

NEW Tax Bill Summary

Lancaster CPA

I. Overview:

After attending 24 hours of live tax class instruction and dozens of hours of personal study, we can tell you that the new tax bill is enormous and far reaching. No exaggeration. The zoomed-out view is that most middle-class Americans and small business owners (SBO's like real estate professionals and investors) will see a *decrease* in tax owed *beginning in 2018*. With some exceptions, the new tax bill does not concern you with respect to your 2017 tax return.

II. What you can expect from us:

During Tax Season:

- **Very little (if any) of our drop off interview or pick-up interview will be spent discussing or consulting on the new tax bill.** The enormity of the new tax bill is eclipsed only by the fact that the regulations to execute the new tax bill haven't even been written yet! Don't forget about the states! We'll have to see what portion(s) of the tax bill is adopted by our own state. Frankly, any attempt to estimate your 2018 tax savings is premature.

AFTER Tax Season:

- In May, we will teach a few FREE tax briefings (open invitation, classroom style) where we'll communicate the new tax bill with the following audiences in mind:
 1. Individuals – NEW Standard Deduction Increase versus Itemized Deductions;
 2. Investors – How the tax bill affects real estate investing;
 3. SBO's – Communicate complicated nuances to the new "20% flow-through deduction" (IRC Section 199a).
- We will offer tailored tax planning consults by appointment at our regular consult rates.
- We are looking to purchase software that will enable us to run your 2017 tax scenario through a draft version of 2018 tax software. Truly, this will be the most valuable way to serve you.

III. Common Misconceptions:

- **Healthcare Penalty:** The penalty for not having qualified health insurance is removed *beginning in 2019*. **Penalties will still apply in 2017 and 2018.**
- **Home Mortgage Interest & Charitable Contributions:** Both are still deductible *if* you itemize, which has always been true. However, since the standard deduction is greatly increased, many Americans will benefit more by taking the standard deduction rather than itemizing. Further, both are (currently) relevant to your Alabama State return.

IV. Need-to-Know that CANNOT WAIT until after tax season:

Pertaining to Individuals:

- **Moving expense** deduction is repealed, thus no longer deductible (military exception).
- **Un-reimbursed employee expenses** (Form 2106) are repealed, thus no longer deductible. Establish an "accountable expense plan" with your employer immediately.
- Did you **refinance or borrow against your home** (Home ELOC) from December 15, 2017 – April 1, 2018? If yes, talk to your CPA during tax prep. FYI, **mortgage insurance premiums** (reported on Form 1098) are no longer deductible in 2018. **After 12/31/2017, HELOCs are no longer deductible.**

Pertaining to Real Estate Investors and SBOs:

- Did you **purchase any business assets** (such as vehicle, computer, equipment, HVAC, etc) in your business or rental property from Sept 27th - December 31st, 2017? If yes, rely on a CPA for tax prep as calculations have become even more complex.
- **Entertainment:** Beginning Jan. 1, 2018, deduction for entertainment is **eliminated** (sporting venues, concerts, social/athletic clubs, etc). SBO's need to track *meals* separately since **meals remain deductible**.

V. *Need-to-Know that CAN wait until after tax season:*

Pertaining to Individuals:

- **Wider brackets and lower rates across all tax brackets.** In fact, the “phase out” figures have tripled. *Beginning in 2018*, many Americans will now benefit from tax credits they were previously excluded from (due to phase out rules because their income was too “high”).
 - The doubling of the **standard deduction** (combined with the reduction of itemized deductions) will eliminate itemized deductions for many Americans with respect to their FEDERAL return.
 - Doubling of the **child tax credit** from \$1000 to \$2000 per child (for dependent under 17) – 😊
 - New **Dependent Credit:** \$500 (for dependents OVER 16) – 😊
- **Alternative Minimum Tax (AMT):** Fewer families will have to pay the individual AMT - 😊

Pertaining to Real Estate Investors:

- **20% Flow Through Deduction:** The new tax bill provides tax relief for real estate investors and landlords (Schedule E). The relief requires strategizing to maximize tax savings. *20% Deduction for Flow-Through Entities - IRC Section 199(a)* is a complicated calculation. More on this after tax season.
- **Improving Real Estate Investments:** Talk with your CPA before you make improvements as the new tax bill can potentially offer you tax savings. **Section 179** and Bonus Depreciation was expanded – Great news!
- **Investing in NEW properties:** You simply must consult your CPA first because the new tax bill may likely affect the method you choose for financing (or borrowing) your purchase.

Pertaining to SBOs:

- **20% Flow Through Deduction:** Whether you're a sole-proprietor, partnership, or S-corp, the new tax bill incentives for SBOs is exciting yet it is nuanced and complex to calculate (i.e. the *20% Deduction for Flow-Through Entities - IRC Section 199(a)*). To maximize benefits, you must strategize with your CPA. More on this after tax season.
- **Section 179 and Bonus Depreciation:** Expanded – Great news for SBOs
- **Business Expenses:** Tracking business expenses has NEVER been more important. More on this after tax season.
- **C-Corp Tax Rate Cut:** The new tax rate means that *some* business owners and S-corps should consider converting to a C-corp. There is no *one-size-fits-all* answer; you'll need to meet with your CPA to make these determinations.