

Tax Update 2018,

Lancaster CPA

INDIVIDUALS

- **TAX RATES:** The Act keeps the seven income tax brackets but **lowers tax rates and widens income tax brackets.** 😊
- **STANDARD V. ITEMIZED:** Many itemized deductions are eliminated and the standard deduction is doubled; Therefore, more people will be taking the standard on their FEDERAL return than before. 😊
- **1040:** Post Card Tax return is comical considering the new 1040 now has 6 supplemental schedules, adding 50+ line items to your tax return. 😊
- **CHILD AND ELDER CARE CREDIT:** *Child Tax Credit* increased from \$1,000 to \$2,000 per qualifying child. It allows a **\$500 credit for each non-child dependent** (i.e. 17+ yr old child or elderly parent). The credit phaseout is now \$400,000 for married tax filers (used to be \$110,000). 😊
- **MEDICAL:** Deduct medical expenses that exceed 7.5% AGI (up from 10% in 2017) – favorable for taxpayers. **(IRC 56 and 213)** 😊. Most taxpayers are unlikely to benefit from this deduction because the Standard Deduction has doubled to \$24K for MFJ
- **HOME MORTGAGE INTEREST:** Not eliminated, but more restricted. Non-issue for most taxpayers unless you can qualify for a \$750,000+ mortgage, not much changes for you. 😊
- **HELOC:** You can no longer deduct interest on home equity loans UNLESS they are used to buy, build or substantially improve the taxpayer's home that secures the loan. 😊
- **DEDUCTIONS AFFECTING WORKERS:** Eliminated the deduction for miscellaneous expenses you incurred for work-related purposes. 😊
- **CHARITABLE:** You can still claim this tax deduction in full (assuming you itemize). So go ahead and donate to your favorite charity. **(IRC 170)** 😊
- **OBAMACARE PENALTY:** The Act **repeals the Obamacare tax (i.e. penalty)** on those without health insurance in **2019**. There's still a penalty for being uninsured in 2018.

Income Tax Rate		Income Levels for Those Filing As:	
<u>2017</u>	2018-2025	Single	Married-Joint
10%	10%	\$0-\$9,525	\$0-\$19,050
15%	12%	\$9,525-\$38,700	\$19,050-\$77,400
25%	22%	\$38,700-\$82,500	\$77,400-\$165,000
28%	24%	\$82,500-\$157,500	\$165,000-\$315,000
33%	32%	\$157,500-\$200,000	\$315,000-\$400,000
33%-35%	35%	\$200,000-\$500,000	\$400,000-\$600,000
39.6%	37%	\$500,000+	\$600,000+

BUSINESS

- **Entertainment** is no longer a deductible business expense.
- **DEDUCTING ASSETS (Depreciation):** New tax bill allows businesses to **deduct the cost of most depreciable assets in one year** instead of spreading the deduction over several years (i.e. amortizing). 😊

QUALIFIED BUSINESS INCOME DEDUCTION

- **20% FLOW-THROUGH DEDUCTION ON QUALIFIED BUSINESS INCOME (QBI):**
 - Allows businesses to reduce their taxable income by 20% 😊
 - Pass-through businesses include sole proprietorships, partnerships, limited liability companies, S corporations, and some real property businesses.
- **WHO QUALIFIES:** Qualified trades or businesses include all trades or businesses except those classified as a “specified service trade or business” (SSTB)
 - “A SSTB is a business that provides services in any one of the following business types...”
 - **SSTB is a NON-ISSUE IF your “TAXABLE INCOME” is under the PHASE OUT limits.**
- **CALCULATION:** 20% of the lesser of:
 - qualified business income; or
 - taxable income.
- **PHASEOUT:** If taxable income exceeds the phaseout figures below, then certain additional thresholds and tests apply...😊
 - **\$315,000 for Married filing Joint**
 - **\$157,500 Single or MFS**
- **SELF-EMPLOYMENT TAX:** Because the deduction is taken at the top of 1040 (not taken on Schedule C), **it does not reduce self-employment income.** 😊
- **MULTIPLE BUSINESSES:** Deductible amount for each business is computed separately for each business and netted to reach the combined business income.
- **BUSINESS LOSS:**
 - Losses will be “netted” against profits before considering the 20% flow-through deduction *** Including Rental losses***
 - If the taxpayer *owns multiple qualified businesses* and the total combined amount of QBI for all qualified businesses is a net loss for the year, the taxpayer gets no deduction for the current year. Instead, **the loss is carried forward** as a loss to offset total combined QBI in the next tax year.

