

# *Tax Reform Myth and Reality: Leveraging Changes in the Tax law to Achieve Your Best Tax Position*

*January 18, 2018*



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# Housekeeping

## *Technical Difficulties?*

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-  Contact Webex at 1-866-229-3239  
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-  The webinar will be recorded and made available after the event
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# Housekeeping

## *CPE Credit Information*

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- Attendees seeking CPE for this presentation must complete and submit a short evaluation survey that will pop up on their screens after the webinar ends
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# Housekeeping

## Webinar Objectives

<p><b>Learning Objective</b>  <i>To provide attendees with a better understanding of the impacts to personal income and business taxes under the new tax law</i></p>	<p><b>Instructional Delivery Methods</b>  <i>Group Internet-based</i></p>
<p><b>Recommended CPE</b>  <i>2.0 CPE</i></p>	<p><b>Recommended Fields of Study</b>  <i>Tax</i></p>
<p><b>Prerequisites</b>  <i>None required</i></p>	<p><b>Advance Preparation</b>  <i>None</i></p>
<p><b>Program Level</b>  <i>Basic</i></p>	<p><b>Course Registration Requirements</b>  <i>None</i></p>
<p><b>Refund Policy</b>  <i>No fee is required to participate in this session.</i></p>	<p><b>Cancellation Policy</b>  <i>In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.</i></p>
<p><b>Complaint Resolution Policy</b>  <i>Gelman, Rosenberg &amp; Freedman is committed to our seminar participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact kdavis@grfcpa.com with any concerns.</i></p>	

# Agenda

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Part I - Individual

Part II – Business

Part III – Nonprofit (Feb. 15, 11:00 am – 12:00 noon)

# Profit and Loss Statement

Stated in 000s

<Company Name>

For the <Month or Year> ending <Month-Day-Year>

Gross margin [L/J]  
Return on sales [T/J]

Sales Revenue  
Product/Service 1  
Product/Service 2  
Product/Service 3  
Product/Service 4  
Total Sales Revenue [J]

Cost of Sales  
Product/Service 1  
Product/Service 2  
Product/Service 3

Prior Period

Budget

Current Period

Current Period as % of Sales

% Change from Prior Period

% Change from Budget

## Individual

# Our Team

*Meet your instructors*

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**Walter H. Deyhle, CPA/ABV/CFF,  
MAFF, CExP™, CEPA**  
*Director Tax*



**Stephen Boisvert, CPA, MST**  
*Tax Manager*

# Old Tax Rates

## *Single / Married Filing Joint*

**Individual Taxpayers**

If Taxable Income Is Between:	The Tax Due Is:
0 - \$9,325	10% of taxable income
\$9,326 - \$37,950	\$932.50 + 15% of the amount over \$9,325
\$37,951 - \$91,900	\$5,226.25 + 25% of the amount over \$37,950
\$91,901 - \$191,650	\$18,713.75 + 28% of the amount over \$91,900
\$191,651 - \$416,700	\$46,643.75 + 33% of the amount over \$191,650
\$416,701 - \$418,400	\$120,910.25 + 35% of the amount over \$416,700
\$418,401 +	\$121,505.25 + 39.6% of the amount over \$418,400

**Married Individuals Filing Joint Returns and Surviving Spouses**

If Taxable Income Is Between:	The Tax Due Is:
0 - \$18,650	10% of taxable income
\$18,651 - \$75,900	\$1,865 + 15% of the amount over \$18,650
\$75,901 - \$153,100	\$10,452.50 + 25% of the amount over \$75,900
\$153,101 - \$233,350	\$29,752.50 + 28% of the amount over \$153,100
\$233,351 - \$416,700	\$52,222.50 + 33% of the amount over \$233,350
\$416,701 - \$470,700	\$112,728 + 35% of the amount over \$416,700
\$470,701 +	\$131,628 + 39.6% of the amount over \$470,700



# New Tax Rates

## *Single / Married Filing Joint*

Individual Taxpayers		Married Individuals Filing Joint Returns and Surviving Spouses	
If Taxable Income Is Between:	The Tax Due Is:	If Taxable Income Is Between:	The Tax Due Is:
0 - \$9,525	10% of taxable income	0 - \$19,050	10% of taxable income
\$9,526 - \$38,700	\$952.50 + 12% of the amount over \$9,525	\$19,051 - \$77,400	\$1,905 + 12% of the amount over \$19,050
\$38,701 - \$82,500	\$4,453.50 + 22% of the amount over \$38,700	\$77,401 - \$165,000	\$8,907 + 22% of the amount over \$77,400
\$82,501 - \$157,500	\$14,089.50 + 24% of the amount over \$82,500	\$165,001 - \$315,000	\$28,179 + 24% of the amount over \$165,000
\$157,501 - \$200,000	\$32,089.50 + 32% of the amount over \$157,500	\$315,001 - \$400,000	\$64,179 + 32% of the amount over \$315,000
\$200,001 - \$500,000	\$45,689.50 + 35% of the amount over \$200,000	\$400,001 - \$600,000	\$91,379 + 35% of the amount over \$400,000
\$500,001 +	\$150,689.50 + 37% of the amount over \$500,000	\$600,001 +	\$161,379 + 37% of the amount over \$600,000

