



**Tax Cuts and Job Act**

The Tax Cuts and Jobs Act was signed into law on December 22, 2017, making sweeping changes to the US tax code beginning in 2018. These changes will impact individual taxpayers as well as businesses. This is only a brief overview of the many changes.

**INDIVIDUAL**

**Personal and Dependent Exemptions are Repealed**

**Itemized Deductions are Greatly Reduced:**

- New lower limitations on home mortgage interest, capped at **\$750,000 of new acquisition debt** after December 31, 2017. (Previously was limited to \$1,000,000 debt.)
- **Interest paid on home equity debt is disallowed** unless proceeds were used to build or substantially improve a personal residence.
- Deduction for **taxes is limited to \$10,000** (total of state, local, real estate, personal property, etc.)
- **Miscellaneous itemized deductions previously subject to the 2% AGI reduction are eliminated.** Those include:
  - All employee business expenses
  - Brokerage, IRA, & Fiduciary fees
  - Hobby Expenses
  - Safe deposit box
  - Tax Preparation fee
  - Individual Casualty & Theft Loss, unless in a federally declared disaster area.
- **Charitable contributions** are still deductible, now subject to an AGI limit of 60%. (Limit was 50% of AGI.)
- **Medical Expense AGI threshold has been temporarily lowered to 7 ½% of AGI for only 2017 & 2018**, then it will go back to the 10% of AGI threshold.
- The **phaseout of itemized deductions** due to high income has been **repealed.**

**Additional Changes:**

- **Repeal of Employee Moving Expenses and tax-free income exclusion**, except for the Armed Forces on active duty .
- **Alimony for post-2018 decrees is not taxable to recipients or deductible to payors.**
- **AMT (Alternative Minimum Tax) has much higher exemption and income phaseout levels;** therefore, **less people will be subject to AMT.**
- **Individual Health Insurance Mandate was repealed, effective starting in 2019.**
- **Child tax credit doubles to \$2,000 for each child under age 17.** The income phaseout was significantly increased to an AGI threshold of \$400,000 MFJ & \$200,000 all others.
- **Other dependents**, who are not a qualifying child, *may* qualify the taxpayer for a **new \$500 tax credit**, subject to the same AGI phaseouts as the child tax credit.
- **529 College Savings Plans** will now include annual distributions of up to **\$10,000 per elementary and secondary education tuition.**
- **Kiddie tax rates will significantly change.** Unearned income for children under 18 will be taxed at **higher tax rates attributable to trusts and estates.**
- Annual **Gift Tax Exemption amount increased to \$15,000** per year.
- An **Estate's Lifetime Exemption increased to \$11,180,000.**

**Standard Deductions Nearly Double:**

- \$24,000 Married Filing Jointly (plus \$1,300 each if 65 or over).
- \$12,000 Single (plus \$1,600, if unmarried and 65 or over)
- \$18,000 Head of Household

**2018  
 Tax Brackets**

Rate	Individuals	Married Filing Jointly	Head of Household
10%	Up to \$9,525	Up to \$19,050	Up to \$13,600
12%	\$9,526 to \$38,700	\$19,051 to \$77,400	\$13,601 to \$51,800
22%	\$38,701 to \$82,500	\$77,401 to \$165,000	\$51,801 to \$82,500
24%	\$82,501 to \$157,500	\$165,001 to \$315,000	\$82,501 to \$157,500
32%	\$157,501 to \$200,000	\$315,001 to \$400,000	\$157,501 to \$200,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000	\$200,001 to \$500,000
37%	Over \$500,000	Over \$600,000	Over \$500,000

## BUSINESS

- Regular **C corporations** will pay a flat tax at a rate of **21%**, down from the 35% top rate.
- Corporate **AMT is eliminated**.
- **Net Operating Losses** can offset only **80% of taxable income & NOL carrybacks** will no longer be allowed, a **Net Operating Loss may only be carried over**.
- **Individual Owners of a pass-through** (S corporation shareholders, LLC owners, Sole Proprietors, Partners, and REIT shareholders) **may** qualify for a new deduction of up to **20%** of “**qualified business income**”. These provisions are extremely complex, and the IRS has not issued final regulations at the time of this newsletter. There are lots of restrictions and limitations.
- The **Domestic Production Activities deduction is eliminated**.
- **100% Bonus Depreciation** is allowed for qualified assets placed in service after September 27, 2017.
- **Section 179 Expense doubled to \$1,000,000**.
- **Depreciation limitations on passenger automobiles** has increased.
- **Business Interest write-offs will be capped at 30%** of adjusted taxable income, and disallowed interest may be carried forward. (Companies with **\$25 Million or less in gross receipts and real estate companies are exempt**.)
- Deduction for **Business Entertainment & Country Club dues is eliminated**. (Business meals are allowed @ 50% under qualifying circumstances.)
- **Write-offs will be disallowed for transportation-related fringe benefits to employees (parking, transit passes)**.
- **Tax-deferred like-kind exchanges are disallowed**, except for real property not held primarily for sale.
- Companies that provide **paid family or medical leave to workers will receive a new credit, generally equal to 12.5% of the amount of wages paid during the leave**. (This applies only to 2018 & 2019.)



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In February, 2018, the IRS changed the tax withholdings tables to reflect the changes made to the tax rates. **We encourage everyone to check their tax withholdings**. Please contact our office to be sure you are having enough tax withheld from your wages, pensions, and IRA's. **Estimated tax payments may have to be revised as well.**

### New PA Withholding Requirements for 2018

Effective for 2018 - Pennsylvania Act 43 of 2017, includes a new tax withholding provision. The law requires withholding at a rate of 3.07% on Pennsylvania-source income payments made to nonresident individuals (or a disregarded entity that has a nonresident member) of more than \$5,000 in a calendar year. Payments of nonemployee compensation and business income are subject to the new withholding requirements. The withholding provision also applies to royalties and lease or rental payments made in the course of a trade or business to a nonresident lessor.

**We** encourage you to contact your tax consultant to discuss how you and/or your company may be affected by the recent tax legislation.

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