Highlights of the New Tax Act

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Highlights of the New Tax Act

- Individual rates decreased by **3%**

Highlights of the New Tax Act

- Individual rates decreased by **3%**
- Large corporate tax rates decreased by **<u>14</u>%**

Highlights of the New Tax Act

<u>Individuals</u>

Standard deduction raised to $24,000 (MFJ or Q-Widow) (up from $12,700)

HofH = $18,000, Single = $12,000, > 65 + $2,600

… but …

Personal exemptions now disallowed (previously $4,000/person)

Highlights of the New Tax Act

IRS	2017
Total Income	$100,000
Mortgage Interest	(9,000)
Taxes	(4,000)
Charity	(2,000)
	(15,000)
Standard Deduction	(12,700)
Exemptions (2)	(8,000)
Taxable Income	$77,000
Tax	$10,728
Marginal rate	25.0%

Highlights of the New Tax Act

IRS	2017	2018
Total Income	$100,000	$100,000
Mortgage Interest	(9,000)	(9,000)
Taxes	(4,000)	(4,000)
Charity	<u>(2,000)</u>	<u>(2,000)</u>
	(15,000)	(15,000)
Standard Deduction	(12,700)	(24,000)
Exemptions (2)	<u>(8,000)</u>	<u>0</u>
Taxable Income	$77,000	$76,000
Tax	$10,728	$8,599
Marginal rate	25.0%	22.0%

Highlights of the New Tax Act

IRS	2017	2018	Change
Total Income	$100,000	$100,000	
Mortgage Interest	(9,000)	(9,000)	
Taxes	(4,000)	(4,000)	
Charity	(2,000)	(2,000)	
	(15,000)	(15,000)	
Standard Deduction	(12,700)	(24,000)	
Exemptions (2)	(8,000)	0	
Taxable Income	$77,000	$76,000	
Tax	$10,728	$8,599	$2,129
Marginal rate	25.0%	22.0%	3.0%

Highlights of the New Tax Act

Virginia	2017
Total Income	$100,000
Less: Itemized deductions	(15,000)
Less: Standard deduction	0
Less: Exemptions (2)	(1,800)
Taxable Income	$83,200
Tax Rate	6%
Tax	$4,992
Effective rate	5.0%

Highlights of the New Tax Act

Virginia	2017	2018
Total Income	$100,000	$100,000
Less: Itemized deductions	(15,000)	(15,000)
Less: Standard deduction	0	(6,000)
Less: Exemptions (2)	(1,800)	(1,800)
Taxable Income	$83,200	$92,200
Tax Rate	6%	6%
Tax	$4,992	$5,532
Effective rate	5.0%	5.5%

Highlights of the New Tax Act

Virginia	2017	2018	Change
Total Income	$100,000	$100,000	
Less: Itemized deductions	(15,000)	(15,000)	
Less: Standard deduction	0	(6,000)	
Less: Exemptions (2)	(1,800)	(1,800)	
Taxable Income	$83,200	$92,200	
Tax Rate	6%	6%	
Tax	$4,992	$5,532	($540)
Effective rate	5.0%	5.5%	.5%

Highlights of the New Tax Act

2018 tax vs 2017 tax

- Federal Tax decrease = $2,129
- Virginia State tax increase = $540
- Net tax savings = $1,589

Highlights of the New Tax Act

Individuals

- Net operating losses must be carried forward and are limited to 80% of income
- ObamaCare penalty repealed
- Estate tax exemption - $22,360,000 ($11.18M Single)
- 529 plans may be used for private tuition ($10,000 per year)
- Medical deductions reduced from 10.0% to 7.5% of AGI (2018 only)

Highlights of the New Tax Act

<u>Individuals</u>

- Qualified Business Income – 20% deduction
- State tax payments limited to $10,000 (real estate, personal property, state income tax)
- Charitable payments to universities that enable donor to buy athletic tickets – no longer deductible (previously 80% deductible)

