The Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act of 2017 is the most comprehensive revision to the Internal Revenue Code Since 1986.

This new Tax Act reduces tax rates for individuals and corporations, repeals exemptions, eliminates many deductions, and increases the Standard Deduction to a level which eliminates Itemized deductions for most taxpayers.

Most of the individual changes will expire at the end of 2025, meaning the old tax code rates and deductions will return in 2026 unless Congress passes another law before then. Following are the most notable changes taking effect after December 31, 2017.

Individual Provisions

Tax Rates
There are now seven tax rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%.
See the Tax Rate Schedules at the end of the Chapter

Personal Exemptions
The personal exemption is repealed.

Standard Deduction

Married Filing Jointly	**$24,000**
Qualified Widow(er) with Dependent Child	**$24,000**
Married Filing Separately	**$12,000**
Single	**$12,000**
Head of Household	**$18,000**
Additional Amounts Over 65 Blind or Disabled	**$ 1,600 – Unmarried** **$ 1,300 – Married & QW**

Kiddie Tax
The unearned income of children under the age of 19 and college students under the age of 24. Unearned income is income from sources other than wages. Income from sources other than wages will be taxed at the applicable Trust and Estate Tax Rate Schedule.

ABLE Accounts
Rollovers to an ABLE account from a 529 plan are allowed without penalty provided the ABLE account is owned by the same designated beneficiary of the 529 plan or a member of the designated beneficiary's family. Rolled-over amounts count towards the overall annual limitation on contributions to the ABLE account.

Affordable Care Act
The requirement to maintain Minimum Affordable Coverage is suspended after 2018.

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Alimony
For divorces after 2018 alimony payments to a former spouse are neither taxable to the recipient spouse nor deductible by the payer spouse.

Alternative Minimum Tax
The phase-out thresholds are increased:
- **$1,000,000 for married taxpayers filing a joint return,**
- **$500,000 for all other taxpayers (other than estates and trusts).**
- **These amounts are indexed for inflation.**

Bicycle Commuting
The exclusion from income for bicycle commuting expense ($20) is suspended.

Casualty Losses
Deductions for unexpected losses to personal property are no longer deductible unless covered by specific Presidentially Declared Federal Disaster Declarations.

Child tax Credit
The child tax credit will increase to $2,000 per qualifying child and will be refundable up to $1,400, subject to phase out limitations. Taxpayers are required to provide the Social Security Number of each dependent to receive the refundable portion of the child tax credit. Additionally a new $500 nonrefundable credit for other qualifying dependents who are not qualifying children has been enacted. Phase outs which are not indexed for inflation, will begin with adjusted gross income of more than $400,000 for married taxpayers filing jointly and more than $200,000 for all other taxpayers

College Credits
The American Opportunity credit and the Lifetime Learning Credit remain unchanged.

Educator Expenses
$250 of Out of pocket expenses is retained and is now indexed for inflation.

Estate Tax Exemption
The estate and gift tax exemption is doubled for estates of decedents dying and gifts made after December 31, 2017, and before January 1, 2026.
The exclusion amount provided in §2010(c)(3) is indexed for inflation:
- **$11,200,000 for decedents dying in 2018.**
- **The Generation Skipping Transfer Tax (GST) is also doubled.**
- **Inherited assets will continue to receive a step up in basis under IRC §1021**

Gambling Losses
The definition of "Losses from Wagering Transactions" has been clarified to include expenses incurred by an individual in conduct of that individuals gambling activity including travel expense to and from a casino.

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Individual Retirement Accounts
Roth IRA Conversions may no longer be recharacterized. Other types of IRA recharacterization are unaffected. A contribution to a Roth IRA may be recharacterized to a Traditional IRA before the due date of the tax return but a conversion to a Roth IRA may not be reversed.

Itemized Deductions

- **Charitable Contributions**
  - **Deductible to the extent of 60% of Adjusted Gross Income (AGI) up from the current 50%**
  - **The Standard Mileage Rate for Charitable Automobile use is indexed for inflation for tax years beginning after 2017**
- **Medical Expense**
  - **Deductible in excess of 7.5% of AGI increasing to 10% after 2018**
- **Mortgage Interest**
  - **Home Mortgage Interest is capped at $750,000 of Acquisition Indebtedness**
  - **The current Home Mortgage Interest Deduction to the extent of $1,000,000 of Mortgage Interest is Grandfathered**
  - **Home Equity Mortgage Interest is no longer deductible**
- **State and Local Taxes**
  - **An individual may not claim a prepayment of Income Tax for a future year in order to avoid the dollar limitation on State and Local Taxes in effect for any taxable year after 2017**
  - **Deductions are capped at $10,000 for State, Local, Real Estate, Personal property Taxes, and Sales Taxes**
  - **Foreign Real Property Taxes are no longer deducible**
- **Miscellaneous Itemized Deductions**
  - **Miscellaneous Itemized deductions subject to the 2% AGI limitation are eliminated**
  - **Deductions not subject to the 2% limitation are retained**

Moving Expense Reimbursements
Moving expense reimbursements are no longer excludable from Wages or Gross Income. US Armed Forces Personnel on Active Duty moving pursuant to a Military Orders are exempt.