# Alternative Minimum Tax Implications

## *Facts of the Scenario*

	2017	2018
Income:		
Wages	<u>500,000</u>	<u>500,000</u>
Total Income	<u>500,000</u>	<u>500,000</u>
Total Adjustments	<u>0</u>	<u>0</u>
Adjusted Gross Income	<u>500,000</u>	<u>500,000</u>
Personal Exemptions	<u>0</u>	<u>0</u>
Itemized Deductions:		
Charitable Contributions	10,000	10,000
Taxes	51,600	10,000
Interest Expense	20,000	20,000
Misc & Employee Business Expense	10,000	0
3% AGI Floor	<u>-5,586</u>	<u>0</u>
Total Itemized	86,014	40,000
Standard Deduction	<u>12,700</u>	<u>24,000</u>
Total Deductions from AGI	<u>86,014</u>	<u>40,000</u>
Taxable Income	<u><u>413,986</u></u>	<u><u>460,000</u></u>

# Alternative Minimum Tax Implications

## *Facts of the Scenario*

Regular Tax: Schedule or Table Tax	<u>111,832</u>	<u>112,379</u>
Appropriate Regular Tax	<u>111,832</u>	<u>112,379</u>
Net Alternative Minimum Tax	13,989	0
High Income HI, Medicare & Other Tax	<u>2,250</u>	<u>2,250</u>
Total Federal Taxes	<u>128,071</u>	<u>114,629</u>
Withholding & Estimated Tax Payments	<u>-125,000</u>	<u>-125,000</u>
Total Payments	<u>-125,000</u>	<u>-125,000</u>
Net Federal Tax Due	<u>3,071</u>	<u>-10,371</u>
Resident State Tax	38,371	38,993
Resident State Estimated & W/H	<u>-41,600</u>	<u>-41,600</u>
Net Resident State Tax Due	<u>-3,229</u>	<u>-2,607</u>
Total Net Tax Due	<u><u>-158</u></u>	<u><u>-12,978</u></u>
Marginal Nominal Federal Rate	28	35

# Alternative Minimum Tax Implications

## *Facts of the Scenario*

	Alternative Minimum Tax	
	2017	2018
Taxable Income:	<u>413,986</u>	<u>460,000</u>
Preferences & Adjustments:		
Miscellaneous Itemized Taxes	10,000	0
Itemized Deduction Floor	51,600	10,000
Private Activity Bond Interest	-5,586	0
Section 1202 Exclusion Preference	0	0
	<u>0</u>	<u>0</u>
Alt Min Taxable Income	<u>470,000</u>	<u>470,000</u>
AMT Exemption Before Phase-out	<u>84,500</u>	<u>109,400</u>
Adjusted AMT Exemption	<u>84,500</u>	<u>109,400</u>
Exemption After Phase-out	<u>7,225</u>	<u>109,400</u>
Taxable Excess	<u>462,775</u>	<u>360,600</u>
Tent Min Tax from Schedule	<u>125,821</u>	<u>97,146</u>
Tent Min Tax Bef AMT Foreign Tax Cr	125,821	97,146
AMT Foreign Tax Credit Allowed	<u>0</u>	<u>0</u>
Tentative Minimum Tax	<u>125,821</u>	<u>97,146</u>
Regular Tax Before Foreign Tax Cred	111,832	112,379
Foreign Tax Credit Allowed	<u>0</u>	<u>0</u>
Regular Tax	<u>111,832</u>	<u>112,379</u>
Alternative Minimum Tax	<u><u>13,989</u></u>	<u><u>0</u></u>

# Polling Question #1

What impact has the alternative minimum tax had on your tax liability in the past?

