2017 and 2018 Tax Update

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Hurricane Relief

CASUALTY LOSS DEDUCTIONS

- Personal casualty loss deduction available in either 2017 or 2016
- Casualty losses must arise in the Hurricane Irma disaster area on or after Sept. 4, 2017 and be “attributable” to the hurricane.
- Itemizers: 10%-of-AGI limitation has been removed
- Non-itemizers: increase standard deduction by the amount of net disaster loss
- $100 per-casualty floor has increased to $500

ACCESS TO RETIREMENT FUNDS

- Qualified hurricane distributions up to $100,000
- Must be made on or after Sept. 4, 2017 and before Jan. 1, 2019 to an individual whose principal place of abode on Sept. 4, 2017, is located in the Hurricane Irma disaster area.
- Exempt from the 10% early withdrawal penalty
- Not subject to the mandatory 20% withholding

EMPLOYEE RETENTION TAX CREDIT

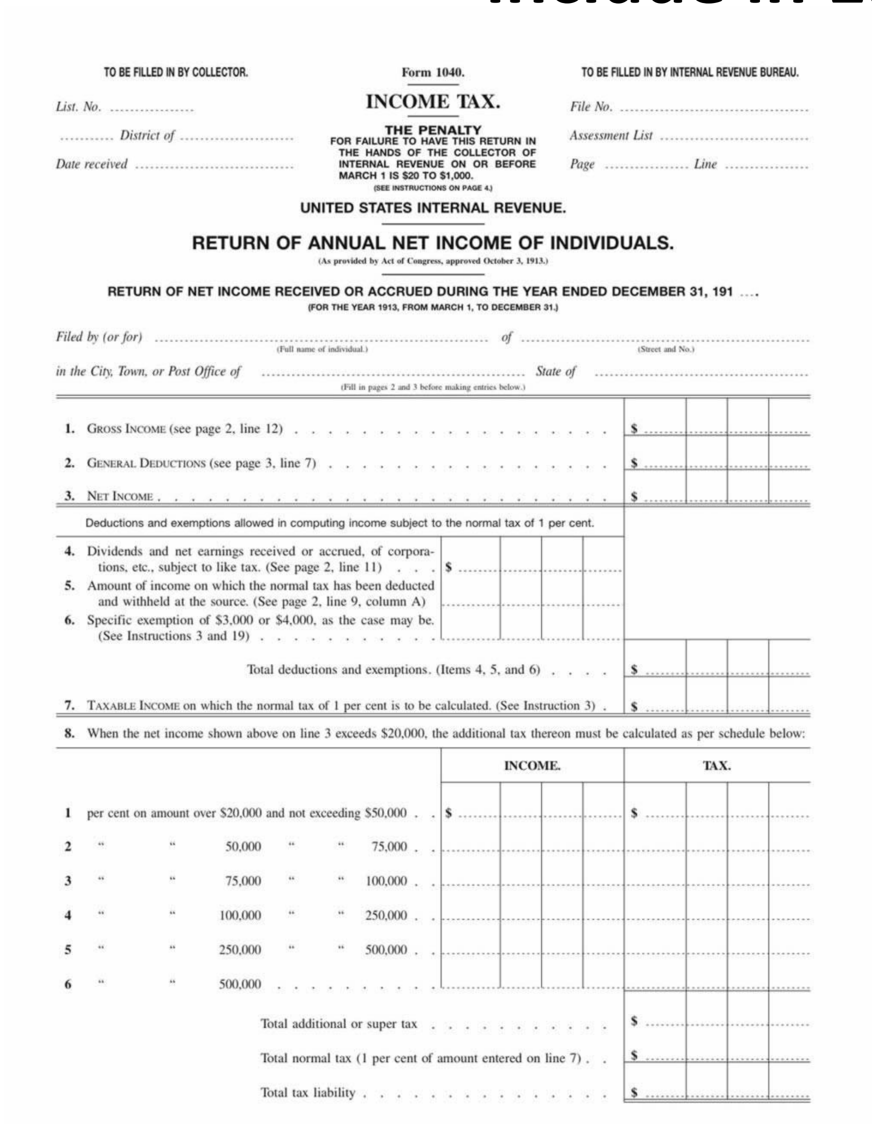
40% of qualified wages of up to $6,000
($6,000*40% = credit up to $2,400 per employee)

