

Welcome to 2018 Year-End Tax Planning

Presented by: Gelman, Rosenberg & Freedman CPAs

The program will start promptly at **11:00 AM ET**

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- Please complete the electronic survey that will appear automatically at the end of the webinar. Turn off your pop-up blocker (leaving it on could block the survey).
- Attendees seeking CPE for this presentation must complete the survey and enter all three CPE words. You cannot claim CPE unless we receive a completed evaluation with the correct words.
- Technical questions about the survey can be addressed to Dominic Acosta at dacosta@grfcpa.com.

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Webinar Objectives

Learning Objective

To understand the changes to individual and small business tax provisions.

Instructional Delivery Methods

Group Internet-based

Recommended CPE

1.0 CPE Credit

Recommended Fields of Study

Tax

Prerequisites

None required

Advance Preparation

None

Program Level

Basic

Course Registration Requirements

None

Refund Policy

No fee is required to participate in this session.

Cancellation Policy

In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.

Complaint Resolution Policy

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GELMAN, ROSENBERG

& FREEDMAN *Certified Public Accountants*

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2018 Year-End Tax Planning

November 15, 2018

Presenters

Moderator



David F. Graling, CPA, MBA
Audit and Tax Partner and President

Troy Turner, CPA
Tax Partner and Director of Tax

Stephen Boisvert, CPA, MST, CExPTM
Manager, Tax Department

Our Team

Meet Your Instructors



David F. Graling, CPA, MBA

Audit and Tax Partner and President



Troy Turner, CPA

Tax Partner and Director of Tax

Agenda



Ways to
Reduce
Income



Itemized
Deductions



Credits



Income
Thresholds



Latest on
Potential Tax
Changes

Tax Cut and Jobs Act (TCJA)

Effective January 1, 2018

- New tax rates for 2018
- New rules for the Kiddie Tax
- New thresholds for various capital gain rates
- Elimination of personal exemptions
- Much larger standard deduction
- Miscellaneous itemized deductions subject to the 2% of adjusted gross income floor have been eliminated – includes investment management fees and unreimbursed business expenses

Standard Deduction vs. Itemized

- Standard deduction increased to
 - \$24,000 for married filing jointly
 - \$18,000 for heads of household
 - \$12,000 for single individuals
- All personal exemptions repealed - \$4,050 in 2017
- Review Itemized deductions for the year to determine best course of action



Specific Itemized Deductions

- Medical expenses 7.5% of adjusted gross income is the floor for 2018
- State and local taxes - \$10,000 cap on taxes
- Mortgage Interest
 - Mortgage prior to December 15, 2017 – cap is \$1,000,000
 - After December 15, 2017 – cap is \$750,000
- Home equity loans are only deductible if used for buying, building or fixing up the taxpayer's residence.



Specific Itemized Deductions

Continued

- Charitable contributions are still deductible – may want to bunch contributions into years in which you are going to itemize your deductions.
- Good news is that there are no limitations on itemized deductions.

Divorce

- After December 31, 2018 the TCJA changes the rules –
 - TCJA provides that alimony and separate maintenance payments are not deductible by the payer spouse and are not includable in income by the payee spouse.
 - The provision is not retroactive unless the agreement is modified after that date and the new agreement incorporates the new law provisions.

Roth IRA Rule Changes

- Roth IRA conversion contributions can no longer be recharacterized.
- Prior law allowed a traditional IRA to be converted to a Roth IRA. You could recharacterize the Roth conversion as a contribution to a traditional IRA until October 15 of the following year.

Child Tax Credit

The TCJA increased the child tax credit to \$2,000 per qualifying child. Up to \$1,400 of the credit is refundable.



Other Individual Changes

- There is a new \$500 credit for other dependents that do not qualify for the child tax credit.
- You can now take up to \$10,000 out of your 529 plan annually per child to pay for elementary and high school education.
- Basic Estate & Gift Exclusion Amount and GST exemption increased to \$11,180,000 for 2018 (\$10,000,000 in 2011 dollars indexed for inflation each year). This higher exemption sunsets December 31, 2025. Retention of the §1014(a) basis adjustment (“step-up”)

