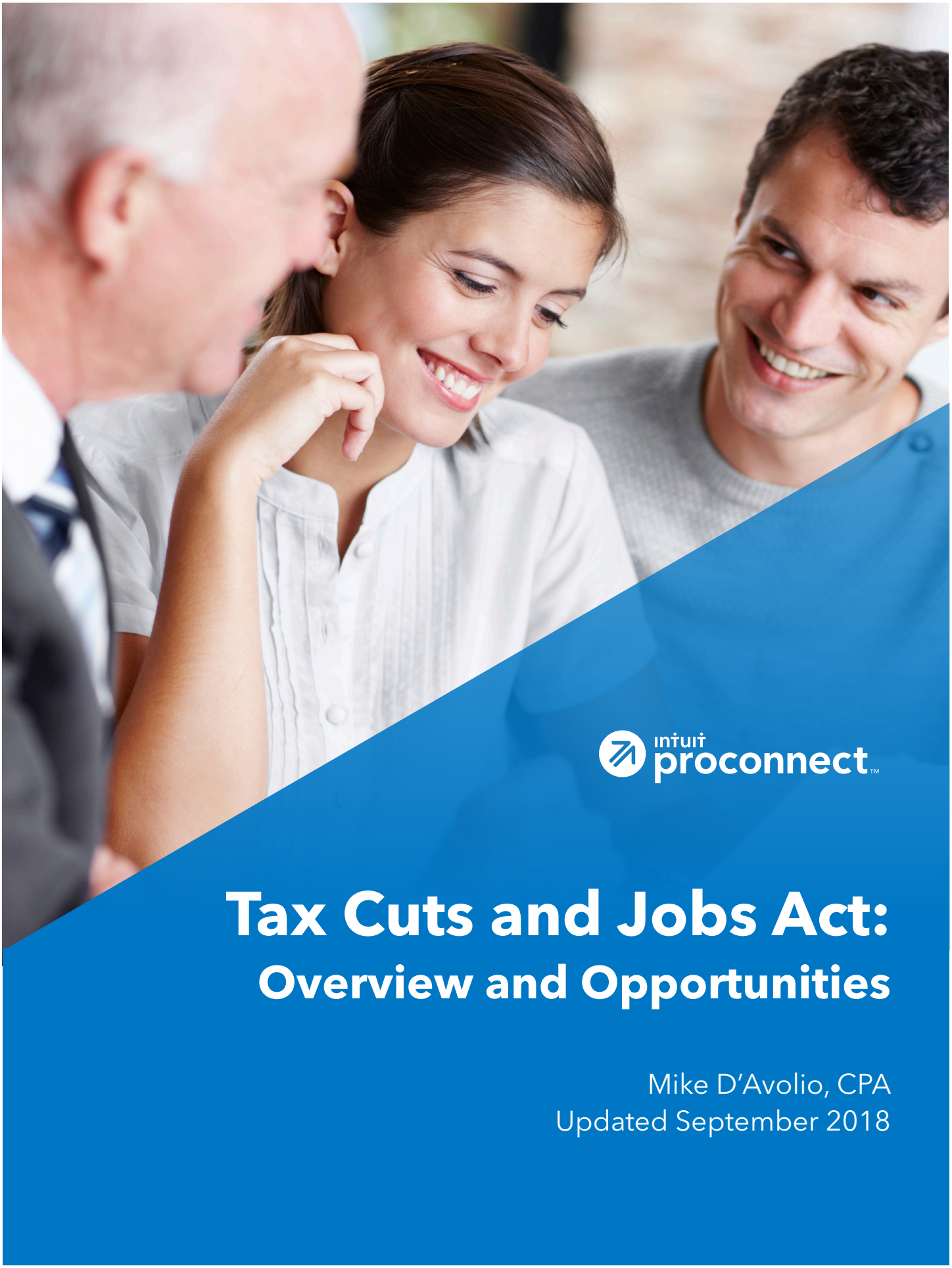

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Tax Cuts and Jobs Act:
Overview and Opportunities

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Congress passed the 2017 Tax Cuts and Jobs Act, and it was signed into law by President Trump on December 22, 2017.

The Tax Cuts and Jobs Act overhauls the Internal Revenue Code, lowers tax rates for individual taxpayers and businesses, increases tax deductions and credits, and eliminates or reduces various tax deduction and credits.

A typical family of four earning $73,000 a year could receive a tax reduction of as much as $2,000. Most of the provisions contained in the tax reform bill apply to tax year 2018 and future years through Dec. 31, 2025. This white paper offers a detailed breakdown of some of the major provisions in the Tax Cuts and Jobs Act and how they may impact your individual and business clients.

As your clients' trusted advisor, you can advise and help your individual and business clients save vital tax dollars. The Tax Cuts and Jobs Act provides additional opportunity to offer advisory and consultative services, and this white paper calls attention to these tax planning opportunities throughout.

