The Tax Cuts and Jobs Act
Enacted December 22, 2017
Effective for Tax Years After 2017 through 2025 (except where noted)

Individual Income Tax Provisions

- Reduction in all individual tax rates. Top rate was reduced from 39.6% to 37%.
- Increase in the standard deduction to $24K for married filing joint ($12K MFS), $18K for HOH and $12K for all others, indexed for inflation.
- Personal exemptions have been repealed.
- Pass-through entity “excess” business losses: Through 2025, such losses generally cannot offset more than $500K MFJ of income from other sources. Disallowed losses carry forward as an NOL, subject to those rules. Indexed for inflation.
- The ability to re-characterize a ROTH IRA contribution to a traditional IRA contribution in order to unwind a ROTH conversion has been repealed.
- The threshold for medical expenses is temporarily lowered to 7.5% of AGI for 2017 and 2018 only. It returns to 10% of AGI thereafter.
- Mortgage interest limited to $750K of indebtedness for married filing joint ($375K MFS). Debt incurred before 12/15/17 is grandfathered, limited to $1M of indebtedness ($500K MFS). Mortgage interest on second homes remains deductible within the limits. Home equity interest is no longer deductible.
- State and local tax deductions are limited to $10K. This includes real estate taxes.
- Increased charitable contribution limit from 50% of AGI to 60%.
- Miscellaneous itemized deductions are no longer available, as the law has repealed the deduction.
- The casualty and theft loss deduction has been repealed, unless the loss was due to an event officially declared a disaster by the President.
- For divorce and separation agreements executed after 12/31/18, the alimony deduction was repealed and alimony is also no longer taxable to the recipient.
- The moving expense deduction is only available to active-duty members of the armed forces.
- The AMT exemption was increased to $109,400 for joint filers, $70,300 for most others. The exemption phase-out level was also increased. AMT will apply to income levels of $1M or more for joint filers ($500K for all others), indexed for inflation.
- The individual shared responsibility requirement of the ACA has been repealed and penalties cannot be assessed after 2018.
- The child tax credit (under age 17) is increased from $1K to $2K per qualifying child. Up to $1,400 is a refundable credit. A $500 non-refundable credit was also created for certain qualifying dependents, subject to income-based phaseout.
- While the estate tax was not repealed, the exclusion was increased to $10M per person, indexed for inflation.

Business Tax Provisions

- Reduction in the corporate tax rate from a maximum rate of 35% to a flat rate of 21%.
- 50-percent bonus depreciation allowance has been increased to 100-percent for property placed in service after 9/27/17 and before 1/1/23. A phase down schedule kicks in 1/1/23. Bonus depreciation is now permitted for the purchase of used property.
- Vehicle depreciation caps were raised to $10K in year one, $16K year two, $9,600 year three, $5,760 thereafter, indexed for inflation.

- Section 179 dollar limitation is increased to $1M with a $2.5M maximum investment limitation before phaseout.
- The interest expense deduction is limited to 30% of adjusted taxable income (before the deduction). Small Business exception for businesses with average gross receipts of $25M or less over the last three years.
- One of the biggest changes and challenges to come out of the TCJA was the Qualified Business Income (QBI) deduction. It is available to sole-proprietors, partners in partnerships, shareholders of S-Corporations and some trusts and estates. C-corporations and employees are not eligible. The amount of the deduction is generally up to 20% of QBI received from a qualified trade or business. The calculation is complex and involves income, wages and certain property elements. There are thresholds based on taxable income of the taxpayer, which may reduce the deduction. The deduction is also limited for certain “Specified Service Trades or Businesses,” mainly personal service types of businesses, as well as those in the fields of health, law and accounting. It is possible to plan for this deduction in order not to exceed some of the limitations and receive the full deduction.
- Cash method of accounting permitted for certain taxpayers provided they do not exceed $25M in average gross receipts, based on the three previous tax years. A change of accounting must be filed.
- Accounting for inventories: Taxpayers meeting the 25% average gross receipts test can treat inventory costs as non-incidental materials or supplies. A change of accounting must be filed.
- Uniform capitalization: Taxpayers meeting the 25% average gross receipts test are no longer subject to unicap. A change of accounting must be filed.
- The exception for small construction contracts from the percentage of completion method was expanded for taxpayers meeting the 25% average gross receipts test.
- Net operating losses will be limited to 80% of taxable income. NOL carrybacks have been eliminated in most cases. The NOL carryforward is now indefinite.
- Corporate AMT has been repealed.
- Section 199 Domestic Production Activity Deduction has been repealed.
- Like-Kind exchanges involving non-real property has been repealed.
- The rules for business meals have been revised.
- Changes were made to the Research & Development credit.
- A temporary credit was created for employers paying employees on family and medical leave.

Note: This is only a partial list of the provisions in the Act. Please give us a call to discuss an item in greater depth or to inquire about an item not on this list.

Disclaimer: This document represents a general overview of recent tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to your specific situation. Any tax information contained in the body of this narrative was not intended or written to be used, and cannot be used, by the recipient for the purposes of avoiding penalties that may be imposed under the Internal Revenue Code or provisions of applicable state or local law.