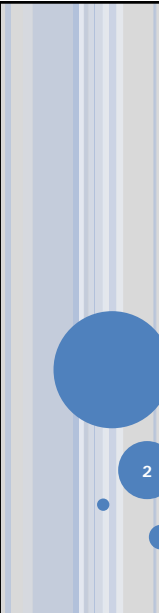


Chemel Kornick & Mooney, LLC
Certified Public Accountants

**Navigating the Complexities
of Tax Simplification**

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PART 1
**TAX CUTS & JOBS ACT
(TCJA)**

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TCJA – BACKGROUND

- “An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018”
- The Act is based on tax reform advocated by congressional Republicans and the Trump Administration
- Signed into law by President Trump on December 22, 2017
- Most of the changes introduced by the bill went into effect on 1/1/2018

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PERSONAL EXEMPTIONS 2017 VS. CURRENT

2017	Current
Yourself, spouse, and dependents	Eliminated
\$4,050	
Subject to phase-outs beginning at \$313,800 and completely phase-out at \$436,300 for MFJ	

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TAX BRACKET (MFJ) 2017 vs. CURRENT

2017 Bracket	Rate	Current Bracket	Rate
\$0 - \$18,650	10%	\$0 - \$19,050	10%
\$18,650 - \$75,900	15%	\$19,050 - \$77,400	12%
\$75,900 - \$153,100	25%	\$77,400 - \$165,000	22%
\$153,100 - \$233,350	28%	\$165,000 - \$315,000	24%
\$233,350 - \$416,700	33%	\$315,000 - \$400,000	32%
\$416,700 - \$470,700	35%	\$400,000 - \$600,000	35%
> \$470,700	39.6%	> \$600,000	37%

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TAX BRACKET (SINGLE) 2017 vs. CURRENT

2017 Bracket	Rate	Current Bracket	Rate
\$0 - \$9,325	10%	\$0 - \$9,525	10%
\$9,325 - \$37,950	15%	\$9,525 - \$38,700	12%
\$37,950 - \$91,900	25%	\$38,700 - \$82,500	22%
\$91,900 - \$191,650	28%	\$82,500 - \$157,500	24%
\$191,650 - \$416,700	33%	\$157,500 - \$200,000	32%
\$416,700 - \$418,400	35%	\$200,000 - \$500,000	35%
> \$418,400	39.6%	> \$500,000	37%

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CAPITAL GAINS RATES 2017 VS. CURRENT

2017 Rate	Item	Current Rate
Ordinary Marginal Income Tax Rate	Short Term Capital Gains	Ordinary Marginal Tax Rate under new structure
15% if Income <\$470,700	Long Term Capital Gains	15% if Income between \$77,200 - \$479,000 (MFJ)
20% if Income >\$470,700	Long Term Capital Gains	20% if Income >\$479,000 (MFJ)

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STANDARD DEDUCTION 2017 VS. CURRENT

Filing Status	2017	Current
Single	\$6,350	\$12,000
Married Filing Jointly	\$12,700	\$24,000
Married Filing Separately	\$6,350	\$12,000
Head of Household	\$9,350	\$18,000
Qualifying Widow(er)	\$12,700	\$24,000

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ITEMIZED DEDUCTIONS 2017 VS. CURRENT

2017	Item	Current
“Pease Limitation” or “3%/80% rule”	Overall Limitation	Suspended for tax years beginning after 12/31/17 and before 1/1/2026
>10% of AGI For tax years beginning after 12/31/12 and ending before 1/1/17 - >7/5% for taxpayers age 65 or older	Medical Expenses	For tax years beginning after 12/31/16 and ending before 1/1/19 >7.5% of AGI For tax years ending after 12/31/18 >10% of AGI
No limit	Real Estate, Property, State & Local Taxes	Can claim up to \$10,000
Deduction up to 50% of taxpayer’s contribution base	Charitable Contributions	Deduction up to 60% of taxpayer’s contribution base