Individual Taxes

Income Tax Rates and Brackets

Under prior law, an individual taxpayer's taxable income was taxed at a graduated rate of 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The Tax Cuts and Jobs Act reduces the rates to 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Tax Rate	Taxable Income			
	Single	Head of Household	Married Jointly	Married Separately
10%	$0-$9,525	$0-$13,600	$0-$19,050	$0-$9,525
12%	$9,526-$38,700	$13,601-$51,800	$19,051-$77,400	$9,526-$38,700
22%	$38,701-$82,500	$51,801-$82,500	$77,401-$165,000	$38,701-$82,500
24%	$82,501-$157,500	$82,501-$157,500	$165,001-$315,000	$82,501-$157,500
32%	$157,501-$200,000	$157,501-$200,000	$315,001-$400,000	$157,501-$200,000
35%	$200,001-$500,000	$200,001-$500,000	$400,001-$600,000	$200,001-$300,000
37%	>$500,000	>$500,000	>$600,000	>$300,000

Table 1. Tax rates and brackets under the Tax Cuts and Jobs Act of 2017

As a result of the law changes, most taxpayers above the lowest 10% bracket will see a tax reduction compared to the rates under prior law. For example, a single taxpayer with $40,000 of taxable income will owe $4,739.50, which is $914.25 less than the $5,653,75 that would have been due under prior law. For joint filers, taxable income of $40,000 will produce a tax bill of $4,419 for 2018 compared to $5047.50 under prior law – a tax cut of $628.50.

Standard Deduction

In tax year 2018, about 70% of taxpayers took the standard deduction and 30% itemized. The Tax Cuts and Jobs Act nearly doubles the standard deductions for every filing status in an attempt to help more taxpayers bypass itemizing. For 2018, the Tax Cuts and Jobs Act sets the standard deduction at:

- 24,000 for married individuals filing joint returns and surviving spouses
- $18,000 for heads of households
- $12,000 for single taxpayers and married individuals filing separately

Under prior law, standard deduction amounts were scheduled to be $13,000 for married couples filing jointly and surviving spouses, $9,550 for heads of households, and $6,500 for single individuals and married individuals filing separately.

For a single taxpayer who claims the standard deduction, the increase represents a $5,500 decrease in the amount of income subject to tax. For married couples filing jointly, the increased deduction shelters an additional $11,000 from tax. However, when the elimination of personal and dependency exemptions are factored into the equation, those figures change dramatically.

Personal and Dependency Deductions

Year after year, taxpayers have routinely claimed personal and dependency exemption deductions for themselves, their spouses and their dependents—but not this year. The Tax Cuts and Jobs Act effectively repeals the exemption deductions by reducing the exemption amount to zero. This suspension is in place until 2026.

Tax Planning Opportunity

Be sure to review W-4 withholding and quarterly tax estimates with your clients.

In addition, higher standard deductions may provide an opportunity to help clients group certain deductions and itemize every other year to increase taxpayer deductions over a two-year period.

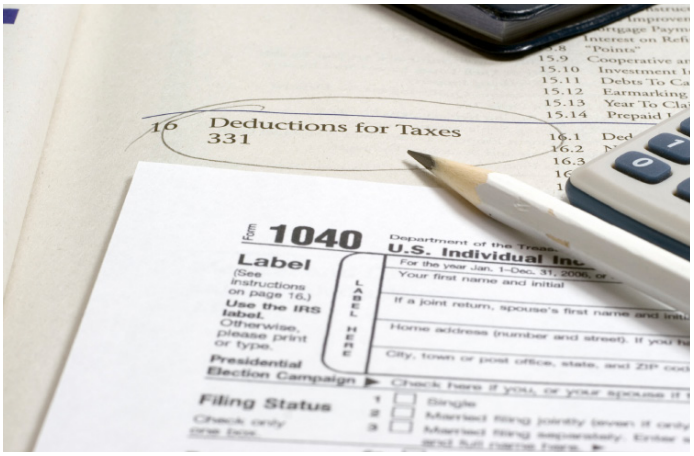
Before the enactment of the Tax Cuts and Jobs Act, the exemption amount was scheduled to be $4,150 for 2018. So, for a single taxpayer, the personal exemption would have sheltered $4,150 from tax in 2018. And for a family of four, the elimination of personal exemptions potentially exposes as much as $16,600 of income to tax in 2018.

Bear in mind that the personal and dependency exemptions are below-the-line deductions, taken after adjusted gross income.

Itemized Deductions

The Tax Cuts and Jobs Act makes a number of changes in the rules for taxpayers who itemize deductions. First of all, it eliminates the overall limit on itemized deductions, which should help some taxpayers.

Several changes are most likely to affect your clients who have claimed itemized deductions in prior years.



2% miscellaneous itemized deductions. The new law bars write-offs of 2% miscellaneous itemized deductions, such as unreimbursed employee expenses and investment expenses.

Tax Planning Opportunity

With the Tax Cuts and Jobs Act eliminating write-offs of 2% miscellaneous itemized deductions, consider coaching individual clients to ask their employers to use an accountable plan for mileage and unreimbursed expenses. This can be a no-cost or low-cost benefit for an employee, and it is a great way to add value to your relationship with your client. Read more.

State and local tax deductions. For 2018, the new tax law places a $10,000 limit on itemized deductions for state and local income and property taxes. The deduction limit is $5,000 for married individuals filing separately.

