For those of you who are my clients and for friends should you be willing to provide your 2017 income tax return, we have purchased a tax projection program that permits us to project the effects of the new tax law based upon your 2017 income tax return. This projection may be helpful for each of you as some of you are going to benefit from the Trump Tax Act and may be able to adjust your current withholding or reduce your current estimated income taxes now as opposed to getting a large refund when you file your 2018 income tax return and others may find that the Trump Tax Act is not beneficial to you and you may need to increase your withholding or estimated taxes.

Note that this projection is for Federal Income Taxes only.

For those of you that are interested in running a projection, please call to discuss.

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Established 1935

New "Tax Cuts and Job Acts" Law Summary:

Signed into Law - 12/22/2017

Individual Changes

1. New Individual tax brackets based upon taxable income:

Married Filing Joint

10% to $19,050,
12% to $77,040,
22% to $165,000,
24% to $315000,
32% to $400,000,
35% to $600,000,
37% over $600,000

Single

10% to $9,525,
12% to $38,700,
22% to $82,500,
24% to $15,7500,
32% to $200,000,
35% to $500,000,
37% over $500,000

Under the old law the highest Individual Income Tax Bracket was 39.6% which started at $418,400. The highest Married Filing Joint income Tax Bracket was 39.6% which started at $470,700.

2. The Standard Deduction is now:

$24,000 for Married Filing Joint filers
$12,000 for individual filers
$18,000 for Head of Household filers

Under the old law the Standard Deduction for Married Filing Joint filers was $12,700, for Single Filers it was $6,350, and for Head of Household filers it was $9,350. However, each of those amounts were subject to phase out as income increased.

3. Personal Exemptions (formally $4,050) are eliminated

4. State and local taxes (SALT) are limited to:

$10,000	Married and Single
$5,000	Married filing Separate

Note: Federal Income tax states, such as NY State, follow the itemized deduction rules of the Internal Revenue service. Therefore, a limitation on SALT deductions may be anticipated in Federal Income tax States. *NJ is not a Federal Income tax State and does not permit itemized deductions. NJ permits a maximum deduction of $10,000 for real Estate taxes on your personal residence. It is not anticipated that this will change.*

5. Internal Revenue Code Section 529 Educational Plans can now be used to fund public elementary, private elementary, religious elementary and secondary schools. Previously, the plan was limited to post-secondary education. To avoid taxation, the amount that can be withdrawn for public elementary, private elementary, religious elementary and secondary schools is limited to $10,000, per student, per year.

6. Pass-through Entities, Partnerships, S Corporations etc., will now receive 20% deduction on their pass through income at the personal income tax level. This deduction expires after 12/31/2025.

Note: The Tax Act's 20% deduction rule excludes the businesses, formerly known as Personal Service Entities, in the areas of Health, Law, Accounting, Actuarial, Performing Arts, Consulting, Athletics, Financial Services, Brokerage Services and any business where the principal asset of the Entity is the reputation or skill of one or more of its employees. However, the new Tax act specifically excludes architects and engineers from the definition of Personal Service Entities.

Planning Note: In my opinion, all pass through Entities doing business in the fields of Health, Law, Accounting, Actuarial, Performing Arts, Consulting, Athletics, Financial Services, Brokerage Services or any business where the principal asset of the Entity is the reputation or skill of one or more of its employees should look at the possibility of becoming a C Corporation. A change to a C Corporation, under the new Tax Act, will be taxed Federally at a 21% flat tax rate. This 21% tax rate may prove to be substantially lower than paying the highest tax rate on your income due to the exclusion from the 20% deduction from which other pass through entities may benefit.

7. Mortgage interest deduction is limited to a maximum Mortgage loan of $750,000 (after 12/15/2017). The new law grandfather's the current mortgage holders with mortgages up to $1 million.

8. Home equity loan interest deduction is only available on loans used directly for acquisition indebtedness or home improvement. Formally, the interest deduction up to $100,000 of home equity debt, could have been used for any purpose and was deductible. The $100,000 limitation is no longer in addition to the current $750,000 mortgage limitation.

9. Estate Tax exemption doubled to $11,180,000. per person for 2018 (adjusted for inflation post 2018). This means that a married couple with the proper estate plan can pass over $22 million without Federal Estate tax. The previous Estate Tax deduction for 2017 was $5.49 million per person.

10. The Individual Mandate for Obamacare penalty is reduced to zero, starting in 2019.

11. Net Investment Income Tax (Obamacare tax) is unchanged at 3.8%.

12. The Kiddie Tax is substantially changed. Children's unearned income is taxed as if it were a Trust or Estate. The Trust and Estate income tax rates are extremely onerous.