Qualified Retirement Plan Offsets
When an employee's obligation to repay a Qualified Retirement Plan Loan becomes accelerated and the loan remains outstanding the loan is cancelled. The amount in the employee's account balance is offset by the amount of the unpaid loan balance i.e. a loan offset. A loan offset is treated as an actual distribution from the plan equal to the unpaid loan balance and is eligible for tax-free rollover to another eligible retirement plan. A rollover contribution is extended from 60 days after the date of the offset to the due date (including extensions) for filing the federal income tax return for the taxable year in which the plan loan offset occurs, that is, the taxable year in which the amount is treated as distributed from the plan. A qualified plan loan offset amount is a plan loan offset amount that is treated as distributed from a qualified retirement plan, a section 403(b) plan or a governmental section 457(b) plan solely by reason of the termination of the plan or the failure to meet the repayment terms of the loan because of the employee's severance from employment.

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Section 529 Plans
Distributions of up to $10,000 per beneficiary can be used for tuition expenses for public, private, or religious elementary or secondary school Grades K-12. The limitation applies on a per student basis rather a per account basis.

Student Loans

(1) Student Loan Interest Deduction

For 2018 Deduction for interest paid on student loans remains at $2,500. Phase-outs apply for taxpayers with modified adjusted gross income (MAGI) in excess of $65,000 ($135,000 for joint returns) and is completely phased out for taxpayers with Modified Adjusted Gross Income (MAGI) of $80,000 or more ($165,000 or more for joint returns). For graduate students who teach, or the children of university employees, the deferred tuition provided would not be taxable.

(2) Student Loan Discharge of Debt

The exclusion from income which results from the discharge of a Student Loan is expanded to include the discharge which resulted from the death or disability of the student.

Business Provisions

Accounting Methods
The cash method of accounting is now available to C corporations with average gross receipts of $25M or less an increase from the previous $1M or less.

Alternative Minimum Tax
Effective for tax years beginning after 2017, corporations are no longer subject to AMT. In the case of a corporation, the bill allows the AMT credit to offset the regular tax liability for any taxable year. In addition, the AMT credit is refundable for any taxable year beginning after 2017 and before 2022 in an amount equal to 50% (100% in the case of taxable years beginning in 2021) of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability.
As a conforming amendment to the repeal of corporate AMT, the election to accelerate AMT credits in lieu of bonus depreciation is repealed.

Bonus Depreciation
Additional First Year Depreciation is available to new and used property.
The requirement that the first qualified use begins with the taxpayer is repealed.

The Bonus Depreciation Table on the following page will be useful in reviewing Bonus Depreciation.

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Bonus Depreciation Table:

BONUS DEPRECIATION					
Acquired Before Sep 28, 2017	General Qualified Property	Longer Production Property & Aircraft	Acquired After Sep 27, 2017	General Qualified Property	Longer Production Property & Aircraft
Placed in Service	Percentage		Placed in Service	Percentage	
2017	50%	50%	2017	100%	100%
2018	40%	50%	2018 - 2022	100%	100%
2019	30%	40%	2023	80%	100%
2020	0%	30%	2024	60%	80%
After 2020	0%	0%	2025	40%	60%
-	-	-	2026	20%	40%
-	-	-	2027	0%	20%

Capital Contributions

Corporations and partnerships must recognize income from capital contributions by non-shareholders and non-partners. Contributions of capital by non-shareholders and non-partners were previously exempt under IRC §118 and expense paid with the funds were nondeductible.

Carried Interest

The holding period for long term capital gains is increased to three years with respect to certain partnership interests transferred in connection with the performance of services.

Corporate Tax Rates

The Corporate Tax rate is reduced to 21% beginning January 1, 2018 and is permanent.

Dividends Received Deduction

The 80% and 70% dividends received deductions under current law are reduced to 65% and 50%, respectively.

Depreciation

Automobile Business Use depreciation limits have been increased and indexed for inflation. For vehicles placed into service after 2017 the new limits for vehicles not claiming Bonus Depreciation are as follows:

1st Year	$10,000
2nd Year	$16,000
3rd Year	$9,600
4th Year and After	$5,760

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Domestic Production Activities Deduction IRC 199
Repealed effective for tax years beginning after December 31, 2017.