As in prior years, taxpayers can claim a deduction for state and local general sales taxes instead of deducting state and local income taxes; the $10,000/$5,000 deduction limit also applies to those taxes. In the past, there was no dollar limit on these deductions. For clients in high-tax states like California, New York, New Jersey and others, this limited deduction may have an impact on their taxes.

A silver lining is that state and local taxes are added back for the alternative minimum tax (AMT), and many taxpayers lost the value of the deduction when they paid AMT.

Tax Planning Opportunity

For high-tax states, the $10,000 limit on itemized deductions for state and local income and property tax may make tax planning more complex for current clients and open the door for new clientele.

For some taxpayers with less than $10,000 in taxes, this may be a good opportunity to group itemized deductions one year, and take the standard deduction the next, to maximize tax savings.

Mortgage interest deductions. Under prior law, taxpayers could claim a deduction for interest up to $1 million ($500,000 for married individuals filing separately) of acquisition indebtedness incurred to buy, build or substantially improve a main home and one other residence. In addition, a deduction was allowed for the interest on up to $100,000 ($50,000 for married individuals filing separately) of home equity debt.

The Tax Cuts and Jobs Act limits mortgage interest deduction to the interest on $750,000 ($375,000 for married individuals filing separately) of acquisition debt.

The reduction in the dollar cap for acquisition debt does not apply to debt incurred on or before Dec. 15, 2017, or certain debt incurred pursuant to a binding contract entered into before that date. Debt incurred before Dec. 15, 2017, that is refinanced may use the old law limits up to the balance due on the date of refinancing, but taxpayers must apply the new law on additional borrowings. If the refinancing extends the term of the loan, the new limits apply as well.

The IRS has issued some guidance on home equity loans. Interest is deductible under the $750,000 cap if the loan is used to improve the home, such as adding a new kitchen. It is not deductible if the proceeds are used for personal living expenses, such as paying off credit card debt.

Charitable contributions. Starting in tax year 2018, your clients can get a bigger deduction for their charitable contributions. In tax year 2017, taxpayers were subject to a 50% limit for cash contributions to public charities and certain private foundations.

The Tax Cuts and Jobs Act increased this limit to 60%. Because this threshold was already very high, few taxpayers will be impacted by this change.

Medical expense deductions. Under longstanding tax law rules, out-of-pocket medical expenses were deductible to the extent that they exceeded 7.5% of a taxpayer's adjusted gross income (AGI).

Tax Planning Opportunity

When it comes to your clients' charitable contributions, consider timing them to offset high income years, or take advantage of stacking itemized deductions.

Consider donating appreciating stock to avoid taxable income from the capital gain, while getting a full deduction on the fair market value.

Also, your clients can consider using donor-advised funds or a provide non-operating foundation.

Starting in 2012, a tax law change raised the deduction floor to 10% of AGI for most taxpayers, although the 7.5% floor continued to apply through 2016 if either the taxpayer or the taxpayer's spouse had reached age 65 before the end of the tax year. The deduction floor was scheduled to be 10% of AGI for all taxpayers for 2017 and later years.

The Tax Cuts and Jobs Act of 2017 reduces the deduction floor to 7.5% of AGI for 2017 and 2018 only. After 2018, the deduction floor will reset to 10% for all taxpayers. Consequently, 2018 is the last year that your clients can take advantage of the lower deduction floor.

There are many other deductions affected by the Tax Cuts and Jobs Act. Below is a summary of a few of them:

- Moving expense deduction is suspended, except for members of the Armed Forces on active duty.
- Exclusion for moving expense reimbursements is suspended, except for members of the Armed Forced on active duty.
- Qualified bicycle commuting exclusion is suspended.
- Deduction for living expenses of Members of Congress while away from home is eliminated.
- If you're in a federally-declared disaster, nothing changes and you still get the itemized deduction. However, if you're in a non-federally-declared disaster, the itemized deduction goes away. If you have gains from insurance proceeds, you can still offset disaster loss.

Tax Planning Opportunity

Clients whose medical expenses for 2018 are at or near 7.5% of AGI may be able to get a deduction by accelerating planned medical procedures or purchases into 2018. Clients whose expenses to date exceed the 7.5% deduction floor may want to shift medical expenses into 2018, especially if it's unclear whether expenses for 2019 will exceed 10% of AGI.

Child Tax Credit

For taxpayers with children or other dependents, one of the most significant provisions in the Tax Cuts and Jobs Act may be the changes to the child tax credit. As under prior law, taxpayers can claim a child tax credit for each qualifying child under age 17.

The new law doubles the amount of the credit from $1,000 to $2,000 per child. For higher-income taxpayers, the new law also significantly raises the income levels at which the otherwise allowable credit is phased out. In the past, the total credit was reduced by $50 for each $1,000 (or fraction thereof) of income over $110,000 for joint filers, $75,000 for singles and heads of households, and $55,000 for married individuals filing separately. Under the new law, the reduction of the credit does not begin until income exceeds $400,000 on a joint return or $200,000 on all other returns.