2018 Income Tax Rates for Individuals

Filing Status				
Rate (%)	Single	Head of Household	Married Filing Jointly and Surviving Spouses	Married Filing Separately
Ordinary Income Brackets				
	<i>Of the amount over:</i>	<i>Of the amount over:</i>	<i>Of the amount over:</i>	<i>Of the amount over:</i>
10%	\$0 to \$9,525	\$0 to \$13,600	\$0 to \$19,050	\$0 to \$9,525
12%	\$9,525 to \$38,700	\$13,600 to \$51,800	\$19,050 to \$77,400	\$9,525 to \$38,700
22%	\$38,700 to \$82,500	\$51,800 to \$82,500	\$77,400 to \$165,000	\$38,700 to \$82,500
24%	\$82,500 to \$157,500	\$82,500 to \$157,500	\$165,000 to \$315,000	\$82,500 to \$157,500
32%	\$157,500 to \$200,000	\$157,500 to \$200,000	\$315,000 to \$400,000	\$157,500 to \$200,000
35%	\$200,000 to \$500,000	\$200,000 to \$500,000	\$400,000 to \$600,000	\$200,000 to \$300,000
37%	\$500,000	\$500,000	\$600,000	\$300,000

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Polling Question #1

Qualified Business Income Deduction

- Taken on your personal return when you have domestic “qualified business income” (QBI)
 - Sole Proprietorship (Schedule C)
 - Partnership income
 - LLC income
 - S-Corp income
 - Rental income
 - Note: All K-1s must provide the required information to be able to claim the deduction



Qualified Business Income Deduction

Continued

- Deduction equal to the lesser of 20% of QBI or 20% of taxable income (after removing capital gains/losses)
- Further restrictions for Married filers with taxable income above \$315,000 and all other filers with taxable income above \$157,500.

QBID – Further Restrictions

- Specified Service Business - defined in §1202(e)(3)(A): “any trade or business involving the performance of services in the fields of:
 - Health
 - Accounting
 - Performing Arts
 - Consulting
 - Any other trade or business where the principal asset is the reputation or skill of an owner or employee. Defined in the regulations as income from endorsements, licensing and appearance fees.
 - Law
 - Actuarial Services
 - Athletes
 - Financial Services & Brokerage

Note: Architects and Engineers are OK as are Real Estate and Insurance Agents/Brokers