- a. No effect*
- b. Minor effect*
- c. Major effect*

# Exemptions

Personal exemptions will be completely repealed at the end of 2017

- Congress essentially merged personal exemption into the standard deduction



# Child & Family Tax Credits

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## Credits after 2017

- The child tax credit increases from \$1,000 to \$2,000
- \$1,400 of this credit is now refundable, per child
- There is an additional \$500 non-refundable credit for non-child dependent

## Phase-out increased after 2017

- The Phase-out for credit goes from \$110,000 to \$400,000 for Joint Filers

# Standard Deduction

## *Increase of Standard Deduction*

2017

Filing Status	Standard Deduction Amount
Single	\$6,350
Married Filing Jointly & Surviving Spouse	\$12,700
Married Filing Separately	\$6,350
Head of Household	\$9,350

2018

Filing Status	Standard Deduction Amount
Single	\$12,000
Married Filing Jointly & Surviving Spouse	\$24,000
Married Filing Separately	\$12,000
Head of Household	\$18,000



# Itemized Deduction Changes

## *Medical Deductions*

<b>Medical and Dental Expenses</b>		<b>Caution: Do not include expenses reimbursed or paid by others.</b>			
1	Medical and dental expenses (see instructions) . . . . .				
2	Enter amount from Form 1040, line 38 <b>2</b> . . . . .				
3	Multiply line 2 by 7.5% (0.075) . . . . .				
4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- . . . . .				

# Itemized Deduction Changes

## *State & Local Tax Deductions*

<b>Taxes You Paid</b>	<b>5</b> State and local (check only one box):				
	<b>a</b> <input type="checkbox"/> Income taxes, or	}	. . . . .	5	
	<b>b</b> <input type="checkbox"/> General sales taxes				
	<b>6</b> Real estate taxes (see instructions) . . . . .			6	
	<b>7</b> Personal property taxes . . . . .			7	
	<b>8</b> Other taxes. List type and amount ▶ _____			8	
<b>9</b> Add lines 5 through 8 . . . . .				9	

# Itemized Deduction Changes

## *Mortgage Interest*

<b>Interest You Paid</b>  <b>Note:</b> Your mortgage interest deduction may be limited (see instructions).	<b>10</b>	Home mortgage interest and points reported to you on Form 1098	<b>10</b>			
	<b>11</b>	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ►	<b>11</b>			
	<b>12</b>	Points not reported to you on Form 1098. See instructions for special rules . . . . .	<b>12</b>			
	<b>13</b>	Reserved for future use . . . . .	<b>13</b>			
	<b>14</b>	Investment interest. Attach Form 4952 if required. See instructions	<b>14</b>			
	<b>15</b>	Add lines 10 through 14 . . . . .	<b>15</b>			

# Itemized Deduction Changes

## *Charitable Contributions*

<b>Gifts to Charity</b>  If you made a gift and got a benefit for it, see instructions.	<b>16</b>	Gifts by cash or check. If you made any gift of \$250 or more, see instructions. . . . .				
	<b>17</b>	Other than by cash or check. If any gift of \$250 or more, see instructions. You <b>must</b> attach Form 8283 if over \$500 . . . .				
	<b>18</b>	Carryover from prior year . . . . .				
	<b>19</b>	Add lines 16 through 18 . . . . .				<b>19</b>

# Itemized Deduction Changes

## *Miscellaneous Itemized Deductions*

<b>Casualty and Theft Losses</b>	<b>20</b>	Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions . . . . .				<b>20</b>		
<b>Job Expenses and Certain Miscellaneous Deductions</b>	<b>21</b>	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶				<b>21</b>		
	<b>22</b>	Tax preparation fees . . . . .				<b>22</b>		
	<b>23</b>	Other expenses—investment, safe deposit box, etc. List type and amount ▶				<b>23</b>		
	<b>24</b>	Add lines 21 through 23 . . . . .				<b>24</b>		
	<b>25</b>	Enter amount from Form 1040, line 38	<b>25</b>					
	<b>26</b>	Multiply line 25 by 2% (0.02) . . . . .				<b>26</b>		
	<b>27</b>	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- . . . . .				<b>27</b>		
<b>Other Miscellaneous Deductions</b>	<b>28</b>	Other—from list in instructions. List type and amount ▶				<b>28</b>		

# Polling Question #2

If your charitable contributions are no longer tax deductible due to the increased standard deduction, what impact will this have on your willingness to give?

