Tax Cuts and Jobs Act Highlights for Individuals

Below are some of the highlights that may impact individual tax returns for 2018.

- **Tax rates.** The new law imposes a new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- **Standard deduction.** The standard deduction increases to $24,000 for joint filers, $18,000 for heads of household, and $12,000 for singles and married taxpayers filing separately.
- **Exemptions.** Suspends deduction for personal exemptions.
- **Child and family tax credit.** The new law increases the credit for qualifying children (i.e., children under 17) to $2,000 from $1,000, and increases to $1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) $500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to $200,000 ($400,000 for joint filers).
- **State and local taxes.** The itemized deduction for state and local income and property taxes is limited to a total of $10,000 starting in 2018.
- **Mortgage interest.** Under the new law, mortgage interest on loans used to acquire a principal residence and a second home is only deductible on debt up to $750,000 (down from $1 million), starting with loans taken out in 2018. And there is no longer any deduction for interest on home equity loans, regardless of when the debt was incurred.
- **Miscellaneous itemized deductions.** There is no longer a deduction for miscellaneous itemized deductions. This includes: investment expenses, union dues, and **unreimbursed employee expenses.**
- **Medical expenses.** Medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income for all taxpayers.
- **Overall limitation on itemized deductions.** The new law suspends the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded thresholds.

- **Moving expenses.** The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.

- **Alimony.** For post-2018 divorce decrees and separation agreements, alimony will not be deductible by the paying spouse and will not be taxable to the receiving spouse.

- **Health care "individual mandate."** Starting in 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage.

- **Estate and gift tax exemption.** Effective for decedents dying, and gifts made, in 2018, the estate and gift tax exemption has been increased to roughly $11.2 million ($22.4 million for married couples).

- **Alternative minimum tax (AMT) exemption.** The AMT has been retained for individuals by the new law but the exemption has been increased to $109,400 for joint filers ($54,700 for married taxpayers filing separately), and $70,300 for unmarried taxpayers.

- **Charitable contributions.** The 50% limitation for cash contributions to public charities and certain private foundations is increased to 60%.
- **529 Plans.** Qualified higher education expenses now include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school with a limit of $10,000 per year.

Tax Cuts and Jobs Act Highlights for Businesses

- **Tax rates**. The C corporation tax rate is a flat 21% rate.

- **New deduction for "qualified business income."** Starting in 2018, taxpayers are allowed a deduction equal to 20 percent of "qualified business income," otherwise known as "pass-through" income, i.e., income from partnerships, S corporations, and sole proprietorships.

- **Section 179 expensing.** For qualifying property and qualifying real property, the maximum amount a taxpayer may expense is increased to $1 million, and the phase-out threshold amount is increased to $2.5 million.

- **Temporary 100% bonus depreciation.** A 100% first-year deduction is allowed for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. In later years, the first-year bonus depreciation deduction phases down, as follows:
  - 80% for property placed in service after Dec. 31, 2022 and before Jan. 1, 2024.
  - 60% for property placed in service after Dec. 31, 2023 and before Jan. 1, 2025.
  - 40% for property placed in service after Dec. 31, 2024 and before Jan. 1, 2026.
  - 20% for property placed in service after Dec. 31, 2025 and before Jan. 1, 2027.

  For the first tax year ending after Sept. 27, 2017, a taxpayer can elect to claim 50% bonus first-year depreciation (instead of claiming a 100% first year depreciation allowance).

- **Automobiles.** For passenger automobiles, for which the additional first-year bonus depreciation deduction is not claimed, the maximum amount of allowable depreciation is increased to $10,000 for the year.

- **Like-kind exchanges.** The rule allowing the deferral of gain on like-kind exchanges is modified to allow for like-kind exchanges only with respect to real property.

- **Farming equipment and machinery.** For new property placed in service, the cost recovery period is shortened from seven to five years for any machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business, the original use of which begins with the taxpayer.

- **Business interest deductions.** Every business, regardless of its form, is generally subject to a disallowance of a deduction for net interest expense in excess of 30% of business adjusted taxable income. Business interest may be carried forward indefinitely, subject to certain restrictions.

- **Domestic production activities deduction (DPAD).** DPAD has been repealed.

- **Meals and entertainment.** Deductions for entertainment expenses are disallowed. The current 50% limit on the deductibility of in-house business meals is expanded.

- **Fringe benefits.** Businesses no longer receive deductions for employee transportation fringe benefits (e.g., parking and mass transit). Employees however are still not taxed on such benefits.

- **Employer-paid family and medical leave (FMLA).** For wages paid in tax years beginning in 2018, the Act allows businesses to claim a tax credit from 12.5% up to 25% of the amount of wages paid to qualifying employees. Businesses must meet certain qualifications to claim this credit. This credit ends in tax year 2019.

- **Net operating losses (NOL).** The NOL two-year carryback and the special carryback pro-visions are repealed, but a two-year carryback applies in the case of certain losses incurred in the trade or business of farming. NOLs can be carried forward indefinitely.

- **Cash method of accounting.** The cash method may be used by taxpayers that satisfy a $25 million gross receipts test, regardless of whether the purchase, production, or sale of merchandise is an income-producing factor.

- **Accounting for inventory.** Businesses that meet the $25 million gross receipts test are not required to account for inventories, but rather may use an accounting method for inventories that either (1) treats inventories as non-incidental materials and supplies, or (2) conforms to the taxpayer's financial accounting treatment of inventories.
- **Uniform capitalization (UNICAP) of expenses in inventory.** Any producer or re-seller that meets the $25 million gross receipts test is exempted from the UNICAP rules.
- **Dividends-received deduction.** For C corporations the 80% dividends received deduction is reduced to 65%, and the 70% dividends received deduction is reduced to 50%.
- **Alternative Minimum Tax (AMT).** The corporate AMT is repealed.