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Highlights of the Tax Cuts and Jobs Act

(Effective 1/1/2018)

Individual Tax Changes

- Tax rates are reduced for most of the brackets, including a top rate of 37% beginning at $600,000 for a joint return.
- The standard deduction will double for tax years beginning in 2018.
- For Itemized Deductions:
    - Limits state and local taxes to $10,000
    - Further limits on mortgage interest ($750,000 of indebtedness for joint return)
    - **Eliminates** all miscellaneous deductions subject to the 2% floor (i.e. employee business expenses, tax preparation fees, investment fees, etc.)
    - Lowers threshold for medical expense to 7.5% of AGI
- **Eliminates** the deduction for personal exemptions.
- Increases the Child Tax Credit to $2,000, with $1,400 being refundable
- **Eliminates** Individual Health Insurance Mandate
- Doubles the estate and gift tax exemption from $5.49 million to $10.98 million

Business Tax Changes

- Corporate tax rate is a flat rate of 21% (not applicable to S Corporation)
- Repeals Corporate Alternative Minimum Tax (AMT)
- Bonus depreciation will increase to 100% **effective 9/27/17** through 2022 and is available for **new** and **used** property.
- Section 179 expensing increased to $1,000,000
- Raises the limitation placed on depreciation for business-use vehicles
- **Eliminates** the Domestic Production Activities Deduction
- **Eliminates** entertainment expense deduction, but retains the 50% meals deduction.
- Net Operating Loss's (NOL) will be limited to 80% of taxable income for losses arising in tax years after December 31, 2017. The bill also denies the carryback in most cases while providing indefinite carryforward.
- Certain interest expense deductions will be limited to 30% of adjusted taxable income for taxpayers with gross receipts in excess of $25 million
- Allows entities to use the cash-basis of accounting rather than accrual if gross receipts are less than $25 million
    - Taxpayers that meet the test are not required to account for inventories, but rather use an accounting method for inventories that either:
        - Treats inventories as non-incidental materials and supplies or
        - Conforms to the taxpayer's financial accounting treatment of inventory

The 20% Qualified Business Income Deduction

- **Individuals** who generate "Qualified Business Income" (QBI) will be entitled to take a deduction of 20% of the qualified business income on their tax return based on certain criteria and limitations
  - QBI **does** include ordinary income from partnerships, S-corporations, sole proprietorships, and certain rental income
  - QBI **does not** include wages or guaranteed payments received from the business
  - QBI **does not** include investment income: capital gains, dividend or interest income

  No Limitations
  - If your **taxable income** for 2018 is under $315,000 for married and $157,500 for all other taxpayers, you are eligible to take the QBI deduction
  - Deduction is 20% of the lesser of your defined taxable or qualified business income

  Specific Service Trade or Business Limitation
  - If you are in a **specified service trade or business** *(defined as any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees)*, phase-out of the deduction begins at $315,000 for a married couple and $157,500 for all other taxpayers. 100% phase-out is at $415,000 for married and $207,500 for all other taxpayers.

  Non-Specific Service Trade or Business Limitation
  - If your taxable income exceeds $315,000 for married and $157,500 for all other taxpayers, you will be able to deduct the lessor of:
    - 20% of the taxpayer's "qualified business income" or
    - The Greater Of:
      - 50% of the W-2 wages with respect to the business, or
      - 25% of the W-2 wages with respect to the business plus 2.5% of the unadjusted basis of all qualified property
- Trust and estates that own an interest in a flow-through business are allowed the 20% Qualified Business Deduction

Louisiana Residents Affected by 2016 Floods

- Anyone with more than $500 in losses from the 2016 floods that weren't covered by insurance or grants will now be able to deduct those costs from their taxable income – even if they didn't itemize.
- The tax act also waives a 10% penalty for flood victims who withdrew money from 401K retirement funds.