Happy New Year!

New Tax Legislation

President Trump signed the Tax Cuts and Jobs Act, the most far-reaching change to the tax code since the 1980s. Most provisions of the law go into effect January 1, 2018. We have highlighted several key elements of the law below. Plan to spend additional time with your preparer to discuss how the law affects your individual situation.

New Corporate Rates and Pass-Through Business Deductions in 2018

The law establishes a flat 21% federal income tax rate on all income earned by C corporations. Any income earned by a pass-through entity (including S corporations, LLCs, partnerships) and sole proprietorships will be entitled to a deduction up to 20% of its Qualified Business Income. The 20% deduction is phased out if the taxpayer is a professional (such as doctors, lawyers, accountants, consultants and investment managers) after their income is above a threshold of $315,000 for married couples or $157,500 for individual filers. Other businesses except for professional services where the taxpayer's income is above the threshold will have the deduction limited by the amount of wages paid and/or the depreciable assets owned in the business.

"Obamacare" Health Care Penalties Remain Through 2018, Go Away in 2019

The penalties for not having qualifying health insurance under the Affordable Care Act will remain in effect in 2017 and 2018 before being repealed in 2019 and future years. You pay either a flat fee or 2.5% of your income up to the cost of a health insurance plan sold on the marketplace. The IRS has announced that all returns electronically filed for 2017 must either show they have coverage or pay the penalty — we will no longer be able to remain silent on this question as we could for your 2016 tax return.

Standard Deduction Grows, Personal Exemptions Removed

The law doubles the size of the standard deduction to $12,000 for a single person and $24,000 for a married couple. The increased standard deduction is expected to reduce the number of taxpayers who itemize their deductions for items such as medical expenses, state and local taxes, mortgage interest, and charitable giving. The law also removes the personal exemption, a deduction of $4,050 for each person in the household.

Child Tax Credit Doubles, Other Dependents Get New Credit

The Child Tax Credit will be worth $2,000 per child or grandchild under age 17 who lives with you. The law makes more of the credit refundable, so those who do not owe any tax can receive a refund of up to $1,400 per qualifying child / grandchild. For other dependents who do not qualify for the Child Tax Credit, the law provides a new $500 credit. The new credit would cover children age 17 or older living at home, children age 24 or younger enrolled in college and living away, elderly parents, and other individuals whom you support.

State and Local Tax Deductions Capped for Individuals, Not Businesses

For those who itemize deductions, the law places a cap that no more than $10,000 can be claimed for all state and local taxes paid after December 31, 2017. The cap includes all sales taxes, county and local property taxes, and state income taxes paid for personal purposes, but does not include taxes paid related to a business or a rental property. Taxes paid for a rental home would remain fully deductible on Schedule E, while taxes on a business entity would be deductible on Schedule C.

Immediate Expensing for Depreciable Business Assets

The law increases the amount and types of property that can be fully depreciated ("written off") in the year of purchase. One technique for immediate expensing, called bonus depreciation, has been increased to 100% of the cost of qualified items, and now covers both used and new equipment placed into service. Bonus depreciation will remain at 100% through 2022, before being phased out. A second technique known as Section 179 depreciation has been doubled to allow expensing of up to $1 million in items and expands the types of assets that qualify to include roofs, HVAC systems, fire and alarm systems, and furnishings for lodging establishments.

Unreimbursed Business Expenses for Itemization are Eliminated Starting January 1, 2018

Who will this affect? Ministers, sales personnel, construction workers, truck drivers, pipeliners, airline personnel, etc… Really anyone that has significant travel or other employment-related costs that your employer doesn't reimburse you for! Talk with your employer if you are paying for mileage, licenses, testing, or other costs related to your employment.

Domestic Production Activities Deduction is Eliminated

Beginning January 1, 2018 the law will eliminate this special deduction.

Other Parts of the New Law:

- New tax rates and adjusted income brackets are included in the law. The rates for single filers and married filing jointly are shown at right.
- Medical expenses may be easier to claim as itemized deductions. Retroactive to January 1, 2017, all taxpayers will be able to claim an itemized deduction for medical costs that exceed 7.5% of their Adjusted Gross Income. The level will remain at 7.5% in 2018 before going back to 10% in 2019 and future years.
- Moving expenses will no longer be deductible.
- The estate tax exemption amount will double to $11.2 million per person before an estate is taxable.
- Individuals selling a home will see no changes. The new law continues to allow an exclusion of $500,000 per couple or $250,000 per single individual on the taxable gain when selling a primary residence, so long as the taxpayer has lived in the home two of the past five years and meets other requirements.

2018 TAX BRACKETS

	SINGLE	MARRIED FILING JOINT
10%	$0-$9,525	$0-$19,050
12%	$9,525-$38,700	$19,050-$77,400
22%	$38,700-$82,500	$77,400-$165,000
24%	$82,500-$157,500	$165,000-$315,000
32%	$157,500-$200,000	$315,000-$400,000
35%	$200,000-$500,000	$400,000-$600,000
37%	Over $500,000	Over $600,000

Cybersecurity — Be Alert, Be Prepared

Individuals and businesses have major security risks in today's digital environment. Theft of money, identity, and valuable information is a real threat that each of us needs to take very seriously. The former FBI director made the following statement, "There are only two types of companies, those who have been hacked and those that will be. Soon it will be those who have been hacked and those who will be again."

Steps You Can Take:

1) Set a unique password for each critical account.
2) Enable two-factor authentication that sends a code each time a new device attempts to access your account.
3) Back up your systems daily.
4) Don't trust any email that claims to be from the IRS or anyone that you are not expecting. If in doubt, call to confirm before clicking on any links in an email or downloading any file attachments.
5) Check your credit report annually for suspicious activity.
6) Check your Social Security Administration annual statement for any abnormal earnings.
7) If you own a business, create a security plan for your systems and make sure your employees are trained and aware.
8) Encrypt information on your devices and when sending any sensitive information by email.