Entertainment Expenses
No deduction is allowed with respect to:

(1) **Any activity generally considered to be entertainment, amusement or recreation,**
(2) **Membership dues with respect to any club organized for business, pleasure, recreation, or other social purposes,**
(3) **A facility or portion thereof used in connection with any of these activities.**

Additionally this provision disallows a deduction for expenses associated with providing Qualified Transportation Fringe benefits to employees; and except as necessary for ensuring for the safety of the employee, any expense incurred providing transportation (or any payment or reimbursement) for commuting between the employee's residence and place of employment.
Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). For amounts incurred and paid after December 31, 2017 and until December 31, 2025, the provision expands this 50 percent limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringes and provided for the convenience of the employer.

Excess Business Losses
Currently taxpayers who incur a net business loss are allowed to carry that loss back two years and forward 20 years. Under the new law, non-corporate taxpayers are allowed an "Excess Business Loss." Instead. The Excess Business Loss is carried forward and treated as part of the taxpayer's NOL carryforward in subsequent taxable years.
An Excess Business Loss for a taxable year is the excess of the taxpayer's aggregate deductions attributable to the taxpayer's trades or businesses for that year, over the sum of the taxpayer's aggregate gross income or gain for the year plus a "threshold amount" of $500,000 for married individuals filing jointly, or $250,000 for other individuals. The provision applies after taking into account the Passive Activity Loss Rules.

Inventories
Business taxpayers may treat inventories as non-incidental supplies if their average gross receipts are $25M or less. Previously this was limited to $1M or less.

Like-Kind Exchanges
The non-recognition of gain in the case of the like-kind exchange of property used in a trade or business or for investment is limited to real property only.

Listed Property
Computers and peripheral equipment are removed from the definition of listed property.

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Net Operating Losses
Net operating losses are limited to 80% of taxable income for losses arising in tax years beginning after December 31, 2017. The two-year carryback and special carryback provisions are repealed except for losses Incurred in the business of farming. Carryovers are allowed indefinitely. NOLs of a Property And Casualty Insurance Company are allowed a two-year carryback and 20-year carryforward period.

Pass-Through Entities
Non-corporate taxpayers, including trusts or estates, who have domestic Qualified Business Income (QBI) from a partnership, S corporation, or sole proprietorship are allowed to deduct 20% of business-related income, subject to certain wage limits and exceptions. The remaining income is subject to normal individual rates.
The 20% deduction is not allowed in computing adjusted gross income (AGI), but rather is allowed as a deduction reducing taxable income. It does not reduce income subject to SE tax. The deduction phases out ratably for taxpayers of certain Specified Service Businesses. The phases out range is $315,000 to $415,000 for joint filers; and between $157,500 and $207,500 for others. This provision provides an alternate limitation based on wages and capital. The limitation is the greater of 50% of the wages paid; or 25% of the wages paid plus 2.5% of the unadjusted basis of the business' capital assets.

Section 179 Expensing
The maximum amount a taxpayer may expense under §179 increases to $1,000,000. The Phase-out threshold amount increases to $2,500,000. The $1,000,000 and $2,500,000 Amounts, as well as the $25,000 sport utility vehicle limitation, are indexed for inflation for taxable years beginning after 2018.
The definition of §179 property is expanded to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging, such as furniture and appliances.
The definition of qualified real property eligible for §179 expensing now includes any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service:

- **(1) Alarm Systems**
- **(2) Fire protection Systems**
- **(3) HVAC - Heating, Ventilation, And Air-Conditioning property**
- **(4) Roofs & Roofing Systems**
- **(5) Security Systems**

Partnership Technical Terminations
IRC Section §708(b)(1)(B) providing for the technical termination of partnerships is repealed for tax years beginning after December 31, 2017.
IRC Section §708(b)(1)(A) is not affected by this change: a partnership is considered Terminated if no part of any business, financial operation, or any venture of the partnership continues by any of the partners of the partnership.

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Tax Tables Under the Tax Cuts and Jobs Act

Married Filing Jointly	
10%	1 to 19,050
12%	19,051 to 77,400
22%	77,401 to 165,000
24%	165,001 to 315,000
32%	315,001 to 400,000
35%	400,001 to 600,000
37%	600,001 and Above

Single	
10%	0 to 9,525
12%	9,526 to 38,700
22%	38,701 to 82,500
24%	82,501 to 157,500
32%	157,501 to 200,000
35%	200,001 to 500,000
37%	500,001 and Above

Head of Household	
10%	0 to 13,600
12%	13,601 to 51,800
22%	51,801 to 82,500
24%	82,501 to 157,000
32%	157,001 to 200,000
35%	200,001 to 500,000
37%	500,001 and Above

Married Filing Separately	
10%	0 to 9,525
12%	9,526 to 38,700
22%	38,701 to 82,500
24%	82,501 to 157,500
32%	157,501 to 200,000
35%	200,001 to 300,000
37%	300,001 and Above

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