- **RELY ON VERY COMPETENT CPA:** The deduction is very complex. Limitation rules complicate the otherwise exciting deduction..., particularly if any of the following pertains to you:

- | | |
|---|--|
| <input type="checkbox"/> Taxable Income > \$315K MFJ | <input type="checkbox"/> Business Loss |
| <input type="checkbox"/> Taxable income > \$157.5K Single | <input type="checkbox"/> Cooperative Dividends |
| <input type="checkbox"/> Multiple businesses | <input type="checkbox"/> Employee of your S-corp or Partnership |
| <input type="checkbox"/> Rental property | <input type="checkbox"/> S-Corp or Partnership issuing K-1s |
| <input type="checkbox"/> Capital gains | <input type="checkbox"/> Purchase of Qualified Business Property |
| <input type="checkbox"/> Net Operating Loss | |

- **K-1 & PARTNERSHIP WARNING:**

- Many of you file and/or receive partnership and S Corporation returns that include Form K-1. You must make absolutely sure that your Tax Preparer correctly prepares your K-1 since your **FLOW THROUGH DEDUCTION (QBDI) depends on the TAX Preparer getting this CORRECT!**

Rod Stewart - SINGLE (Realtor SBO, Single, No Kids, Claiming Standard Deduction)		
	Prior Law	New Law
Net Commission Income (Income -Expenses)	\$55,000	\$55,000
Standard deduction	(\$6,500)	(\$12,000)
Personal exemptions (1 x \$4,150)	(\$4,150)	(\$ - 0 -)
QBI Deduction (20% x 55,000)	(\$ - 0 -)	(\$11,000)
Taxable income	\$44,350	\$32,000
Tax before credits		
Child tax credits		
Net Tax	\$6,741	\$3,650
Tax Savings	\$3,091	
Marginal Tax Rate	25%	12%

Kurt & Goldie Hawns - MFJ (Kurt is an employee, Goldie is an SBO, MFJ, 2 kids, Itemized Deductions total \$18,000 due to mortgage interest and charitable contributions)		
	Prior Law	New Law
Net Commission Income (Income -Expenses)	\$45,000	\$45,000
Salary Income	\$45,000	\$45,000
Standard deduction		(\$24,000)
Itemized deduction	(\$18,000)	
Personal exemptions (4 x \$4,150)	(\$16,600)	(\$ - 0 -)
QBI Deduction (20% x 45,000)*	(\$ - 0 -)	(\$9,000)
Taxable income	\$55,400	\$57,000
Tax before credits	\$7,358	\$6,459
Child tax credits	(\$2,000)	(\$4,000)
Net Tax	\$5,358	\$2,459
Tax Savings	\$2,899	
Marginal Tax Rate	15%	12%

Ross and Rachel - MFJ (Ross is a W-2 employee and Rachel is a SBO Realtor. They are MFJ, 1 kid, Itemized Deductions total \$22,000 due to mortgage interest and charitable contributions)		
	Prior Law	New Law
Net Commission Income (Income -Expenses)	\$100,000	\$100,000
Salary Income	\$75,000	\$75,000
Standard deduction		(\$24,000)
Itemized deduction	(\$22,000)	
Personal exemptions (3 x \$4,150)	(\$12,450)	(\$ - 0 -)
Rental Loss	(\$10,000)	(\$10,000)
QBI Deduction (20% x (175K-24K) = \$30,200) vs (\$100K Business - 10K Rental Loss) x 20% = \$18K	(\$ - 0 -)	(\$18,000)
Taxable income	\$130,550	\$123,000
Tax before credits	\$20,600	\$18,939
Child tax credits	(\$1,000)	(\$2,000)
Net Tax	\$19,600	\$16,939
Tax Savings	\$2,661	
Marginal Tax Rate		

QBI DEDUCTION: RENTAL PROPERTY

- How to **Qualify** for the QBI Deduction (20% Flow Through Deduction):
 - “Trade or Business”: Sec 199A(c) requires that the QBI income be earned in a “qualified trade or business”...which is not well defined by the tax law.
 - *Sec 162 Trade or Business*: Business must be “regular, continuous, and substantial”
- Calculation:
 - **Multiple Rental properties** are netted together for the 20% QBI deduction.
 - **Net Rental Profit**: ☺ Calculation is simpler; 20% QBI deduction is applied.
 - **Net Rental Loss**: If the total combined amount of QBI is a net loss for the year, the taxpayer gets no deduction for the current year. Instead, **the loss is carried forward** as a loss to offset total combined QBI in the next tax year.

IRS TIPS

- The IRS requires that business owners file a **Form 1099- Misc.** by January 31st for every individual or noncorporate LLC that you paid over \$600 in the tax year for trade or business services. Failure to file the form could result in a penalty as much as \$1,000 per each omitted, late, or incorrect 1099-Misc. The 1099-Misc must be provided to the taxpayer by January 31.
- The IRS continues to be suspicious of **Meals, Mileage, and Travel expenses.**

LANCASTER CPA

- We will see clients for tax prep appointments on Mondays, Wednesdays, and Fridays. The remaining days are for uninterrupted tax prep.
- PORTAL: The ONLY acceptable method for sending and receiving tax documents is via the portal. Your tax returns can be accessed via your portal anytime.