Eligible Employers - conducted an active trade or business in the Hurricane Irma disaster zone and whose business was made inoperable by the hurricane on any day after Sept. 4, 2017 and before Jan. 1, 2018 (the 2017 post-hurricane period)

Qualified wages - wages paid or incurred to an eligible employee during the 2017 post-hurricane period and after the trade or business became inoperable but before significant operations resumed

Eligible employee - an employee whose principal place of employment was with the employer in the Hurricane Irma disaster zone on Sept. 4, 2017

How many pages did the Form 1040 instructions include in 1913 vs. 2016?



TO BE FILLED IN BY COLLECTOR.

List. No. ....

.... District of ....

Date received ....

Form 1040.

INCOME TAX.

THE PENALTY
FOR FAILURE TO HAVE THIS RETURN IN THE HANDS OF THE COLLECTOR OF INTERNAL REVENUE ON OR BEFORE MARCH 1 IS $20 TO $1,000.
(SEE INSTRUCTIONS ON PAGE 4.)

TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

File No. ....

Assessment List ....

Page .... Line ....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191 ....

(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) .... of ....
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of .... State of ....
(Fill in pages 2 and 3 before making entries below.)

1. Gross Income (see page 2, line 12) . . . . $ ....
2. General Deductions (see page 3, line 7) . . . . $ ....
3. Net Income . . . . $ ....

Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.

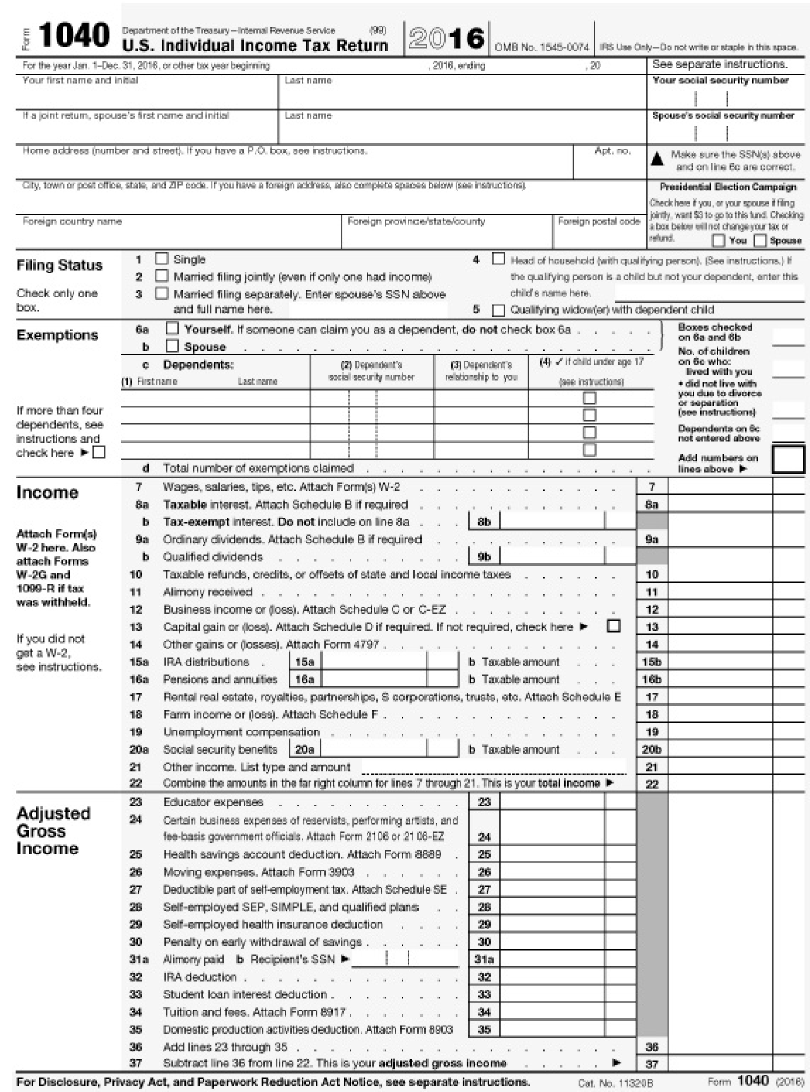
4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) . . . $ ....
5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A)
6. Specific exemption of $3,000 or $4,000, as the case may be. (See Instructions 3 and 19) . . . .