Up to $1,400 of credit per child is refundable for 2018. Under prior law, the refundability portion was calculated at 15% of earned income in excess of $3,000; under the new law, the earned income threshold has been decreased to $2,500, making it easier to qualify for the refundable portion.

It should be noted, however, that the new law does include one crackdown on the child tax credit. Starting in 2018, taxpayers claiming a child credit will have to show the child's Social Security number (SSN) on the return. In the past, a taxpayer could provide another tax identification number for a child without an SSN.

The Tax Cuts and Jobs Act also creates a new $500 nonrefundable tax credit for dependents who do not qualify for the regular child tax credit, including children under 17 who do not have an SSN. The new credit is treated as part of the regular child credit in determining the amount of the credit reduction for higher-income taxpayers.

Alternative Minimum Tax

While the Tax Cuts and Jobs Act eliminated the Corporate Alternative Minimum Tax (AMT), it's retained for individuals. The exemption amounts for the AMT have been increased to $109,400 for married filing jointly taxpayers, $70,300 for single taxpayers, and $54,700 for married filing separately taxpayers.

In addition, Congress also increased the phaseout threshold for the AMT exemption. In tax year 2017, the phaseout for joint filers began at $160,900, and $120,700 for other files. These amounts have been increased to $1 million for joint filers and $500,000 for other filers. Exemption amounts will be reduced by 25% of the amount by which the AMTI exceeds these thresholds. These changes are intended to reduce the number of taxpayers affected by the AMT.

Kiddie Tax

The Tax Cuts and Jobs Act made modifications to the Kiddie Tax. Previously, children under the age of 19 and college students under the age of 24 were taxed (above a certain threshold) at their parents' top marginal tax rate. Beginning in tax year 2018, the net unearned income of a child subject to the rules will be taxed at the rates that apply to trusts and estates, and be unaffected by the parents' tax rates. A child's earned income will be taxed at their own single filer rate.

Alimony

Getting divorced has always been an expensive proposition; now your clients will want to plan carefully to ensure there's not an unexpected change in their taxes.

Under prior law, alimony and separate maintenance payments were deductible by the payer and includible in the income of the recipient.

Under the Tax Cuts and Jobs Act, for divorce or separation agreements executed after Dec. 31, 2018 (note, not 2017), or executed before that date and modified after, alimony and separate maintenance payments are not deductible by the payer and are not included in the income of the recipient.

Tax Planning Opportunity

Consider asking your clients about the income of their children under the age of 24 to find out of they are affected by the change in the Kiddie Tax. Add the question to your organizers and tax planning interviews as you prepare for next tax season.

Alimony is a good planning opportunity since it represents a big change from prior law. Planning will depend on which spouse you represent. Meet with your client and their attorney well ahead of a divorce to help them plan for changes to their taxes accordingly.

IRS Wage Withholding

The IRS released an updated Withholding Calculator and a new version of Form W-4 to help taxpayers check their 2018 tax withholding following passage of the Tax Cuts and Jobs Act. You can use these tools to help ensure your clients have the right amount of tax taken out of their paychecks. Employers and payroll services should have implemented the changes in February 2018.

Affordable Care Act

For 2018, taxpayers are still required to have health insurance and will be subject to the shared responsibility payment. However, beginning in 2019, the Affordable Care Act shared responsibility payment will be eliminated.

Taxpayers will continue to receive Forms 1095-A, 1095-B and 1095-C with information about their coverage, and they should keep these forms with their records. Taxpayers who purchase insurance coverage through the Health Insurance Marketplace will continue to receive Form 1095-A because information included on the form is necessary to properly calculate the Premium Tax Credit on their tax returns.

There are no changes to the Exchanges, Premium Tax Credit and Employer Mandate.

Tax Planning Opportunity

Use the tools provided by the IRS to ensure your clients' withholding allowances and quarterly tax estimates are properly adjusted to account for the Tax Cuts and Jobs Act.

Estate and Gift Tax Exemption

Under tax reform, the federal estate, gift and generation-skipping transfer (GST) exemption has doubled—from $5.49 million in 2017 to approximately $11.2 million in 2018 for individuals, and from $10.98 million to approximately $22.4 million for married couples, subject to increase with inflation each year. This applies to estates of descendants dying and gifts made after Dec. 31, 2017, and before Jan. 1, 2026. Remember to take into account state exemption amounts, which may not have changed.

The doubling of this exclusion may impact your clients' current estate plans. As the *Wall Street Journal* reported, in 2017, the Joint Committee on Taxation estimated that the number of taxable estates would drop from around 5,000 under prior law to 1,800 under the new law.

The rule allowing for a step-up in basis of inherited property to the fair market value at date of death remains unchanged.

There is a $15,000 annual gift tax exclusion for 2018.

Your clients have the option of paying gift taxes in the year they make the gift or using a portion of the exemption; much of the time, it dœsn't make sense to pay the tax in advance.

Retirement Plans

Retirement plans received a slight tweak under the Tax Cuts and Jobs Act. It repeals the rule allowing the recharacterization of converted Roth IRAs to traditional IRAs. It's still okay to contribute a Roth IRA, then transition it to a traditional IRA, and it's okay to contribute to a traditional IRA, then convert it to a Roth IRA. However, you cannot unwind a Roth conversion. The rules for doing the initial IRA conversions have not changed and are still allowed.