Individual Summary

<u>12 Key Changes for Individuals</u>

- Obamacare penalty deleted
- Estate tax exemptions - $22,360,000 ($11,180,000 if Single)
- 529 plans may be used for private tuition ($10,000 per year)
- Medical deductions reduced from 10.0% to 7.5% of AGI (2018 only)
- Qualified Business Income – 20% deduction
- State tax payments limited to $10,000 (real estate, personal property, state income tax)
- Charitable payments to universities that enable donor to buy athletic tickets – no longer deductible (previously 80% deductible)
- Moving expenses - not deductible; moving reimbursement from employer – taxable
- Miscellaneous itemized deductions disallowed (investment advisory fees, CPA fees, safe deposit box, etc)
- Limitations on HELOC interest deductibility
- Child credit: $2,000 per child
- Net operating losses must be carried forward and are limited to 80% of income

Highlights of the New Tax Act

Businesses

- Corporate AMT is repealed
- Domestic production activities deduction - repealed
- Business interest expense limited (complex calculation)
- Entertainment expenses totally disallowed
- Dues totally disallowed
- 20% Qualified Business Income (a big deal)
- Net operating losses must be carried forward

Highlights of the New Tax Act

<u>Individuals</u>

- Moving expenses - not deductible
- Moving reimbursement from employer – taxable
- Miscellaneous itemized deductions disallowed (<u>investment advisory fees</u>, CPA fees, safe deposit box, etc.)
- HELOC interest is no longer deductible (unless…)
- Child credit: $2,000 per child (phase out at $400K/$200K)

Highlights of the New Tax Act

Qualified Business Income (or "QBI")

- This provision attempts to sync the C Corp tax rate reduction (21%) to other business types
- 20% deduction of net income for partnerships, S Corps and Sole Proprietorships

Highlights of the New Tax Act

QBI – continued

- Certain professions are not eligible (physicians, lawyers, CPAs, consultants, investment advisors, artists, professional athletes, etc.) *but only if income is too high*
- If income is low, a relatively easy calculation; if income is moderate to high, a fairly complex calculation

Highlights of the New Tax Act

QBI – continued

Strategy: lower W-2 income paid to owners in S Corporations (*remain mindful of reasonable compensation requirements*)

Strategy: reconsider being a partnership and convert to S Corp status

Highlights of the New Tax Act

<u>Businesses</u>

- First year depreciation can be as high as 100% for a wide assortment of assets (will have an impact on business sellers- buyers will prefer an asset vs. stock purchase)
- Assets can be new <u>or</u> <u>used</u> to qualify for 100% depreciation (includes some real estate)
- A great year to buy an SUV (business usage)

Business Summary

9 Key Changes for Businesses

- Corporate AMT is repealed
- Domestic production activities deduction - repealed
- Business interest expense limited (complex calculation)
- Entertainment expenses totally disallowed
- Dues totally disallowed
- First year depreciation can be as high as 100% for a wide assortment of assets (will have an impact on business sellers - buyers will prefer an asset vs stock purchase)
- Assets can be new or used to qualify for 100% depreciation – real estate is included
- Qualified Business Income deduction of 20% will be significant
- Net operating losses must be carried forward

Highlights of the New Tax Act

<u>Real Estate</u>

- New commercial building acquisitions or improvements receive highly favorable tax treatment
- Like-kind exchanges limited to real property

Highlights of the New Tax Act

<u>Strategies – Individuals</u>

Take advantage of standard deduction:

- Pay off your mortgages – especially HELOCs
- If you are considering downsizing, now would be a good time
- Bunch charitable contributions (<u>consider Donor Advised Fund</u>)
- Land Preservation Credits (generally have a 15%-22% return)
- NAP or Education Credits (although recent rulings limit this benefit)

Highlights of the New Tax Act

No Change in Strategy				**Deduction Stacking Strategy**					**Tax Savings with Deduction Stacking Strategy**		
Deduction Item		**Amount per year**		**Deduction Item**		**EVEN years**	**ODD years**			**Difference**	**$18,000**
State Taxes		$10,000		State Taxes		$10,000	$10,000			**Marginal Rate**	**29%**
Mortgage Interest		$8,000		Mortgage Interest		$8,000	$8,000			**Tax Savings (6 years)**	**$5,220**
Charitable		$10,000		Charitable		$20,000					
Itemized Total		**$28,000**		Total		**$38,000**	$18,000				
	OR					OR	OR				
Standard Deduction		$24,000				$24,000	**$24,000**				
No Change in Strategy											
Deduction Used		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**TOTAL**		
Itemized		$28,000	$28,000	$28,000	$28,000	$28,000	$28,000		**$168,000**		
											Difference
Deduction Stacking Strategy											**$18,000**
Deduction Used		**2018**	**2019**	**2020**	**2021**	**2022**	**2023**		**TOTAL**		
Itemized		$38,000		$38,000		$38,000			**$186,000**		
Standard			$24,000		$24,000		$24,000				