Total deductions and exemptions. (Items 4, 5, and 6) . . . . $ ....

7. Taxable Income on which the normal tax of 1 per cent is to be calculated. (See Instruction 3) . $ ....

8. When the net income shown above on line 3 exceeds $20,000, the additional tax thereon must be calculated as per schedule below:

	INCOME.	TAX.
1 per cent on amount over $20,000 and not exceeding $50,000 . .	$	$ ....
2 " " 50,000 " " 75,000 . .	....	....
3 " " 75,000 " " 100,000 . .	....	....
4 " " 100,000 " " 250,000 . .	....	....
5 " " 250,000 " " 500,000 . .	....	....
6 " " 500,000	....	....
Total additional or super tax		$ ....
Total normal tax (1 per cent of amount entered on line 7) . .		$ ....
Total tax liability		$ ....



Form 1040 Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2016 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2016, or other tax year beginning , 2016, ending , 20 See separate instructions.

Your first name and initial | Last name | Your social security number

If a joint return, spouse's first name and initial | Last name | Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. | Apt. no. | ▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here.
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**
c **Dependents:** (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to you | (4) ✓ if child under age 17 (see instructions)

If more than four dependents, see instructions and check here ▶ ☐

d Total number of exemptions claimed

Boxes checked on 6a and 6b
No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above
Add numbers on lines above ▶

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7 Wages, salaries, tips, etc. Attach Form(s) W-2 — 7
8a **Taxable** interest. Attach Schedule B if required — 8a
b **Tax-exempt** interest. **Do not** include on line 8a — 8b
9a Ordinary dividends. Attach Schedule B if required — 9a
b Qualified dividends — 9b
10 Taxable refunds, credits, or offsets of state and local income taxes — 10
11 Alimony received — 11
12 Business income or (loss). Attach Schedule C or C-EZ — 12
13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ — 13
14 Other gains or (losses). Attach Form 4797 — 14
15a IRA distributions 15a — b Taxable amount — 15b
16a Pensions and annuities 16a — b Taxable amount — 16b
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E — 17
18 Farm income or (loss). Attach Schedule F — 18
19 Unemployment compensation — 19
20a Social security benefits 20a — b Taxable amount — 20b
21 Other income. List type and amount — 21
22 Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ — 22

Adjusted Gross Income

23 Educator expenses — 23
24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ — 24
25 Health savings account deduction. Attach Form 8889 — 25
26 Moving expenses. Attach Form 3903 — 26
27 Deductible part of self-employment tax. Attach Schedule SE — 27
28 Self-employed SEP, SIMPLE, and qualified plans — 28
29 Self-employed health insurance deduction — 29
30 Penalty on early withdrawal of savings — 30
31a Alimony paid b Recipient's SSN ▶ — 31a
32 IRA deduction — 32
33 Student loan interest deduction — 33
34 Tuition and fees. Attach Form 8917 — 34
35 Domestic production activities deduction. Attach Form 8903 — 35
36 Add lines 23 through 35 — 36
37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ — 37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2016)

1 vs. 75


BREAKING
NEWS

On December 20, the House passed the reconciled tax reform bill called the "Tax Cuts and Jobs Act of 2017 (TCJA), which the Senate had passed the previous day. It's the most sweeping tax legislation since the Tax Reform Act of 1986.