- a. None*
- b. Minor*
- c. Major*

# Simplification of Deductions

2018	
State & Local Tax Deduction	This is now capped at \$10,000
Mortgage Interest Deduction	Mortgage interest on Principal up to \$750,000 is still fully deductible for acquisition indebtedness; home equity indebtedness is repealed
Charitable Contributions	Percentage limit on AGI is increased from 50% to 60% on Cash Contributions
Personal Casualty Losses	Repealed, except for declared disaster areas
Medical Expenses	Expanded for 2 years (2017 & 2018) by setting the AGI threshold at 7.5% for all taxpayers. In 2019 the law reverts to previous rules
Job Expenses & Miscellaneous Deductions	All deductions subject to 2% of AGI are repealed, many above the line deductions retained
Alimony Paid	Repealed for any divorce or separate instrument executed after 12/31/18
Moving Expenses	Repealed

# Business Pass-through Rate

- Deduction equal to 20% of domestic “qualified business income” (QBI) from a pass-through entity
- This essentially creates a top marginal rate of 29.6%
- These rates apply to trusts & estates as well





# Business Pass-through Rate

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- For taxpayers with **taxable income** in excess of \$415,000 (MFJ) the deduction is limited to the greater of:
  - 50% of W-2 Wages
  - 25% of W-2 Wages plus 2.5% of unadjusted basis
- This deduction become unavailable to specified service business owner's taxable income in excess of \$415,000 (MFJ)
- Limitations phased-in from \$315,000 - \$415,000 (MFJ) of taxable income

# Education Provisions

## Section 529 Plans

- Distributions of up to \$10,000 may be used for “qualified expenses” for elementary school and high school

## Student loan forgiveness

- Starting in 2018, forgiveness of student loan debt will not be taxable income to the student on account of the student’s death or total disability



# Polling Question #3

If you currently contribute to a 529 plan, to which state are you contributing?

- a. District of Columbia*
- b. Maryland*
- c. Virginia*
- d. Other*

# Estate & GST Taxes

- Doubles the Basic Exclusion Amount and GST exemption in 2018 (\$10,000,000 in 2011 dollars)
- Higher exemption sunsets December 31, 2025
- Retains the §1014(a) basis adjustment (“step-up”)





# Questions?

*We'd like to hear from you!*

# Profit and Loss Statement

Stated in 000s

<Company Name>

For the <Month or Year> ending <Month-Day-Year>

Gross margin [L/J]  
Return on sales [T/J]

Sales Revenue  
Product/Service 1  
Product/Service 2  
Product/Service 3  
Product/Service 4  
Total Sales Revenue [J]

Cost of Sales  
Product/Service 1  
Product/Service 2  
Product/Service 3

Prior Period

Budget

Current Period

Current Period as % of Sales

% Change from Prior Period

% Change from Budget

## Business



# Our Team

*Meet your instructors*

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**Walter H. Deyhle, CPA/ABV/CFF,  
MAFF, CExP™, CEPA**  
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# 2018 Corporate Tax Rates

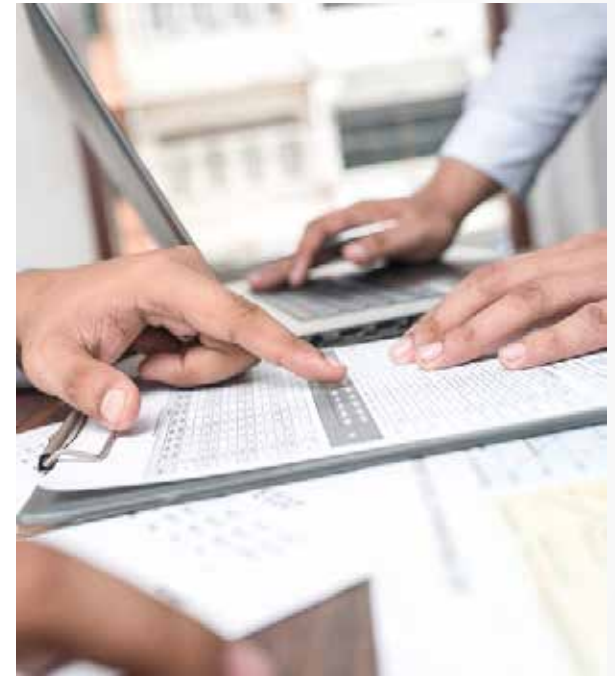
*Current - 21% flat rate*

<b>Taxable income</b>	<b>Tax rate</b>
\$0-\$50,000	15 percent
\$50,001-\$75,000	25 percent
\$75,001-\$10,000,000	34 percent
Over \$10,000,000	35 percent



# Business Pass-through Rate

- Deduction equal to 20% of domestic “qualified business income” (QBI) from a pass-through entity
- Basically, provides an effective top marginal rate of 29.6%
- Applies to trusts & estates