Tax Planning Opportunity

You can help your clients with estate planning by reviewing the following:

- Wills: Ensure they have them and are current.
- Guardians: For clients with children, it's critical that they name guardians or the state would decide who the children live with.
- Living trusts: Consider these as an alternative to outright ownership of assets.
- Beneficiaries: Ensure the proper beneficiaries are named to each account.
- Life insurance policies: Ensure policies for the right amount are in place.
- Retirement plan rollovers: Organize and consolidate old plans as needed.

529 Plans

Under tax reform, taxpayers can now distribute up to $10,000 annually from a 529 plan to pay for elementary school and secondary school tuition. The institution can be public, private or religious. Under prior law, taxpayers could only use the money for college tuition.

ABLE Accounts

An ABLE account is a tax-advantaged savings account for individuals with disabilities and their families. It acts like a 529 Plan in that contributions are not deductible, and earnings grow tax free if applied toward disability expenses. Tax reform has brought about three changes:

- The contribution limit has been increased; after the limit is reached, the beneficiary can contribute an additional amount up to the lesser of the poverty line for a one-person household in the state in which the beneficiary lives, or the individual's compensation for the tax year.
- The beneficiary of an ABLE account can claim the saver's credit.
- 529 plans may be rolled over to ABLE accounts without penalty.

Prior law established a $14,000 annual limit on contributions, tied to the gift tax limit.

Gambling Loss

Under tax reform, the gambling loss limitation has been expanded to include expenses incurred in gambling activities. Examples of such expenses include transportation, meals, entertainment and admission fees. The deduction for any expense incurred in gambling—not just gambling losses—is now limited to gambling winnings.

Due Diligence

Due diligence already existed for paid tax professionals filing returns involving the earned income credit, child tax credit and American opportunity credit. With the Tax Cuts and Jobs Act, preparers can add claiming the head of household filing status to the list. There is a $500 penalty for each failure to comply.

What Didn't Change?

Much has changed with the Tax Cuts and Jobs Act, but a few things remain the same that are worth noting since different versions of the Tax Cuts and Jobs Act contained different provisions before passage and may cause confusion.

Capital gains rates and breakpoints. The Tax Cuts and Jobs Act didn't make changes to the capital gains rates; they remain at 0%, 15% and 20%.

Affordable Care Act surtaxes. The 3.8% net investment income tax and the 0.9% additional Medicare tax have been left in place.

Qualified Business Income Deduction (Sec. 199A)

The Tax Cuts and Jobs Act of 2017 did not break new ground in adding write-offs to the Tax Code—with one key exception. The new law creates a new deduction starting in 2018 and expiring on Jan. 1, 2026, for qualified business income from pass-through entities.

In the simplest terms, the new deduction will shelter up to 20% of an eligible taxpayer's qualified business income from tax. However, the law is not that simple. The new deduction is subject to numerous qualification requirements, limitations and special rules.

Qualified Business Income, Defined

Qualified business income is the net amount of income, gain, deduction and loss from a qualified business, provided the items are effectively connected with the conduct of the business in the United States. However, specified investment items are not taken into account, including capital gains and losses, dividends or interest income. In addition, qualified business income does not include reasonable compensation received from an S corporation or a guaranteed payment from a partnership for services provided.

Who Qualifies: Eligibility and Limitations

The new deduction for qualified business income is generally available to sole proprietors as well as to partners, S corporation shareholders, limited liability company (LLC) members, and Schedule C businesses who receive pass-through income. Trusts and estates are also eligible for the 20% deduction rule. The deduction applies to income from a trade or business, but does not include a trade or business of being an employee.

Service business limitation. Specified service businesses that fall under the limitation are those that involve the performance of services in the following fields: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or any trade or business where the principal asset is the reputation or skill of one or more of its employee owners. Specified service businesses also include any business that involves the performance of services that consist of investing and investment management, trading or dealing in securities, partnership, interests or commodities.

However, taxpayers with income from specified service businesses can claim the new deduction if taxable income for the year is less than $315,000 on a joint return or $157,500 on all other returns. Moreover, a partial deduction remains available until taxable income reaches $415,000 on a joint return or $207,500 on other returns.

Taxable Income: Joint Filers	Taxable Income: Other Filers	20% Deduction
< $315,000	<$157,500	Full
$315,000-$415,000	$157,500-$207,500	Partial
>$415,000	>$207,500	None

Table 2. Service business limitation affect on filers by income under the Tax Cuts and Jobs Act of 2017

Wage limitation. A wage limitation on the deduction may apply to all businesses; it is based on either wages paid, or wages paid plus a capital element. Depending on taxable income, the deduction for qualified business income cannot exceed the greater of:

- 50% of the taxpayer's allocable share of W-2 wages paid, or
- the sum of 25% of W-2 wages plus 2.5% of the unadjusted basis of certain qualified business property immediately after acquisition.

This wage limitation does not apply to taxpayers with taxable incomes below the $157,500 (other filers) and $315,000 (joint filers) thresholds.