BREAKING NEWS

Congress passes biggest tax bill since 1986.

TAX CUTS AND JOBS ACT OF 2017 (TCJA)

Key Changes Affecting Individuals

Drops individual income tax rates ranging from 0 to 4 percentage points depending on the bracket as illustrated below.

Marginal Tax Rate

2017	2018-2025
10%	10%
15%	12%
25%	22%
28%	24%
33%	32%
35%	35%
39.6%	37%

Key Changes Affecting Individuals (continued)

Nearly doubles the standard deduction

Filing Status	2017	2018-2025
Single	$6,500	$12,000
Married Filing Jointly & Surviving Spouse	$13,000	$24,000
Married Filing Separately	$6,500	$12,000
Head of Household	$9,550	$18,000

40a **Itemized deductions** (from Schedule A) or your **standard deduction** (see left margin) . . 40a

Eliminates personal exemptions through 2025

42 **Exemptions.** If line 38 is $125,100 or less and you did not provide housing to a Midwestern displaced individual, multiply $3,650 by the number on line 6d. Otherwise, see page 37 . . 42

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Key Changes Affecting Individuals (continued)

Doubles child tax credit to $2,000 of which $1,400 is refundable – through 2025. Also, the phaseout has increased from $110,000 (MFJ) to $400,000 (MFJ).

Includes $500 non-refundable credit for non-child dependents .

Eliminates the mandate under the Affordable Care Act requiring taxpayers not covered by a qualifying health plan to pay a penalty – effective for months beginning after December 31, 2018

Reduces Adjusted Gross Income (AGI) threshold for the medical expense to 7.5% for 2017 and 2018

Key Changes Affecting Individuals (continued)

Imposes $10,000 LIMIT on the deduction of state and local taxes – through 2025

Reduces mortgage debt limit to $750,000 on post-act mortgages – through 2025

Eliminates the deduction for interest on home equity debt – through 2025

Denies the deduction for amounts paid for college athletic seating rights – through 2025

Key Changes Affecting Individuals (continued)

Eliminates the personal casualty and theft loss deduction with the exception of federally declared disasters – through 2025

Eliminates miscellaneous itemized deductions subject to the 2% floor – through 2025

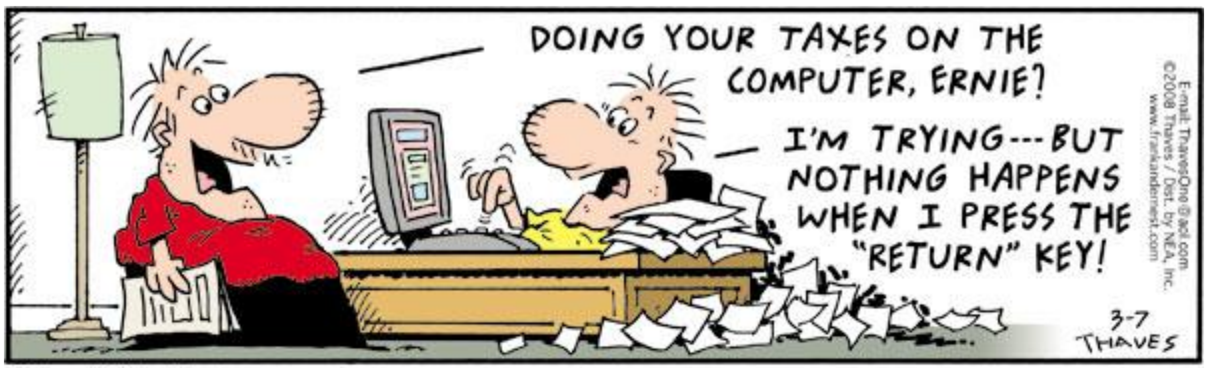
Eliminates the AGI-based reduction of certain itemized deductions – through 2025