# Business Pass-through Rate

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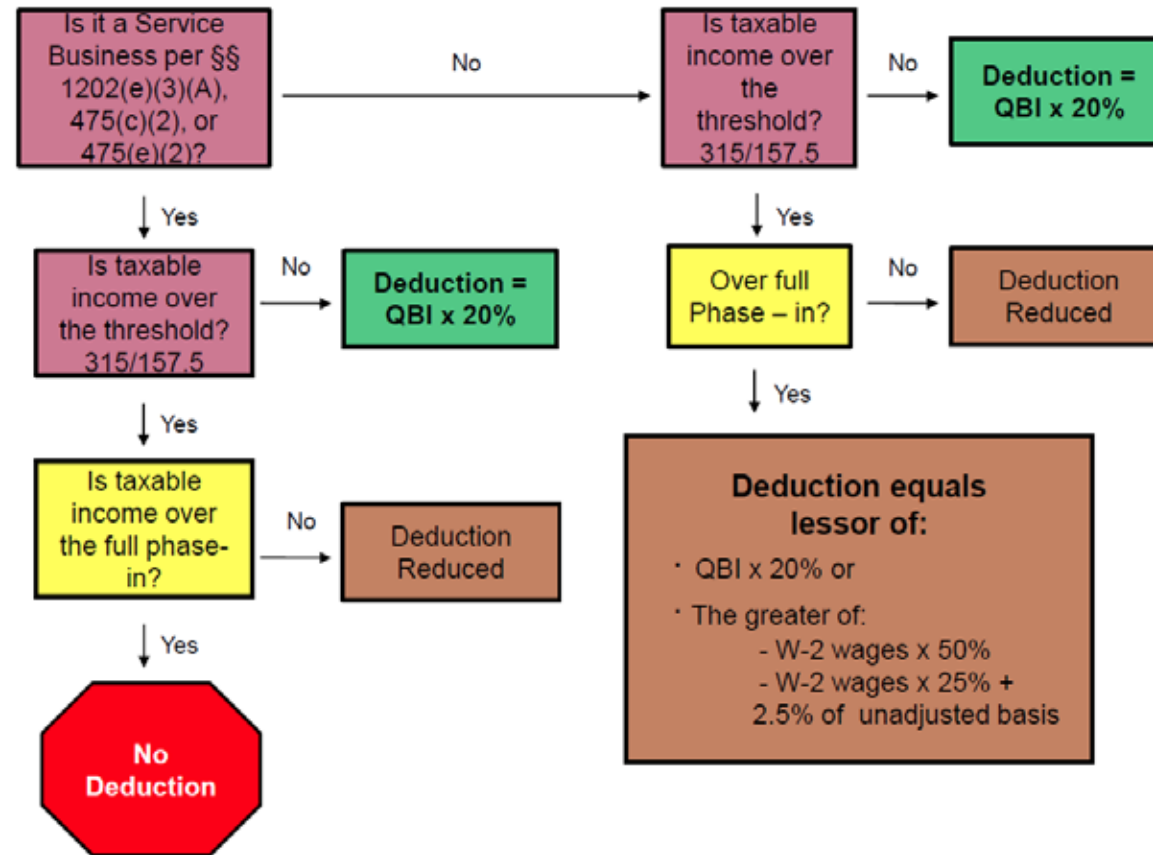
- For those with taxable income in excess of \$415,000 (MFJ) the deduction if limited to the greater of:
  - 50% of w-2 wages
  - 25% of w-2 wages plus 2.5% of unadjusted basis
- Unavailable to Specified Service Business owner's taxable income in excess of \$415,000 (MFJ)
- Limitations phased-in from \$315,000 - \$415,000 (MFJ) of taxable income

# Business Pass-through Rate

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- Specified Service Business – defined in §1202(e)(3)(A):  
“any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees”
- The final version includes new statutory language to exclude architects and engineers from the §199A Specified Service Business definition.

# Business Pass-through Rate



# Polling Question #1

If you are an owner of a business, what type of entity is it?

- a. LLC*
- b. C-Corp*
- c. S-Corp*

# Business Entity (Re)Classification

*Marginal Rate Example – Taxable Income of \$315,000 (MFJ)*

<b>Pass-through</b>		<b>C-Corp</b>	
Business Income	\$100.00	Corporate Income	\$100.00
Special Business Deduction (20%)	<u>(\$20.00)</u>	Corporate Income Tax (21%)	<u>(\$21.00)</u>
Taxable Income	<u>\$80.00</u>	Net to Corporation	<u>\$79.00</u>
Income Tax (24%)	\$19.20	Dividend	\$79.00
Business Income	\$100.00	Shareholder Income Tax (18.8%)	(\$14.85)
Less: Income Tax	(\$19.20)	Net to Shareholder	<u>\$64.15</u>
Net to Business Owner	<u>\$80.80</u>		
<b>Tax Rate</b>	<b>19.2%</b>	<b>Tax Rate</b>	<b>35.85%</b>