Taxable Income: Joint Filers	Taxable Income: Other Filers	Wage Limit
< $315,000	<$157,500	Not applied
$315,000-$415,000	$157,500-$207,500	Partially applied
>$415,000	>$207,500	Fully applied

Table 3. Wage limitation affect on filers by income under the Tax Cuts and Jobs Act of 2017

Calculating the Deduction

The deduction is generally equal to 20% of qualified business income. The qualified business income deduction is a below-the-line deduction; it is not taken into account in determining adjusted gross income. However, the deduction can be claimed by non-itemizers in addition to the standard deduction.

On the other hand, the deduction is allowed only for income tax purposes. It does not reduce the amount of income subject to self-employment tax. The deduction cannot exceed 20% of the excess of taxable income over net capital gain.

If QBI is less than zero, it is treated as a loss from a qualified business in the following year.

Examples

Some examples may help clarify this complex law and the impact it may have on your small business clients.

Example 1. Courtney is single and operates a solo accounting practice. Courtney is self-employed and doesn't have any employees. In 2018, Courtney's practice nets $100,000 in qualified business income, which is below the threshold for service businesses. Assuming Courtney's taxable income does not top $157,500 and is above $100,000 for 2018, her qualified business income deduction is $20,000 (20% x $100,000) for 2018.

Example 2. David owns a retail business in a partnership structure, where he has one part-time employee. He is married and files jointly. In 2018, his taxable income is $420,000, and his share of net income from the business is $130,000. The W-2 wages for his part-time employee are $24,000. David is not in a service business, so he isn't subject to the service business limitation. His deduction for 2018 would be $26,000 (20% x $130,000), yet he is subject to the wage limitation. Instead, his deduction is limited to $12,000 (50% x 24,000).

Tax Planning Opportunity

The Qualified Busines Income Deduction gives you an opportunity to proactively plan with your small business clients, including:

- Review income limitations, owners salary and total wages
- Review capital asset basis, if applicable.
- Estimate QBI Deduction conservatively for 2018.
- Use QuickBooks Online Accountant to engage regularly and monitor net income, salaries, assets, etc.

This summary of the qualified business income deduction should help you identify clients who may qualify for the new deduction. However, the deduction rules are extremely complex and subject to myriad special rules that may apply depending on a taxpayer's situation. The Tax Cuts and Jobs Act directs the IRS to issue regulations to implement the new deduction. Hopefully, those regulations will be forthcoming before tax practitioners will have to grapple with the deduction on 2018 returns. It is also anticipated that the IRS will issue specific forms and instructions for claiming the new deduction.

However, it may be wise sit down with your small business clients and review the potential impact of tax reform now instead of waiting for government agencies to act.

Tax Planning Opportunity

Changes to corporate rates and the AMT open the door for tax professionals to perform entity analyses to determine if their clients should organize as a pass-through entity, a C corporation or a combination.

Corporate/Business Taxes

Corporate Rates

Under prior law, corporations were taxed at graduated rates, from 15% to 35%. Personal service corporations, including tax and accounting professionals, were taxed at a flat rate of 35%.

Under the Tax Cuts and Jobs Act, your corporate clients will see a significant decrease in their income tax to a flat tax of 21%; this flat tax also applies to personal service corporations.

This is the lowest rate that corporations have been taxed since 1939 and a big simplification over prior graduated rates.

AMT

In addition, the Corporate AMT has been repealed. This is another significant milestone toward tax simplification for corporations. AMT credit carryovers are refundable and can offset regular tax liability at 50% starting in tax year 2018, and 100% for tax years beginning in 2021.

Bonus Depreciation

For all businesses, the Tax Cuts and Jobs Act significantly enhances bonus depreciation, which impacts the cost of new computer systems, software, vehicles, machinery, office furniture and more. Congress passed a 100% first-year deduction for property placed in service after Sept. 27, 2017, and before Jan. 1 2023, compared to 50% in prior year. The law expands this deduction to be allowed for new *and* used qualifying property.

Beginning in 2023, bonus depreciation is scheduled to be phased down by 20 percentage points per year and phase out after 2026.

In addition, Congress repealed the election to accelerate AMT credits in lieu of bonus depreciation.

One word of warning: There are circumstances where bonus depreciation cannot be used, such as with self-employment tax and net operating losses.

Section 179 Expensing

The Tax Cuts and Jobs Act doubled the Section 179 limit from $500,000 in prior years to $1 million for qualified property in 2018, with a $2.5 million phase-out threshold. Qualified real property is expanded to include personal property used predominately to furnish lodging, roofs, HVAC property, fire protection, alarm systems and security systems.

Remember, the Section 179 deduction is limited to business income and is recaptured if the business use percentage drops below 50%.

Tax Planning Opportunity

You have an opportunity to help your clients decide whether choosing bonus depreciation or Section 179 is right for them. Section 179 may be preferable because you can pick and choose the assets and amounts versus the all-or-nothing approach required of bonus depreciation. However, it may be less beneficial than bonus depreciation depending on the circumstances of the taxpayer, the state of residence and any number of additional factors.

