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2017 Tax Reform: Highlights of the Tax Cuts and Jobs Act

Congress is enacting the biggest tax reform law in thirty years, one that will make fundamental changes in the way you, your family and your business calculate your federal income tax bill, and the amount of federal tax you will pay. Most of the changes will go into effect with the 2018 tax year. Many of the changes to individual taxes are set to expire after 2025; however, business provisions are structured as permanent. Here's a quick rundown of the key provisions of the new tax law. This is not an all-inclusive summary of the changes.

INDIVIDUAL TAXES

- **Lower tax brackets for individuals:** the table below reflects the old and the new individual tax brackets and income ranges

		Old Law	
Rate	Single	Married Filing Jointly	Head of Household
10%	0 - $9,525	0 - $19,050	0 - $13,600
15%	$9,525 - $38,700	$19,050 - $77,400	$13,600 - $51,850
25%	$38,700 - $93,700	$77,400 - $156,150	$51,850 - $133,850
28%	$93,700 - $195,450	$156,150 - $237,950	$133,850 - $216,700
33%	$195,450 - $424,950	$237,950 - $424,950	$216,700 - $424,950
35%	$424,950 - $426,700	$424,950 - $480,050	$424,950 - $453,350
39.6%	$426,700 and up	$480,050 and up	$453,350 and up
		New Law	
Rate	Single	Married Filing Jointly	Head of Household
10%	0 - $9,525	0 - $19,050	0 - $13,600
12%	$9,525 - $38,700	$19,050 - $77,400	$13,600 - $51,800
22%	$38,700 - $82,500	$77,400 - $165,000	$51,800 - $82,500
24%	$82,500 - $157,500	$165,0000 - $315,000	$82,500 - $157,500
32%	$157,500 - $200,000	$315,000 - $400,000	$157,500 - $200,000
35%	$200,000 - $500,000	$400,000 - $600,000	$200,000 - $500,000
37%	$500,000 and up	$600,000 and up	$500,000 and up

- **Disappearing or reduced deductions, larger standard deduction.** Beginning next year, the Tax Cuts and Jobs Act suspends or reduces many popular tax deductions in exchange for a larger standard deduction. The standard deduction in 2018 will be higher than the amounts that were to take effect for 2018, as reflected in the following table:

Standard Deduction			
	Single	**Married Filing Jointly**	**Head of Household**
Old Law	$6,500	$13,000	$9,550
New Law	$12,000	$24,000	$18,000

- **Suspension of personal exemptions.** Prior to the Tax Cuts and Jobs Act, individuals subtracted a personal exemption amount ($4,150) generally for the taxpayer, spouse, and any dependents to arrive at taxable income. The new law suspends the provision for deducting personal exemptions.

- **Limitation for deducting state, local, and property taxes.** Prior to the Tax Cuts and Jobs Act, individuals could deduct as an itemized deduction income and property taxes paid at the state and local levels. The new law allows no more than $10,000 as an itemized deduction for these types of state and local taxes.

- **Limitation on deducting home mortgage and home equity interest.** Prior law allowed for an itemized deduction for mortgage interest on home acquisition indebtedness of up to $1 million and home equity interest on indebtedness of up to $100,000. The Tax Cuts and Jobs Act limits the deduction for mortgage interest to $750,000 of home acquisition indebtedness and suspends the deduction for interest on home equity indebtedness. The lower limit will only apply to new mortgages occurring after December 15, 2017.

- **Medical expense threshold temporarily reduced.** For the years 2013 through 2016, medical expenses had to exceed 10% of a taxpayer’s adjusted gross income before they could be deducted as an itemized deduction. The new law lowers the threshold to 7.5%, which is where the threshold was prior to 2013. This provision takes effect for the 2017 tax year; however, it is scheduled to expire after 2018.

- **Charitable contribution deduction limit increased.** Prior law allowed taxpayers a deduction for charitable contribution that was generally limited to 50% of adjusted gross income. The new law increases this limitation to 60% of adjusted gross income.

- **Miscellaneous itemized deductions are suspended.** Prior law allowed taxpayers to deduct as itemized deductions certain miscellaneous items once they exceeded 2% of adjusted gross income. These items include unreimbursed employee expenses, job search expenses, investment fees, safe deposit box rent, tax preparation fees, and various others. The new law suspends the deduction for miscellaneous itemized deductions.

- **Moving expenses no longer deductible and reimbursements now taxable.** Prior to the Tax Cuts and Jobs Act, a taxpayer could generally claim a deduction for certain moving expenses incurred in connection with a new job if the workplace was at least 50 miles farther from the taxpayer's former residence than the former place of work. Similarly, employers were able to reimburse employees for certain moving expenses, and those reimbursements were not includible in income for the taxpayer. The new law suspends the deduction for moving expenses and removes the exclusion from income of moving reimbursements. There are exceptions to these rules for military personnel.