# Business Entity (Re)Classification

*Marginal Rate Example – Taxable Income of \$600,000 (MFJ) or Greater*

<b>Pass-through</b>		<b>C-Corp</b>	
Business Income	\$100.00	Corporate Income	\$100.00
Special Business Deduction (20%)	<u>(\$20.00)</u>	Corporate Income Tax (21%)	<u>(\$21.00)</u>
Taxable Income	<u><u>\$80.00</u></u>	Net to Corporation	<u><u>\$79.00</u></u>
Business Income	\$100.00	Dividend	\$79.00
Less: Income Tax (37%)	(\$29.60)	Shareholder Income Tax (23.8%)	<u>(\$18.80)</u>
Net to Business Owner	<u><u>\$70.40</u></u>	Net to Shareholder	<u><u>\$60.20</u></u>
<b>Tax Rate</b>	<b>29.6%</b>	<b>Tax Rate</b>	<b>39.8%</b>

*\*Assumes the w-2 wage limitation doesn't apply*

# Business Entity (Re)Classification

*Marginal Rate Example – Taxable Income of \$600,000 (MFJ) or Greater*

Example of the 50% w-2 Wage Limitation			
Qualified Business Income	\$700,000	Qualified Business Income	\$700,000
General Deduction (20%)	(\$140,000)	199A Deduction	(\$100,000)
		Taxable Income from the Business	<u>\$600,000</u>
w-2 Wages	\$200,000		
50% w-2 Wage Limit (50%)	(\$100,000)	Income Tax (37.0%)	\$222,000

Effective Tax Rate                      31.71%



# Business Entity (Re)Classification

*Marginal Rate Example – Taxable Income of \$600,000 (MFJ) or Greater*

Example of the Asset Limitation – Investment Real Estate			
Qualified Business Income	\$70,000	Qualified Business Income	\$70,000
General Deduction (20%)	(\$14,000)	199A Deduction	(\$14,000)
		Taxable Income from the Business	<u>\$56,000</u>
w-2 Wages	\$ -		
25% of Wages	\$ -	Income Tax (37%)	\$20,720
Unadjusted Basis of Assets	\$2,300,000	Note: deleveraging would increase QBI & the 199A deduction	
2.5% of Assets	\$57,500		

Effective Tax Rate                      29.60%

# Service Business (Re)Classification

*Marginal Rate Example – Taxable Income of \$415,000 - \$479,000 (MFJ)*

Pass-through		C-Corp	
Income	\$100.00	Corporate Income	\$100.00
Normal Pass-through Tax (35%)	<u>(\$35.00)</u>	Corporate Income Tax (21%)	<u>(\$21.00)</u>
Net to Business Owner	<u>\$65.00</u>	Net to Corporation	<u>\$79.00</u>
<b>Tax Rate</b>	<b>35.0%</b>	Dividend	\$79.00
		Shareholder Income Tax (18.8%)	<u>(\$14.85)</u>
		Net to Shareholder	<u>\$64.15</u>
<b>No Deduction</b>		<b>Tax Rate</b>	<b>35.85%</b>

# Service Business (Re)Classification

*Marginal Rate Example – Taxable Income of \$479,000 - \$600,000 (MFJ)*

Pass-through		C-Corp	
Income	\$100.00	Corporate Income	\$100.00
Normal Pass-through Tax (35%)	<u>(\$35.00)</u>	Corporate Income Tax (21%)	<u>(\$21.00)</u>
Net to Business Owner	<u>\$65.00</u>	Net to Corporation	<u>\$79.00</u>
<b>Tax Rate</b>	<b>35.0%</b>	Dividend	\$79.00
		Shareholder Income Tax (23.8%)	<u>(\$18.80)</u>
		Net to Shareholder	<u>\$60.20</u>
<b>No Deduction</b>		<b>Tax Rate</b>	<b>39.80%</b>

# Service Business (Re)Classification

*Marginal Rate Example – Taxable Income of over \$600,000 (MFJ)*

Pass-through		C-Corp	
Income	\$100.00	Corporate Income	\$100.00
Normal Pass-through Tax (37%)	<u>(\$37.00)</u>	Corporate Income Tax (21%)	<u>(21.00)</u>
Net to Business Owner	<u>\$63.00</u>	Net to Corporation	<u>\$79.00</u>
<b>Tax Rate</b>	<b>37.0%</b>	Dividend	\$79.00
		Shareholder Income Tax (23.8%)	<u>(\$18.80)</u>
		Net to Shareholder	<u>\$60.20</u>
<b>No Deduction</b>		<b>Tax Rate</b>	<b>39.80%</b>

# Qualified Business Income (QBI) Deduction

## Example #1

### Sole Proprietor of Operating Business (Income Below Phase-out Range)

Taylor, married and a sole proprietor, has \$100,000 net business income from her bagel shop in 2018. Taylor and her husband have \$34,000 of other income and will take the standard deduction (\$24,000) in 2018.