Tax Planning Opportunity

Under tax reform, there's an opportunity to help your clients benefit from cost segregation by reclassifying assets to optimize depreciation deductions.

Intuit® ProConnect™ Lacerte® and ProSeries® customers can enter 2018 assets in the program to create a next-year depreciation schedule – a great planning tool for you to use with your clients.

Luxury Automobile Depreciation Limits

Another big gift for business is in the area of automobile depreciation limits. Under prior law, if bonus depreciation wasn't claimed, maximum depreciation increased to $3,160 (for the first year); if bonus depreciation was claimed, the first year limited increased by an additional $8,000.

Under the Tax Cuts and Jobs Act, for passenger automobiles placed in service after Dec. 31, 2017, for which bonus depreciation is not claimed, the maximum depreciation increased to $10,000 in the first year, $16,000 in the second year, $9,600 in the third year, and $5,760 in the fourth and following years. For automobiles eligible for bonus depreciation, the maximum first-year depreciation increase remains at $8,000.

As a reminder, "luxury automobile" applies to almost all four-wheeled vehicles that drive on public roads and weigh less than 6,000 lbs. If your client buys a large truck for their business, they can use 100% bonus depreciation to write it off in the first year.

First Year Luxury Auto Limits	2017 Max. Depreciation	2018 and Forward Max. Depreciation
Not claiming bonus depreciation	$3,160	$10,000
Claiming bonus depreciation	$11,160	$18,000

Table 5. Luxury automobile depreciation limits under the Tax Cuts and Jobs Act compared to 2017

Qualified Improvement Property

Under tax reform, the definitions for qualified leasehold, retail, and restaurant improvement property have been consolidated to qualified improvement property (QIP). QIP does not need to be made pursuant to a lease, nor must the building be at least three years old when the improvement is placed in service.

In addition, QIP placed in service after 2017 is now subject to straight-line depreciation over a 15-year life, assuming a technical correction is made to the law to ensure it matches Congressional intent; if no change is made, QIP will face the same 39-year recovery period as prior law.

The alternative depreciation system (ADS) recovery period for residential rental property has been shortened from 40 to 30 years.

Deduction for Meals and Entertainment

Under the Tax Cuts and Jobs Act, "entertainment, amusement or recreation" expenses that are directly related to the business (e.g. dues at a country club) are no longer deductible after Dec. 30, 2017.

In addition, the current 50% limit on deductibility of business meals is expanding to include meals provided through an in-house cafeteria or on the premises of the employer through 2025.

One open question is where to draw the line between meals and entertainment. For example, can a meal count as entertainment, or do meal expenses get tainted by any and all entertainment expenses incurred at the same time? We are awaiting IRS guidance about this question.

Tax Planning Opportunity

Consider splitting your clients' general ledger accounts for 100% meals, 50% meals and non-deductible entertainment to optimize expenses.

In addition, consider recommending apps that track receipts to your clients to help them manage meals and entertainment expenses. Expensify is such an app that integrates with QuickBooks®.

Write-Offs for Farms

When it comes to farming machinery and equipment, the 150% declining balance method for three-, five-, seven- and 10-year property has been repealed. Tax reform has put in place a 200% declining balance over a five-year life.

Note that 100% bonus depreciation and Section 179 may be more impactful for your clients than the improved depreciation rules for farm equipment.

Like-Kind Exchanges

Tax reform means that like-kind exchanges are now more limited. Exchanges of real property not held primarily for sale, including machinery, equipment, vehicles and intangible property, no longer qualify for tax-deferred treatment of capital gains.

Now, when a taxpayer trades a piece of equipment for another piece of equipment, the trade-in value given for the old equipment will be reflected as the sales price, along with depreciation recapture; in addition, the full purchase price will qualify for bonus depreciation and Section 179.

Dividends Received Deduction

The dividends received deduction (DRD) for corporations that own other corporations has been reduced:

- 70% DRD reduced to 50%
- 80% DRD reduced to 65% (applies to 20% or more owned corporations)

Note that when these changes are considered in light of the new 21% corporate tax rate, the amount due on corporate dividends may not change much.

Domestic Production Activities Deduction

The 9% domestic production activities deduction was previously allowed for certain U.S.-based activities. For tax years beginning after Dec. 31, 2017, it has been repealed.

For multi-national clients, this repeal, coupled with new international tax provisions, may create new planning considerations where clients are deciding where to locate production activities.

Net Operating Loss Deduction

The net operating loss (NOL) deduction is now limited to 80% of taxable income without regard to the deduction. This provision limits the value of NOLs because they can no longer completely eliminate the taxable income in the year to which they're carried. Although the unused NOL deduction can be carried forward indefinitely, the carryover is worth less than a current deduction. NOLs from before 2018 will continue to carry forward and expire in 20 years under existing rules. For tax professionals with agricultural clients, be aware than the old two-year carryback still applies for certain farm losses.

Limits on Business Losses

Under prior law, excess farm losses were limited for non-C-corporation taxpayers if a subsidy was received.

Under the new law, this concept applies to all businesses, limiting the ability of a non-corporate taxpayer to use trade or business losses against other sources of income, such as wages and other compensation. The excess business loss is now disallowed and treated as NOL carryforward, forcing taxpayers to wait at least a year to get a refund.