13. Child tax credit doubled from $1,000 to $2,000 with large increase in threshold for phase out income amounts.

14. Capital gains calculations and rates are unchanged.

15. Planning Note: for tax benefit rule purposes, for State and Local Taxes (SALT), it may be beneficial to maximize the real estate tax deduction before state income tax deduction. This may be useful in avoiding subsequent year taxation of state income tax refunds.

16. The new Law greatly restricts Casualty Losses. Now, casualty losses are limited to those losses that are attributed to Federally Declared Disasters only. The old Law included any casualty that exceeded 10% of Adjusted Gross Income plus $100.

17. Itemized deductions are not permitted even if the expenses exceed 2% of Adjusted Gross Income. These deductions include investment fees, employee business expenses, safety deposit boxes, business publications, tax preparation fees, legal fees for asset protection purposes, etc. Under the old Law, these items were deductible if they exceeded the 2% of Adjusted Gross Income.

18. Moving expense reimbursement, from Employers, is now included in taxable income. This does not apply to U.S. Armed Forces and their family members on Active Duty. Under the old Law, in certain circumstances the moving expense reimbursement was not taxable.

19. Under the new Law, there is no deduction for unreimbursed moving expenses. This change does not apply to U.S. Armed Forces and their families on active duty. Under the old Law, in certain circumstances the unreimbursed moving expenses were deductible.

20. The Individual AMT exemption is increased marginally for Married Filing Joint from $84,500 to $109,400, and for Single filers from $54,300 to $70,300. However, the phase out level increases substantially. The increase for Married Filing Joint increases from $160,900 to $1,000,000 and for Single filers it increases from $120,700 to $500,000. For most of us this large increase in the phase out level may be the single most important change in the Tax Law as many of you are in the Alternative Minimum Tax.

21. The Medical expense deduction reverts back to the amount in excess over 7.5% of Adjusted Gross Income for 2018. The deduction limitation goes back to 10% of Adjusted Gross Income starting in 2019.

22. The new Law, makes Alimony payments non-deductible for divorces finalized after 12/31/2018 for the payor and therefore not income to the recipient. Pre 2018, Alimony agreements are unchanged.

23. Cash donations to public charities are deductible up to 60% of adjusted gross income. The old Law limited the deduction to 50% of adjusted gross income.

24. Donations to Colleges and Universities for tickets and/or seat rights to sporting events are no longer deductible. Arguably, these payments were deductible under the old Law.

25. Gambling losses are still limited to Gambling winnings. However, gambling expenses are now more restricted. Traveling expenses to casinos and lodging expenses at casinos are no longer considered part of your gambling expenses unless you are a professional Gambler.

Note: Most individual tax law changes sunset in the year 2025

Business Changes

1. The new Law fixes the Corporate tax rate, for C Corporations, at a flat 21% starting in 2018. The highest rate under the old Law was 35%.

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2. The Corporate AMT is repealed.

3. Corporation Net Operating Losses are now limited to 80% of taxable income. The old law was 100% of taxable income. The new law eliminates Corporate Net Operating Loss carrybacks for years after 2017.

There is an indefinite loss carryforward for losses incurred after 12/31/2017 (it appears that pre 12/31/2017 operating losses may still be carried back 2 years).

4. There are Corporation interest deduction changes. For corporations whose gross revenues exceed $25 million, the interest deductions will be limited to 30% of taxable income, before depreciation, amortization and depletion, plus interest income earned. Floor plan interest, generally used in the automotive industry, is not affected by this change. Non deductible interest can be carried forward indefinitely. This change may have a major impact on highly leveraged C Corporations with gross revenues in excess of $25 million.

5. Entertainment is no longer deductible. This includes, but is not limited to, sporting events, shows, Dinners, season tickets for sporting events and seats at a show or the opera. Under the old Law, assuming that there was a valid business purpose, these expenses were deductible up to the 50% threshold. I suggest that everyone split out Travel and Entertainment into two separate accounts, in their General Ledger, one for Travel and one for Entertainment.

6. IRC code section 1031, like kind exchange, is now limited to Real property only. Section 1031 transactions no longer include Tangible Personal Property or Intangible Property used in business or held for investment. This is actually a substantial change. Many of you have been utilizing the 1031 transaction rules for years without even being aware of it. In the past, each time you traded in a business vehicle for a new vehicle, Section 1031 was utilized to avoid any potentially recognized taxable gain on the traded in vehicle. Under the new law, there will now be a taxable event each time you trade in your old vehicle for a new vehicle. The taxable event will be based upon the depreciated value of your old vehicle, usually very low value, versus the trade in value received on the new vehicle transaction.

7. Bonus depreciation after Sept 27, 2017, now includes new and used equipment.
The deduction is 100% of the cost of the asset up to a maximum deduction of $1.0 million per year through the year 2022.