Repeals the alimony deduction for payers and, thus, suspends the inclusion by payee for divorces after December 31, 2018

Key Changes Affecting Individuals (continued)

Eliminates the moving expense deduction with the exception of certain military circumstances– through 2025

Expands tax-free Section 529 plan distributions to include qualifying elementary and secondary school expenses up to $10,000 per student per tax year



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Key Changes Affecting Individuals (continued)

Increases AMT exemption

Filing Status	2017	2018-2025
Single	$54,300	$70,300
Married Filing Jointly	$84,500	$109,400
Married Filing Separately	$42,250	$54,700
Head of Household	$54,300	$70,300


STOP
Corporate
TAX
TAX
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CNNMONEY

Key Changes Affecting Businesses

Replaces graduated corporate tax rates ranging from 15% to 35% with a flat corporate rate of 21%

Repeals the 20% corporate AMT

Doubles bonus depreciation to 100% and expands qualified assets to include used assets – effective for assets acquired and placed in service after September 27, 2017 and before January 1, 2023

Introduces new 20% qualified income deduction of owners of flow-through entities and sole proprietorships – through 2025

20% Qualified Income Deduction for Owner of Flow-Through

Impacts owners of sole proprietorships directly reported on Schedule C, rental activity reported directly on Schedule E, S corporations and partnerships effective January 1, 2018.

The business must be conducted in the U.S. to qualify*, and qualified business income (QBI) is thought as ordinary, non-investment income of the business. QBI would not include reasonable compensation received from an S corporation or guaranteed payments received from a partnership.*

Restrictions exist for a specified service trade or business which include: services in the fields of health, law, accounting, consulting, financial and brokerage, and any trade or business where the principal asset is the reputation or skill of the employees or owners.

The deduction is limited to the LESSOR of:

- **20% of qualified business income, or**
- **50% of the total W-2 wages paid by the business**

There is also an alternative limitation allocable to 25% of wages plus 2.5% of the unadjusted basis.

20% Qualified Income Deduction for Owner of Flow-Through

The 50% of W-2 wage limitation does not apply if Taxable Income of owner is less than the following:

Wage Limitation	
Single	$157,500
Married	$315,000

Wage Limit Phase – In (Service Businesses)	
Single	$207,500
Married	$415,000

For specified service businesses, if your taxable income is between the phase-in threshold and the full exclusion from QBI threshold—meaning between $157,500 and $207,500 for single filers, and between $315,000 and $415,000 for joint-filers—you would exclude only a percentage of income.

$$Applicable\ percentage = \frac{Excess\ of\ Taxable\ Income\ over\ Phase\text{-}In}{Full\ Exclusion\ threshold}$$

Examples – Nonservice Business

Example 1: A married taxpayer, operates a business as a sole proprietor. The business has one employee, who is paid $50,000 during 2018. The business has no significant assets. During 2018, the business generates $200,000 of income, and the taxpayer's total taxable income, after deductions, is $215,000. The taxpayer is entitled to a deduction of $40,000 ($200,000 * 20%).

The "W-2 wage limitation," which would normally be $25,000 ($50,000 * 50%), does not apply because taxpayer's taxable income is less than $315,000.

Example 2: *Now assume all facts remain the same, except the business generates $400,000 of income to the taxpayer, and after deductions, his taxable income if $450,000. In this case, the taxpayer's deduction is limited to $25,000, the LESSER OF:*

- 20% of $400,000, or $80,000, or
- 50% of W-2 wages of $50,000, or $25,000.

Case Study 1: High Income Business

Sole Proprietorship: The taxpayer has no employees; rather, he hires a few independent contractors. With income of $500,000 reported on Schedule C, the deduction would be limited the lesser of 20% of qualified business income (QBI) or 50% of wages. The taxpayer gets no deduction.