The effect is that net business losses cannot offset more than $500,000 (for joint returns) and $250,000 (for other returns) of a taxpayer's non-business income. This applies at the partner or shareholder level.

Deduction for Business Interest

Every business is subject to disallowance of net interest expense in excess of 30% of adjusted taxable income. It is determined at the tax filer level, except for pass-through entities, where determination is made at the entity level. This limitation can hurt a business that had an unsuccessful year, thus any disallowed interest deduction can be carried forward indefinitely.

There is an exemption for taxpayers with average annual gross receipts that do not exceed $25 million for the three-year period ending with the prior taxable year.

In addition, real property trades or businesses can elect out if they use the ADS depreciation method, and farming businesses can elect out if they use the ADS depreciation method for property with a recovery period of 10 years or more.

Employer-Paid Family and Medical Leave

One new perk for businesses and their employees allows business owners to claim a credit for wages paid to employees on family and medical leave after Dec. 31, 2017, but before Jan. 1, 2020.

The credit starts at 12.5% for payments of 50% salary, and it goes up to 25% if the leave payment is 100% of the normal rate. The credit increases by .25 percentage points (limited to 25%) for each percentage point the payment rate exceeds 50%. The maximum leave allowed for any employee is 12 weeks per year.

Rehabilitation Credit

For amounts paid or incurred after Dec. 31, 2017, the 10% credit for rehabilitation expenditures for pre-1936 buildings is repealed.

The 20% credit for rehabilitation expenditures with respect to a certified historic structure has been retained, but it now has a reduced value. Instead of taking the entire credit in the first year, your clients need to take the credit over a five-year period.

Incentives for Investing in Qualified Opportunity Zones

The U.S. government is attempting to attract private investment money into economically disadvantaged communities in order to boost economic growth and job creation.

Under the new law, the states, D.C., and U.S. possessions nominate low-income communities eligible for these tax benefits. On April 9, 2018, the Treasury and IRS announced the first round of Opportunity Zone designations for 18 states.

There are two elections that incentivize investment in Qualified Opportunity Zones:

- Temporary deferral of inclusion in gross income of capital gains reinvested in a Qualified Opportunity Zone.
- Permanent exclusion of capital gains from the sale/exchange of an investment in a Qualified Opportunity Zone.

These two elections may provide substantial tax benefits.

Foreign Taxes

The Tax Cuts and Jobs Act brings about big changes when it comes to foreign taxes. At a high level, we are moving closer to a territorial system in which there may be a reduced incentive to place earnings in foreign subsidiaries after they have been earned.

Under prior international tax law, U.S. corporations paid taxes on all profits made domestically, but were often able to defer payment of U.S. tax on earnings from abroad until that money was returned to the U.S.

The new law imposes a one-time transition tax on undistributed, non-previously taxed foreign earnings of U.S. companies. A partial deduction is allowed such that a shareholder's effective tax rate is 15.5% on the aggregate foreign cash position; non-cash assets are taxed at 8%. This one-time tax may be spread over eight years.

In addition, the new law eliminates tax on repatriated dividends that U.S. residents receive from their foreign subsidiaries.

What You Can Expect from Intuit® ProConnect™

We know when there is a major change in tax legislation, you will need to spend more time helping your clients understand the impact. We created the Tax Reform Resource Center as a single source for news, tools and more that will help you and your clients prepare for the changes to come as a result of the Tax Cuts and Jobs Act. You can find information about continuing education webinars, articles with in-depth information about the new laws, tools summarizing the tax law to share with your clients, and product updates, with more to come. We hope that these steps make a difference for you and your clients and that we can be partners in your efforts.

In addition, our customers can rest assured that all Intuit ProConnect professional tax products are up to date with current tax laws. Since the Tax Cuts and Jobs Act will mainly impact 2018 taxes, we've implemented a number of tools within our products to help you and your clients plan for the future. Learn more about ProConnect solutions at https://proconnect.intuit.com, or call 1-877-682-4254.

Additional Resources

- IRS Tax Reform site

  The IRS is implementing the Tax Cuts and Jobs Act and is expected to provide additional information and guidance to the tax community as it becomes available. Stay tuned to the IRS website for updates and resources.

- Intuit ProConnect Tax Reform Resource Center

  Intuit ProConnect will continue to update this site with news, tools, product updates and more to help you and your clients plan for tax reform.

- Policy Highlights

  The House and Senate Conference Committee for the Tax Cuts and Jobs Act provided this two-page overview of policy highlights.

- Joint Explanatory Statement

  Read the joint statement of the Conference Committee for the Tax Cuts and Jobs Act.

- Legislative Text

  The full legislative text of H.R. 1, *the Tax Cuts and Jobs Act*, is available here.

About the Author

Mike D'Avolio, CPA, JD, Senior Tax Analyst, has worked with ProConnect™ Lacerte® at Intuit® since 1987. He monitors legislative and regulatory activity, serves as a government liaison, circulates information to employees and customers, analyzes and tests software, trains employees and customers, and serves as a public relations representative.