- **Child tax credit increased.** Prior law allowed a tax credit of up to $1,000 per qualifying child under the age of 17. This credit began to phase out when adjusted gross income exceeded certain levels. For single filers, the adjusted gross income phase-out started at $75,000, and for married couples filing jointly, the phase-out started at an income level of $110,000. The new law increases the credit to $2,000 per child and increases the income levels of phase outs to $400,000 for married couples filing jointly and $200,000 for all other taxpayers.

- **Repeal of the Obamacare (Affordable Care Act) individual mandate.** A non-tax provision of the Tax Cuts and Jobs Act is the elimination of the individual mandate that required individuals who were not covered by a health plan that provided at least minimum essential coverage to be subjected to a "shared responsibility payment". **This provision takes effect after December 31, 2018**.

- **Increased exemption for federal estate and gift taxes.** Prior law allowed the first $5.6 million ($11.2 million for a married couple) to be exempt from federal estate taxes. The new law doubles these exemption amounts.

- **Other individual tax provisions include the following:**

    - Modifications to how the "kiddie tax" is calculated;
    - Longer holding period for "carried interest";
    - Ability to deduct personal casualty and theft losses is suspended, except for federally declared disaster areas;
    - Deductions for "professional gamblers" are limited to the amount of gambling income;
    - Eliminates charitable deductions for payments made to institutions of higher learning in

exchange for the right to purchase tickets or seating to an athletic event;

- Eliminates the deductibility of alimony paid for divorce agreements executed after December 31, 2018. This provision also eliminates the inclusion of alimony as income for the receiving spouse;
- Suspends the tax-free nature of qualified bicycle commuting reimbursements;
- Increases the exemption amount for alternative minimum tax (AMT), which means less taxpayers will be impacted by AMT;
- Allows 529 plans to disburse funds not only for higher education, but also for tuition at elementary or secondary schools up to $10,000 per year.

BUSINESS TAXES

- **Corporate tax rates are reduced to 21%.** Prior law subjected corporations (C-corporations) to graduated tax rates of 15% (income less than $50,000), 25% (income between $50,000 and $75,000), 34% (income between $75,000 and $10,000,000), and 35% (income over $10,000,000). Personal service corporations (doctors, lawyers, accountants, etc.) paid tax at a flat rate of 35%. The new law replaces these rates with a fixed rate of 21%.

- **Increased Section 179 expensing.** Under prior law, a business could elect to expense up to $500,000 of qualifying property in the year placed into service. The $500,000 was reduced once property purchases exceeded $2 million in a year. The Tax Cuts and Jobs Act increases the $500,000 to $1 million and the phase-out amount starts at $2.5 million.

- **Extended and expanded bonus depreciation.** The new law allows business to deduct 100% of qualifying property placed in service after September 27, 2017 and before January 1, 2023. The percentage is scheduled to decrease annually from 2024 to 2027.

- **Shorter lives for farming equipment and machinery.** The new law shortens the depreciable life for most farm equipment and machinery from seven years to five. Additionally, the new law allows for farming equipment depreciation to be calculated using the same method that non-agriculture businesses use.

- **Shorter lives for real estate improvements.** The new law generally allows for most qualified improvement property to be depreciated over 15 years instead of longer periods of 27.5 years or 39 years.

- **Limitation on deductible interest expense.** Under prior law, interest paid or accrued by a business generally is deductible in the computation of taxable income. The new law disallows interest expense that is in excess of 30% of a business's adjusted taxable income. This provision generally applies to businesses with over $25 million in annual receipts.

- **Elimination of 2-year carryback for net operating losses.** Prior law allowed for businesses who incurred a net operating loss (NOL) to carryback the loss to the two prior years and carried forward 20 years. The new law repeals the 2-year carryback option, except for losses incurred in farming. In addition, the new law limits the NOL deduction to 80% of taxable income for losses arising after 2017, and NOLs can be carried forward indefinitely.

- **Domestic Production Activities Deduction (DPAD) is repealed.** Prior to the Tax Cuts and Jobs Act, certain types of businesses could take a 9% deduction for certain activities. This provision is repealed with the new law.

- **Restrictions on like-kind exchanges.** Under prior law, the like-kind exchange rule provided that no gain or loss was recognized to the extent that property, which included a wide range of property from real estate to tangible personal property, is exchanged for property of a like-kind. The new law limits these exchanges to real estate.

- **Fringe benefit expense limited.** Prior to the Tax Cuts and Jobs Act, a business could deduct 50% of expenses relating to meals and entertainment. The new tax law disallows the deduction of entertainment expenses.

- **Business deduction for pass-through entities.** S-corporations and partnerships do not pay taxes at the entity level, but rather the income flows through to the individual shareholders or partners. Thus, the corporate tax rate cut noted previously would not apply to these types of entities. The new law provides for individuals to receive a 20% deduction for "qualified business income" from a partnership, S-corporation, or sole proprietorship subject to limitations. There are many complexities in the legislation regarding the deduction, as well as rules and regulations that will need to be issued by the IRS to further detail the nuances of this new Code section.