Highlights of the New Tax Act

Strategies – Individuals

Investment considerations:

Qualified Dividends and Long-term Capital Gains
(both taxed at favorable rates)

ROTH Conversions (especially ~~if~~ when we have a market correction)

Qualified Charitable Distributions for those taking RMDs

Highlights of the New Tax Act

<u>Strategies – Individuals</u>

Don't forget **catch-up contributions** to retirement plans at your place of employment.

Family giving – consider establishing **529 plans for grandchildren**

Family inheritance – **Do not transfer capital assets that have appreciated in value** to family members prior to death

Establish **living trusts** as you reach retirement age

Family inheritance – Double check beneficiary designations, take action(s) to avoid probate, strongly reconsider your choice of Executor. <u>**Everyone in this room likely has an estate issue to address**.</u>

Highlights of the New Tax Act

Aggressive Strategies – Individuals

Oil and Gas Investments

Get Divorced

Move to Florida, Texas, Alaska, etc.

Highlights of the New Tax Act

Strategies – Businesses

Contrary to web based news articles, conversion to C Corp status is not recommended for most small businesses

Add children to the payroll – a great way to save taxes; have children use proceeds to fund 529 plan

Give strong consideration to changing the type of retirement plan that you offer

Highlights of the New Tax Act

<u>Strategies – Businesses</u>

Large SUVs 100% deductible when purchased *(if 100% business use)*

Several new depreciation opportunities with real estate

Cost segregation studies are critical (even for smaller real estate acquisitions)

Highlights of the New Tax Act

Qualified Business Income Example

Assume $200,000 in profits (S Corporation) and two 50% shareholders

Qualified Business Income	$200,000	
Per shareholder	$100,000	
20% Deduction per shareholder	$20,000	
Tax savings of 22% per shareholder		$4,400

Note: Federal only, Qualified Business Income is not recognized by Virginia

Highlights of the New Tax Act

<u>Qualified Business Income (continued)</u>

Specified service businesses (SSB's) are not eligible
(doctors, lawyers, CPAs, consultants, artists, athletes)

but … these limitations do not apply if your income is less than $<u>157,500</u> (single) or $<u>315,000</u> (married filing joint)

If you have a SSB and your income is greater than $<u>207,500</u> (single) / $<u>415,000</u> (married filing joint) then the Qualified Business Income deduction is lost.

Highlights of the New Tax Act

<u>Qualified Business Income Strategies</u>

If you are:

1. In a Qualified Business and
2. Your income is greater than $<u>157,500</u> (single) or $<u>315,000</u> (married filing joint)

Then the QBI deduction may be limited (and a more complex equation ensues).

Highlights of the New Tax Act

Qualified Business Income Strategies

If your income is less than $157,500 (single) or $315,000 (married filing joint), then *lower* owner salaries

but … *remain mindful of reasonable compensation rules*.

If your income is greater than $157,000 (single) / $315,000 (married filing joint), seek tax consultations.

Highlights of the New Tax Act

Strategies for your Estate

Over $22.3M – see your estate attorney. Now.

Over $5.5M and less than $22M (and life expectancy > 7 years) implement giving strategies *as long as it doesn't hurt*

Under $5.5M – take action to simplify any previous estate planning. Do not delay.

Highlights of the New Tax Act

Reasons to modify your estate plan:

1. Divorce
2. Spouse has passed
3. Bonus families
4. Children are grown
5. Special needs children
6. Children still on the payroll
7. Second homes, collectibles
8. You are a business owner (especially if < 100% owner)
9. Wrong Executor

Highlights of the New Tax Act

E-mail excerpt from a client that was named Executor by her parents:

"Feel free to send every client my way for real life advice. This has been a rotten, pretty thankless process, and has unfortunately shown the true colors of one sibling – if we had a non-family member as an executor, I would not have spent the past 8 months with my stomach in knots over every step, and I would have been able to take some time to grieve."

It's not an honor to be named as Executor; it's an obligation, a bureaucratic nightmare, and creates long-term pain in the family.

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Q&A