- 20% of $500,000 = $100,000
- 50% of W-2 wage $0 = $0

S Corporation: *As a wholly owned S corp., the taxpayer pays himself $125,000 in wages (assume reasonable). This reduces his flow-through income from $500,000 to $375,000. The taxpayer gets a deduction of $62,500.*

- 20% of $375,000, or $75,000, or
- 50% of W-2 wages of $125,000, or $62,500.

Partnership: *The taxpayer owner 99% and his wife 1%the taxpayer. He compensates himself through guaranteed payment of $125,000. The taxpayers QBI is $375,000. QBI does not include guaranteed payments. The taxpayer gets no deduction.*

- 20% of $375,000, or $75,000, or
- 50% of W-2 wages of $0, or $0.

Case Study 2: Low Income Business

Sole Proprietorship: The taxpayer has no employees; rather, he hires a few independent contractors. Income of $200,000 is reported on Schedule C. Because the taxpayer's income is below the threshold of $315,000, the wage limitation does not apply. The taxpayer gets the full deduction of $40,000 (20% of $200,000).

S Corporation: *As a wholly owned S corp., the taxpayer pays himself $80,000 in wages (assume reasonable). This reduces his flow-through income from $200,000 to $120,000.* Because the flow-through income is below the threshold of $315,000, the wage limitation does not apply. The taxpayer is entitled to claim a deduction of $24,000 (20% of $120,000).

Partnership: *The taxpayer owner 99% and his wife 1%the taxpayer. He compensates himself through guaranteed payment of $80,000. The taxpayers QBI is $120,000.* Because the flow-through income is below the threshold of $315,000, the wage limitation does not apply. The taxpayer is entitled to claim a deduction of $24,000 (20% of $120,000).

Specified Service Business Calculation Wage Limitation Phase-In

- **Step One** - Calculate the applicable percentage. You do that by taking your taxable income, subtracting the threshold limitation amount and then divide that by $50,000 ($100,000 MFJ). This result is subtracted from 100% to give you the applicable percentage. In this case, the applicable percentage is 65%, calculated as 100% minus that amount. [($175,000 - $157,500)/$50,000 = 35%].
- **Step Two** - Determine includible qualified business income, multiply $100,000 (Schedule C income or K1 income) by 65%, or $65,000. This amount is then multiplied by the 20% deduction and results in a potential deduction of $13,000.
- **Step Three** - Determine includible W-2 wages, multiply $120,000 (wages) by 65%, or $78,000 and then apply the 50% limitation, resulting in a wage limitation of $39,000.
- **Step Four** - Your deduction is the lesser of Step Two or Step Three. In this case, the 20% of QBI deduction is the lower of the two, $13,000.

Key Changes Affecting Businesses (continued)

Doubles Section 179 expensing limit to $1 million and increases the expensing phaseout threshold to $2.5 million

Introduces new disallowance of deductions for net interest expense in excess of 30% of the business's adjusted taxable income

Denies the 50% business deduction for entertainment and expands the 50% meals deduction to include "in-house" meals formerly deductible at 100%.

Limits net operating loss (NOL) deductions

Key Changes Affecting Businesses (continued)

Eliminates the Section 199 deduction – Domestic Production Activities Deduction – effective for tax years beginning after December 31, 2017 for noncorporate taxpayers and for tax years beginning after December 31, 2018 for C corporations

Limits like-kind exchanges to real property that is not held primarily for sale

Introduces a new tax credit for employer-paid family and medical leave – through 2019

Key Changes Affecting Businesses (continued)

Limits excessive employee compensation

Limits deductions for employee fringe benefits

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Key Changes Estate and Gift Taxes

Doubles the gift and estate tax exemptions to $10 million (formerly $5 million) and expects to be $11.2 million for 2018 with inflation indexing through 2025

Annual gift exclusion = $15,000 for 2018

THE END

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