January 18, 2018

Memo to: Tax Clients & Business Associates

From: William Bryant CPA, CVA

RE: Update info on Tax Cuts & Jobs Act (TCJA)

There are a lot of questions about the New Tax Law recently passed known as the, "Tax Cuts & Jobs Act" or just "TCJA". This Memo will summarize some key talking points of the TCJA as a good starting point. Further analysis will be required for each tax situation. I have included a good research link below that is very helpful:

https://www.thetaxadviser.com/news/2017/dec/tax-reform-bill-changes-for-individuals-201718070.html

But as with any Tax Advice, you should always consult directly with your own Tax Advisor to ensure that the specifics of your actual situation is properly addressed:

Changes for 2017 Tax Returns due to expired tax provisions as of December 31, 2016:

1. The Mortgage Insurance Premium (MIP or PMI) Deduction as an Itemized Deduction has expired. So the MIP or PMI payments are no longer deductible, even if your AGI is within the $100,000 phase-out limit.
2. Discharge of Indebtedness on Principal Residence has expired. Previously, if someone had their Principal Residence foreclosed upon, the cancellation of Loan Indebtedness of up to $2 Million would not be taxable income.

Changes pertinent for 2018 Tax Returns due to TCJA:

1. Personal Exemptions are gone, but the Standard Deduction has increased. Don't be too alarmed by this change in general. Along with the increase in the Standard Deduction is also an increase in the Child Tax Credit (both refundable and non-refundable portion).
2. Home Mortgage Interest will be deductible as an Itemized Deduction if the total Acquisition Indebtedness is not more than $750,000 (reduced from $1 Million). So it will not matter how many properties are secured under separate loans, as long as the total indebtedness for the Taxpayer is under $750,000.
3. No Interest Deduction for Home Equity Loans. Previously, you could deduct the interest paid on up to $100,000 of Equity Debt. Some sources have suggested refinancing various debts into one larger Home Loan, but keep in mind the Interest Tracing Rules when making that recommendation. The interest on any debt not used for Acquisition or direct improvement to the property, will need to be allocated and re-characterized to what that portion of total debt was used for, such as investment interest or business purposes, or simply personal use. There is still some need for further clarification on this issue, but for now, Interest on Home Equity Lines will NOT be deductible until further notice.

Update info on Tax Cuts & Job Act (TCJA) (continued)

4. Taxes Paid as an Itemized Deduction is limited to $10,000. This includes State Income Tax Withholding on Wages, as well as Real Estate Taxes and other taxes. Because of this dollar limitation, the higher income phase-out limitation on Itemized Deductions has been removed.
5. The 2% Miscellaneous Deductions are Repealed. Those expenses that were allowed, subject to the 2% AGI Floor and all gone. Therefore, for those of you that have Employee related business expenses, work with your Employer to set up a Direct Accounting & Reimbursement Policy, so that any outside expenses that you incur on behalf of your employer is fully reimbursed (I have recommended this option for many years now to avoid dealing with any unreimbursed expenses lost by the 2% AGI Floor).
6. Moving Expenses are repealed. No Deduction for Moving Expenses going forward (unless on active duty in the Military). Moving Expenses reimbursed by an Employer are now fully taxable.
7. Exclude Gain on Sale of Principal Residence has NOT changed. Therefore, a $500,000 Gain for Married Filing Jointly, or $250,000 for Single, is not taxable and is excluded as long as they lived in the Principal Residence for 2 out of the last 5 years. The phase-out provision for less than 2 years should still be in effect as well.
8. 20% Deduction of Qualified Business Income: The TCJA has a complicated provision for Flow-Thru Entities (Sub-S & Partnerships) as well as a Sole Proprietor. There may be a 20% Deduction allowed for those entities that qualify. Those provisions regard the definition of "Qualified Business Income" from those entities and the deduction that may be taken is the lessor of 20% of either Taxable Income or the Qualified Business Income. There are income limitations that will phase-out those that may qualify to take this deduction, which starts at $157,500 for Single and $315,000 for Married Filing Jointly. For those that may qualify, you should look into this issue and plan ahead for your 2018 Tax Filing next year.
9. For those Business Entities that have income greater than stated in #8 above, where the phase-out starts, there are other offsetting possible computations for a deduction that is limited to 50% of the Wages Paid. I will simply refer you to this link for further information about those case scenarios:

   https://www.forbes.com/sites/anthonynitti/2018/01/04/the-new-qualified-business-income-deduction-varies-based-on-your-business-type-or-does-it/#7019534c2076

Hopefully, this brief overview is pertinent and helpful. There will be more updates and talking points to follow.

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