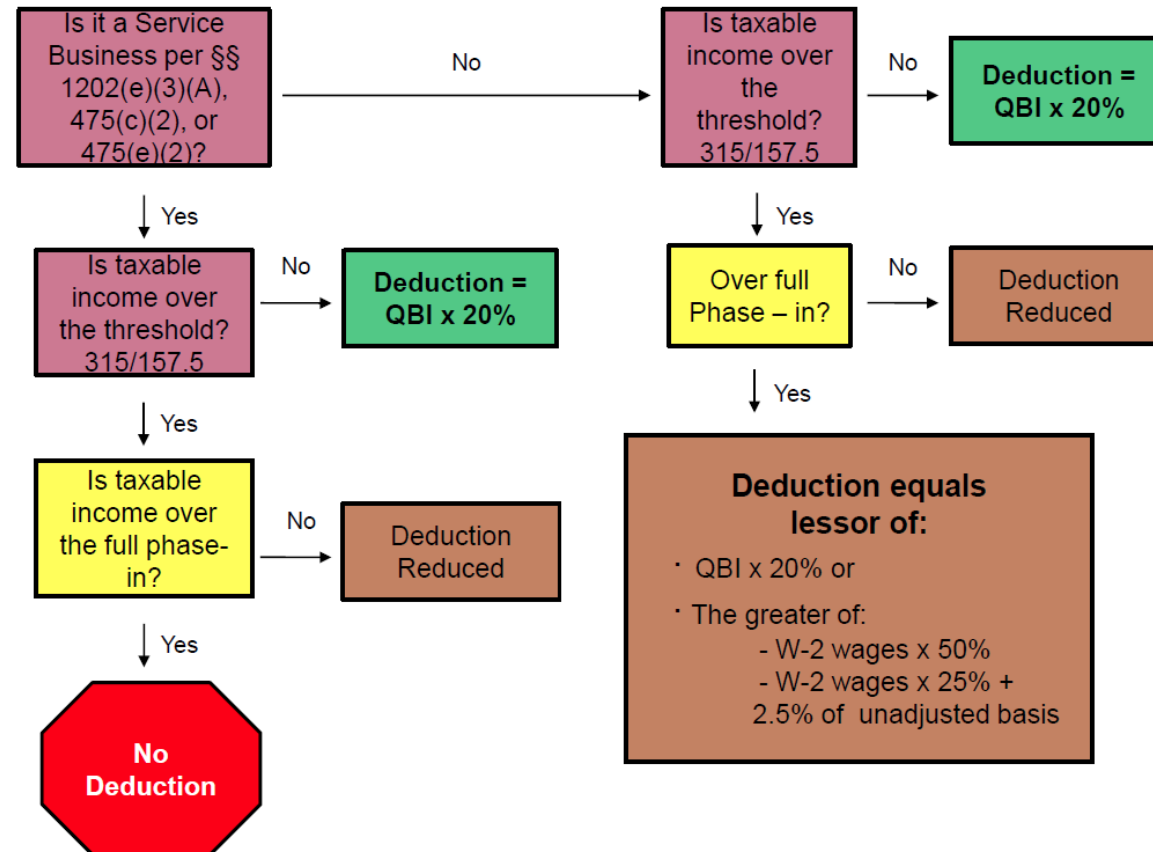
QBID – Further Restrictions

- For taxpayers who are not a specified service their QBID as previously calculated is further limited to the greater of:
 - 50% of W-2 Wages (box 5) or
 - 25% of W-2 Wages (box 5) plus 2.5% of the unadjusted basis of depreciable assets
- The Specified Services and the Wage limitations phase in on a MFJ return with taxable income from \$315,000 - \$415,000 and on all other returns with taxable income from \$157,500 – \$207,500.
- Wages must be reported to the Social Security Administration within 60 days of when due to be counted in the calculation

QBID – Other Considerations

- S-Corp shareholder compensation
 - Reduces QBI (is an issue for taxpayers below income thresholds)
 - Reasonable compensation
 - May want to increase if subject to wage limitation
- Guaranteed payments are not QBI
- REIT Dividends and PTP income qualifies as QBI
- QBI does not include foreign income
- QBID is calculated on a per business basis and then aggregated (can elect to aggregate the calculation if over income limits)
- Net QBI losses carryover to the next year

QBID Flow Chart

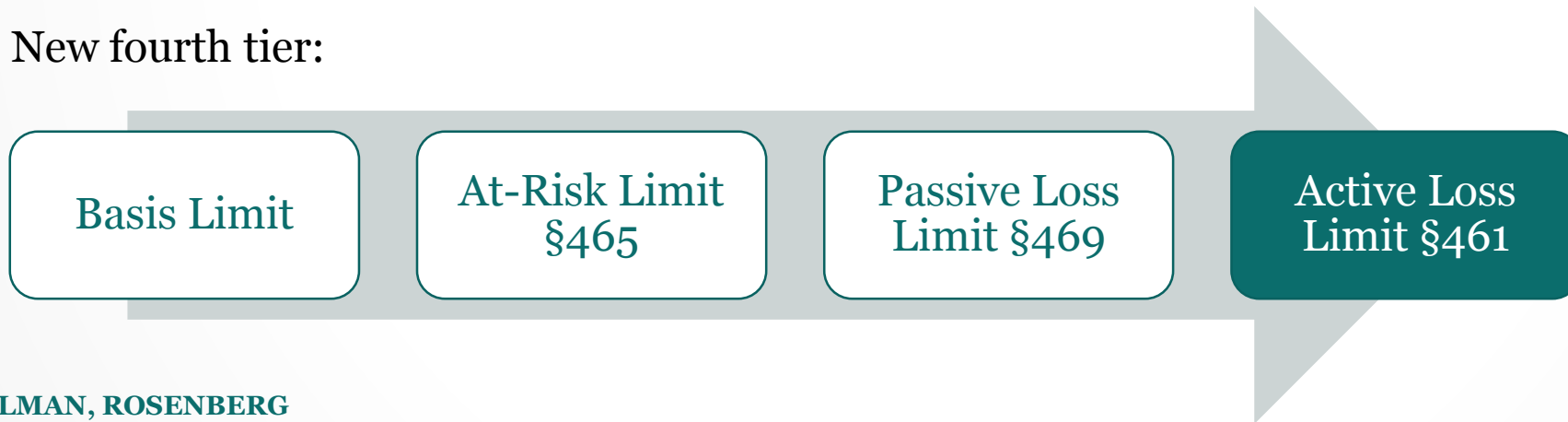


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Polling Question #2

Loss Rules

- Amends § 461 to add a new subsection (l)
- Active business loss limited to \$500,000 MFJ and \$250,000 for all other returns.
- 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.

