Young Lawyers Division

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Tax Planning Under the Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act of 2017 ("2017 Tax Act") was enacted effective January 1, 2018. Below is a summary of some of the key provisions of the 2017 Tax Act:

Tax Brackets for Individuals (effective for tax years 2018-2025) and Corporations (permanent): Except for the two highest tax brackets, the combined income of married couples will be taxed at the same rate as a single person. The new tax brackets for individuals are 10%, 12%, 22%, 24%, 32%, 35%, and 37%. For corporations, including personal service corporations, the tax brackets are going away, and all corporate profits will be taxed at a flat 21%.

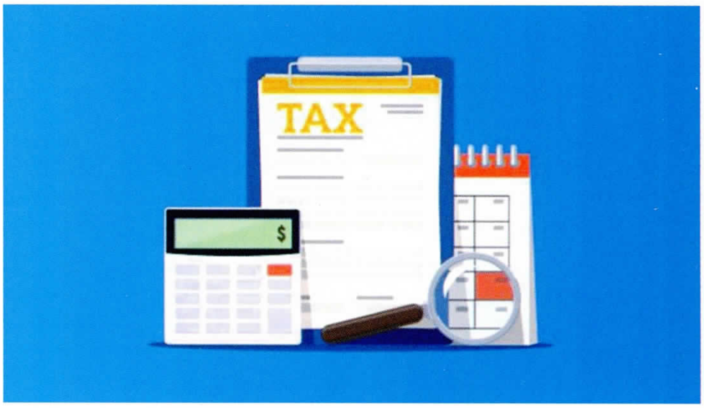
Standard Deduction and Personal Exemption (exp 12/31/25): The standard deductions have almost doubled, while the personal exemption has been eliminated. The new standard deduction is $12,000 for single filers and $24,000 for joint filers, and should more than make up for the loss of the personal exemption for most filers.

State and Local Tax Deductions (exp 12/31/25): State and local tax deductions (including income tax and property tax) are capped at $10,000 instead of being unlimited. One way to reduce the impact of the $10,000 cap is to take advantage of as many state tax credits as possible.

20% Deduction for Businesses with Pass-Through Income (effective for tax years 2018-2025): For businesses, there is a 20% deduction on certain pass-through income called Qualified Business Income. This deduction can be taken by individuals with limited liability companies, "S" corporations, sole proprietorships and partnerships. The deduction has phase outs for professional service businesses (i.e. accountants, doctors, actuaries, attorneys, etc.) earning above a certain amount and for high earning businesses in any industry.

Mortgage Interest Deductions (exp 12/31/25): For interest paid on a mortgage for a first or second residence obtained in 2018 or later, the interest can be deducted on up to $750,000 of mortgage debt (or up to $375,000 of mortgage debt when using married filing separate). The prior limit of $1,000,000 (or $500,000 when using married filing separate) is grandfathered in for home acquisition debt obtained on or before December 15, 2017. This grandfather rule will apply to refinancing of a mortgage provided that the initial principal balance of the new refinanced loan does not exceed the principal balance of the prior loan at the time of refinancing. Another major change is that interest on home equity debt is no longer deductible. These changes will not have any impact unless your itemized deductions exceed the newly increased standard deduction.

Buying Business Assets: For new and used assets with lives of 20 years or less, businesses can write off the entire cost of those qualifying assets that are bought and placed in service between September 28, 2017 and December 31, 2022. The 100% bonus depreciation is phased out 20% for each year after 2022. Taxpayers can now expense up to $1,000,000 for new or used business assets. However, the expense amount phases out dollar for dollar once more than $2,500,000 of assets are placed in service during a single year. There are also tax breaks for buyers of new or used business vehicles.



Business Expense Deductions: Meals consumed on the business premises for the benefit of the employer are now 50% deductible instead of the previous 100% deduction. On-site meals will no longer be deductible starting January 1, 2026. Business meal expenses, such as business meetings conducted at a restaurant, likely remain 50% deductible, but there is some disagreement among tax professionals. Entertainment expenses are no longer deductible, but office holiday parties remain 100% deductible.

Home Office Expense Deduction: Taxpayers who are self-employed will still be able to deduct eligible home office expenses against self-employment income.

Qualified Transportation Fringe Benefits: Employers are losing the deduction for qualified transportation fringe benefits, including the deduction for providing transportation or any payment or reimbursement for commuting to work, unless it is necessary for ensuring the safety of an employee.

Unpaid Business Expense Deduction for Employees (exp 12/31/25): Employees are no longer able to deduct unpaid business expenses in excess of 2% of their adjusted gross income on their personal tax returns. This includes the deduction for home office expenses, unreimbursed mileage and any other items that were included in unpaid business expenses.

Minimum Essential Health Insurance Coverage: Starting in the year 2019, taxpayers who do not have minimum essential health insurance coverage will not have to pay a penalty. Penalties equal to the greater of $695 or 2.5% of household income remain in effect for the 2018 calendar year.

Child Tax Credit and Alimony Payments: There are new tax breaks for parents with children under age 17. The Child Tax Credit is being doubled and the phase out threshold is increasing dramatically until December 31, 2025. For divorce agreements executed after December 31, 2018, alimony payments made under such an agreement will no longer be deductible by the person making alimony payments and will not be taxable to the person receiving said payments.

Conclusion: Many of the changes are very fact-specific and require numerical comparisons to determine whether any changes or additional tax planning could be beneficial. Be sure to consult your tax professional before the end of this year.