### Based on these facts, below is a summary of Taylor's QBI deduction in 2018

Net business income (a)	\$100,000
Other income	<u>\$34,000</u>
Adjusted gross income	\$134,000
Less: Standard deduction	<u>(\$24,000)</u>
Taxable income (b)	<u>\$110,000</u>
QBI deduction*	\$20,000

\*QBI deduction = Lesser of: (a) 20% of net business income (\$100,000 x 20% = \$20,000) or (b) 20% of taxable income (\$110,000 x 20% = \$22,000)

# Qualified Business Income (QBI) Deduction

## Example #2

### Sole Proprietor of Operating Business (Income Above Phase-out Range)

Jack, married and a sole proprietor, has \$1,000,000 net business income from his custom motorcycle shop 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 income taxes + \$50,000 charitable donations) in 2018. Additionally, Jack's motorcycle business has \$250,000 of w-2 wages and \$100,000 of assets (unadjusted cost basis).

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### Based on these facts, below is a summary of Jack's QBI deduction in 2018

Net business income (a)	\$1,000,000
Other income	<u>\$50,000</u>
Adjusted gross income	\$1,050,000
Less: Standard deduction	<u>(\$60,000)</u>
Taxable income (b)	<u>\$990,000</u>
QBI deduction*	<u>\$125,000</u>

\*QBI deduction = Lesser of: (a) 20% of net business income (\$1,000,000 x 20% = \$200,000), or (b) 20% of taxable income (\$990,000 x 20% = \$198,000) or (c) greater of: (i) 50% of w-2 wages (\$250,000 x 50% = \$125,000) or (ii) 25% of w-2 wages plus 2.5% of unadjusted cost basis of assets ([\$250,000 x 25%] + [\$100,000 X 2.5%] = \$65,000)

# Qualified Business Income (QBI) Deduction

## Example #3

### S-Corp Shareholder in a Service Business (Income Below Phase-out Range)

Carl, married and a 50% owner in Numbers, Inc. (a bookkeeping firm), has \$100,000 of pass-through net business income in 2018. Carl and his wife have \$90,000 of other income and expect to take the standard deduction (\$24,000) in 2018.

### Based on these facts, below is a summary of Carl's QBI deduction in 2018

Net business income (a)	\$100,000
Other income	<u>\$90,000</u>
Adjusted gross income	\$190,000
Less: Standard deduction	<u>(\$24,000)</u>
Taxable income (b)	<u>\$166,000</u>
QBI deduction*	<u>\$20,000</u>

\*QBI deduction = Lesser of: (a) 20% of net business income (\$100,000 x 20% = \$20,000), or (b) 20% of taxable income (\$166,000 x 20% = \$33,200)

# Qualified Business Income (QBI) Deduction

## Example #4

### S-Corp Shareholder in a Service Business (Income Above Phase-out Range)

Amy, married and a 33.33% owner in Smiles, Inc. (a dental clinic), has \$550,000 of pass-through net business income in 2018. Amy and her husband have \$250,000 of other income and expect to take the standard deduction (\$24,000) in 2018.

### Based on these facts, below is a summary of Amy's QBI deduction in 2018

Net business income (a)	\$550,000
Other income	<u>\$250,000</u>
Adjusted gross income	\$800,000
Less: Standard deduction	<u>(\$24,000)</u>
Taxable income (b)	<u>\$776,000</u>
QBI deduction*	\$0

\*QBI deduction is completely phased out because Amy is in a service business and her income is above the phase-out range for married taxpayers



# Qualified Business Income (QBI) Deduction

## Example #5

### Partner in a Partnership Involved in Rental Real Estate (Income Below Phase-out Range)

Sara, married and a 25% partner in Blackacre, LLP (a rental real estate partnership), has \$250,000 of pass-through net business income in 2018. Sara and her husband have \$30,000 of other income and expect to take the standard deduction (\$24,000) in 2018.

### Based on these facts, below is a summary of Sara's QBI deduction in 2018

Net business income (a)	\$250,000
Other income	<u>\$30,000</u>
Adjusted gross income	\$280,000
Less: Standard deduction	<u>(\$24,000)</u>
Taxable income (b)	<u>\$256,000</u>
<b>QBI deduction*</b>	<b>\$50,000</b>

\*QBI deduction = Lesser of: (a) 20% of net business income (\$250,000 x 20% = \$50,000), or (b) 20% of taxable income (\$256,000 x 20% = \$51,200)

# Qualified Business Income (QBI) Deduction

## Example #6

### Partner in a Partnership Involved in Rental Real Estate (Income Above Phase-out Range)

Paul, married and a 50% partner in Greenacre, LP (a rental real estate partnership), has \$750,000 of pass-through net business income in 2018. Paul and his wife have \$100,000 of other income and will have \$50,000 of itemized deductions (\$10,000 real estate and state income taxes + \$40,000 charitable donations) in 2018. Additionally, Greenacres, LP has \$120,000 of w-2 wages and \$4,000,000 of assets (unadjusted cost basis).

