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Dear Client,

The recently enacted Tax Cuts and Jobs Act (TCJA) is a sweeping federal tax package. Here's a condensed version of some of the more important elements of the new law that impact individuals & businesses. Unless otherwise noted, the changes are effective for tax years beginning in 2018 through 2025.

- ***Tax rates***. The new law imposes a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The "kiddie tax" rules were simplified.
- ***Standard deduction***. The new law increases the standard deduction to $24,000 for joint filers, $18,000 for heads of household, and $12,000 for singles and married taxpayers filing separately. Given these increases, many taxpayers will no longer be itemizing deductions. These figures will be indexed for inflation after 2018.
- ***Exemptions***. The new law suspends the deduction for personal exemptions. Thus, starting in 2018, taxpayers can no longer claim personal or dependency exemptions. The rules for withholding income tax on wages will be adjusted to reflect this change.
- ***New deduction for "qualified business income."*** Starting in 2018, taxpayers are allowed a deduction equal to 20 percent of "qualified business income," otherwise known as "pass-through" income, i.e., income from partnerships, S corporations, LLCs, and sole proprietorships. There are limitations.
- ***Child and family tax credit***. The new law increases the credit for qualifying children (i.e., children under 17) to $2,000 from $1,000, and increases to $1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) $500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to $200,000 ($400,000 for joint filers).
- ***State and local taxes***. The itemized deduction for state and local income and property taxes is limited to a total of $10,000 starting in 2018.
- ***Mortgage interest***. Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans taken out in 2018. And there is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred.
- ***Miscellaneous itemized deductions***. There is no longer a deduction for miscellaneous itemized deductions which were formerly deductible to the extent they exceeded 2 percent of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues, and unreimbursed employee expenses.
- ***Medical expenses***. Under the new law, for 2017 and 2018, medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income for all taxpayers. Previously, the AGI "floor" was 10% for most taxpayers.
- ***Health care "individual mandate."*** Starting in 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage.
- ***Alternative minimum tax (AMT) exemption***. The AMT has been retained for individuals by the new law but the exemption has been increased to $109,400 for joint filers ($54,700 for married taxpayers filing separately), and $70,300 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over $1 million for joint filers, and over $500,000 for all others.

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- ***Domestic production activities deduction ("DPAD") repealed***. The new law repeals the DPAD for tax years beginning after 2017. The DPAD formerly allowed taxpayers to deduct 9% of the lesser of the taxpayer's (1) qualified production activities income or (2) taxable income for the year, limited to 50% of the W-2 wages paid by the taxpayer for the year.
- ***New fringe benefit rules***. The new law eliminates the 50% deduction for business-related entertainment expenses.
- ***Increased Code Sec. 179 expensing***. The new law increases the maximum amount that may be expensed under Code Sec. 179 to $1 million. If more than $2.5 million of property is placed in service during the year, the $1 million limitation is reduced by the excess over $2.5 million. Both the $1 million and the $2.5 million amounts are indexed for inflation after 2018. The expense election has also been expanded to cover (1) certain depreciable tangible personal property used mostly to furnish lodging or in connection with furnishing lodging, and (2) the following improvements to nonresidential real property made after it was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; security systems; and any other building improvements that aren't elevators or escalators, don't enlarge the building, and aren't attributable to internal structural framework.
- ***Bonus depreciation***. Under the new law, a 100% first-year deduction is allowed for qualified new and used property acquired and placed in service after September 27, 2017 and before 2023.
- ***Depreciation of qualified improvement property***. The new law provides that qualified improvement property is depreciable using a 15-year recovery period and the straight-line method. Qualified improvement property is any improvement to an interior portion of a building that is nonresidential real property placed in service after the building was placed in service. There are no longer separate requirements for leasehold improvement property or restaurant property.
- ***Depreciation of farming equipment and machinery***. Under the new law, subject to certain exceptions, the cost recovery period for farming equipment and machinery, the original use of which begins with the taxpayer, is reduced from 7 to 5 years.
- ***Luxury auto depreciation limits***. Under the new law, for a passenger automobile for which bonus depreciation is not claimed, the maximum depreciation allowance is increased to $10,000 for the year it's placed in service, $16,000 for the second year, $9,000 for the third year, and $5,760 for the fourth and later years in the recovery period. These amounts are indexed for inflation after 2018. For passenger autos eligible for bonus first year depreciation, the maximum additional first year depreciation allowance remains at $8,000 as under pre-Act law.
- ***Employee achievement awards clarified***. An employee achievement award is tax free to the extent the employer can deduct its cost, generally limited to $400 for one employee or $1,600 for a qualified plan award. An employee achievement award is an item of tangible personal property given to an employee in recognition of length of service or a safety achievement and presented as part of a meaningful presentation. The new law defines "tangible personal property" to exclude cash, cash equivalents, gift cards, gift coupons, gift certificates (other than from an employer pre-selected limited list), vacations, meals, lodging, theater or sports tickets, stocks, bonds, or similar items, and other non-tangible personal property.

As evidenced from this brief overview, the new law affects many areas of taxation. If you wish to discuss the impact of the law on your particular situation, please give us a call or inquire at your tax appointment.

The Team at Swanson Hinsch & Company, CPA's