	Old Law	2018 Law
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

2018 Corporate Tax Rates

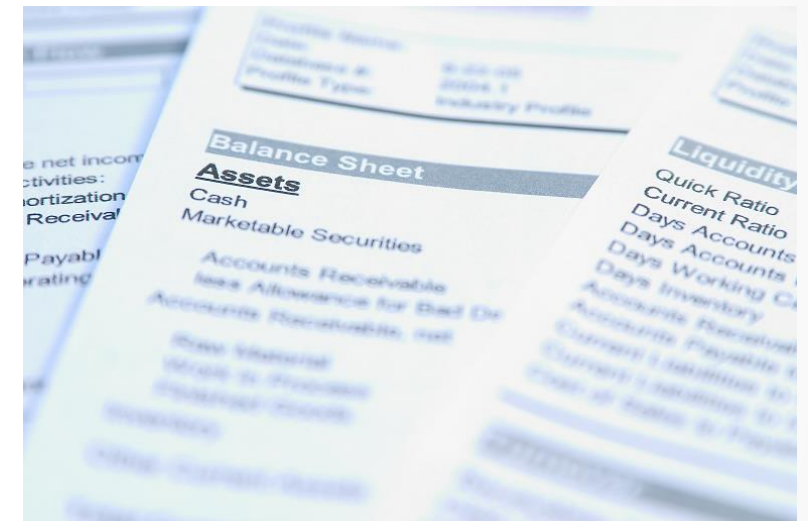
New 2018 Tax Rate - 21% flat rate

Old Rates Below

Taxable income	Tax rate
\$0-\$50,000	15%
\$50,001-\$75,000	25%
\$75,001-\$10,000,000	34%
Over \$10,000,000	35%

NOL Deduction

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



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)*

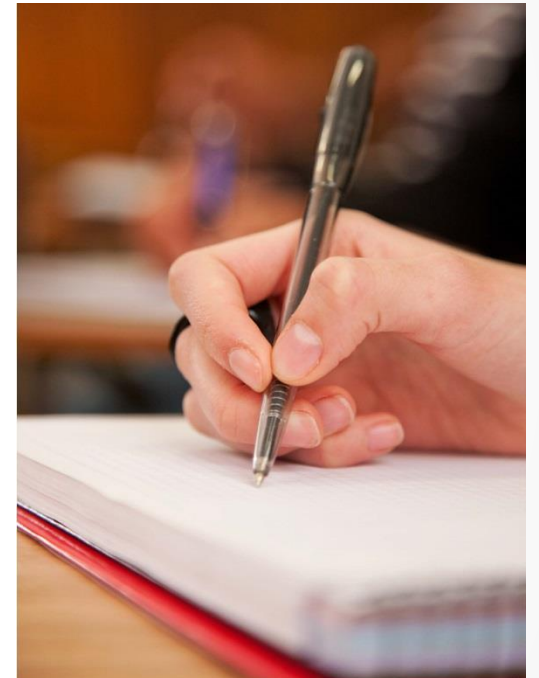
Cost Recovery

IRC §179 Expansion

- For 2018, a taxpayer may expense (under IRC §179) up to \$1,000,000 of property. However, this is phased out if a business places over \$2,500,000 of property in service during the tax year (old law was 500K and 2M)
- Section 179 applies to new and used property
- Expands the definition of qualified property to include
 - Tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging
 - Improvements to *nonresidential* real property
 - Roofs
 - Heating, ventilation, and air conditioning;
 - First protection and alarm systems; and
 - Security systems

Other Business Changes

- Entertainment expenses disallowed
 - Business meals @50%
- Parking and mass transit deductions denied
 - Employee still excludes
- Bicycle commuting exclusion suspended
- Moving expense reimbursement exclusion suspended
- Cash Basis method now available for C-Corps up to 25M in gross revenue.



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Polling Question #3



Questions?

We'd like to hear from you!

Join us again

December 11, 2018 | 11:00 am – 12:00 pm

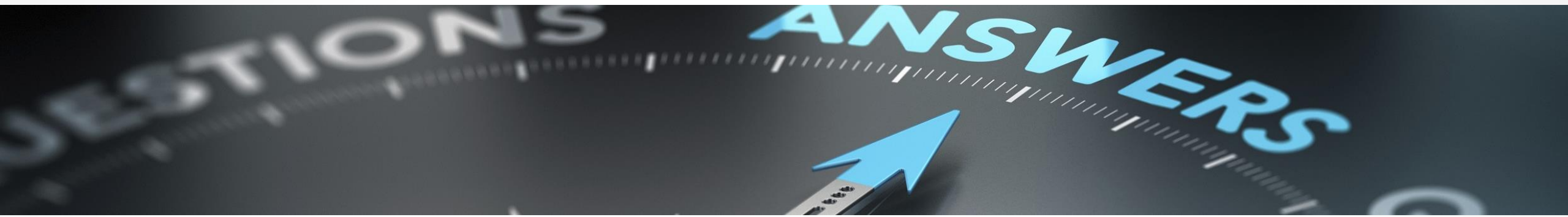
Expense Allocations & Indirect Rates – Changes in Trends & Implementation for New ASU 2016-14 (webinar)

December 13, 2018 | 1:00 pm – 2:00 pm

Enterprise Risk Management for Nonprofits & Associations: Where Strategy Meets Risk (webinar)

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