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### Based on these facts, below is a summary of Paul's QBI deduction in 2018

Net business income (a)	\$750,000
Other income	<u>\$100,000</u>
Adjusted gross income	\$850,000
Less: Standard deduction	<u>(\$50,000)</u>
Taxable income (b)	<u>\$800,000</u>
QBI deduction*	<u>\$65,000</u>

\*QBI deduction = Lesser of: (a) 20% of net business income (\$750,000 x 20% = \$150,000), (b) 20% of taxable income (\$800,000 x 20% = \$160,000) or (c) greater of: (i) 50% of w-2 wages (\$120,000 x 50% x 50% = \$30,000) or (ii) 25% of w-2 wages plus 2.5% of unadjusted cost basis of assets ([ \$120,000 x 50% x 25% ] + [ \$4,000,000 x 50% x 2.5% ] = \$65,000)

# Polling Question #2

To what extent to you currently do  
year-end tax planning?

- a. None*
- b. Some*
- c. Detailed analysis*

# Cost Recovery

## *Bonus Depreciation*

Period	Applicable Percentage
9/27/2017 – 2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

Expanded to Include Used Property  
(formerly only allowed new property)

# Cost Recovery

## *IRC §179 Expansion*

- Currently, a taxpayer may expense (under IRC §179) up to \$500,00 of property. However, this is phased out if a business places over \$2,000,000 of property in service during the tax year
- The proposal increases the expensing limit to \$1,000,000 and the phase-out to \$2,500,000

**NOTE:** Section 179 applied to new and used property



# Cost Recovery

## *IRC §179 Expansion*

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- Expands the definition of qualified tangible personal property and qualified real property eligible to include
  - Tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging
  - Improvements to nonresidential real property placed in service after the date such property was first placed in service:
    - Roofs;
    - Heating, ventilation, and air conditioning;
    - First protection and alarm systems; and
    - Security systems

# Like-Kind Exchanges

- The bill proposes to limit like-kind exchanges to real property
- However, the bill would allow transactions open at the end of 2017 to be completed tax-free



# Loss Rules

- Amends § 461 to add a new subsection (l)
- Active business loss limited to \$500, 000 (MFJ)
- Applied on taxpayer level (rather than business level)
- Excess can only be carried forward
- New fourth tier:





# New Loss Limitation

Jeff, a married filing jointly taxpayer, owns a small business (in which Jeff “materially participates”) that generates a \$750,000 loss in 2018. Jeff has \$2,000,000 of other non-business income.

	Current Law	2017 Tax Bill
Other income	\$2,000,000	\$2,000,000
Business loss	(\$750,000)	(\$500,000)
Adjusted Gross Income (AGI)	\$1,250,000	\$1,500,000

**NOTE:** The \$250,000 loss disallowed under the 2017 tax bill will be carried forward to future tax years

# NOL Deduction

- Under current law, NOLs can generally be carried forward twenty years and back two
- The legislation limits a NOL carryover deduction to offset 80% of taxable income (90% deduction for AMT)
- The legislation would also eliminate carrybacks (generally)
- NOLs to be carried forward indefinitely



# Other Business Deduction Changes

- Entertainment expenses disallowed
  - Not meals
- Parking and mass transit deductions denied
  - Employee still excludes
- Bicycle commuting exclusion suspended
- Moving expense reimbursement exclusion suspended



# Polling Question #3

To what extent have you begun planning for the exit from your business?

- a. Not yet thinking about it*
- b. Thought about it some*
- c. Have some ideas but not a formal plan*
- d. I have a current written plan*

A blurred photograph of a large group of people sitting in a conference room, viewed from behind. The text is overlaid on this image.

# Questions?

*We'd like to hear from you!*

# Get In Touch



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# Join Us Again

***“Top 10 IT Risks Targeting Your Nonprofit – Is Your Sensitive Data at Risk?”***

*January 25, 2018*

*8:30 a.m. to 11:30 a.m.*

*The Center Club, Baltimore, MD (and online)*

***“Implications of the New Tax Law on Tax-Exempt Organizations” (webinar)***

*February 15, 2018*

*11:00 a.m. – 12:00 noon*