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ITEMIZED DEDUCTIONS 2017 VS. CURRENT

2017	Item	Current
Maximum amount allowed to be treated as acquisition indebtedness was \$1 million (\$500,000 for MFS)	Mortgage Interest	Aggregate indebtedness cannot exceed \$750,000 (\$375,000 for MFS), starting with loans taken out in 2018. Deduction for interest paid on home equity loans is only permitted if used to buy build or substantially improve the taxpayer’s home that secures the loan.
Deductible if the losses were the result of fire, storm, shipwreck, other casualty, or theft	Casualty & Theft Losses	Suspended except for losses incurred in a federally declared disaster
Deductible to the extent they exceeded 2% of AGI. Includes items such as tax prep fees, investment expenses, union dues, and unreimbursed employee expenses	Miscellaneous Itemized Deductions	Suspended for tax years beginning after 12/31/17 and before 1/1/2026

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OTHER CHANGES 2017 VS. CURRENT

2017	Item	Current
Deductible by payer and included in gross income of recipient	Alimony	Eliminated deduction for alimony paid, and alimony received is nontaxable. Effective for any divorce executed after 12/31/18
Deductible if paid or incurred in connection with the commencement of work	Moving Expenses	Eliminated except for certain military personnel
Required to be paid by individuals who were not covered by a health plan that provided at least minimum essential coverage	Shared Responsibility Payment	Eliminated

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ALTERNATIVE MINIMUM TAX (AMT) - 2017

- Alternative Minimum Tax (AMT) is a separate tax system that was designed to limit deductions for wealthier individuals
- AMT starts with your taxable income and makes various adjustments:
 - Taxes, state & local and real estate
 - Misc. Itemized Deductions
 - Medical expenses over 7.5%/10% threshold

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ALTERNATIVE MINIMUM TAX (AMT) - 2017

- Once adjustments are made, taxpayers are entitled to an exemption
- Your Alternative Minimum Taxable Income (AMTI) is then subject to a tax rate of 26% up to \$186,300 (MFJ) and 28% above that
- Your total tax is the greater of your AMT or regular tax.

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ALTERNATIVE MINIMUM TAX (AMT) - CURRENT

- President Trump wanted to repeal AMT, but Congress couldn't make it work
- AMT exemption amount increased to \$109,400 for MFJ and \$70,300 for all other taxpayers
- AMT exemption threshold phase-out increased to \$1,000,000 for MFJ and \$500,000 for all other taxpayers

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DEPENDENT BENEFITS 2017 vs. CURRENT

2017	Item	Current
\$1,000 per qualifying child under age 17	Child Tax Credit	<p>\$2,000 per qualifying child under age 17.</p> <p>New \$500 credit for any dependents who are not qualifying children under age 17. There is no age limit for the \$500 credit</p>

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RETIREMENT ACCOUNTS 2017 vs. CURRENT

2017	Current
Roth IRA rules allowed an individual to elect to “recharacterize” an IRA contribution (“conversion contribution”)	The provision allowing taxpayers to recharacterize Roth IRA contributions and traditional IRA contributions does not apply to a “conversion contribution” to a Roth IRA

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ESTATE & GIFT TAX 2017 VS. CURRENT

2017	Item	Current
<p>\$5.49 million lifetime exemption for each individual; indexed for inflation</p> <p>40% estate tax rate on estates valued higher than the above stated exemption amounts.</p>	<p>Estate & Gift Tax</p>	<p>\$11.2 million lifetime exemption per individual; indexed for inflation</p> <p>Effective for decedents dying and gifts made from 2018 through 2025</p>

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C - CORPORATION TAX RATES – 2017 VS. CURRENT

2017 Bracket	Rate	Current Rate
< \$50,000	15%	For tax years beginning after 12/31/17, the tax rate is a flat 21% rate
	20%	
\$50,001 - \$75,000	25%	
\$75,001 - \$10,000,000	34%	
>\$10,000,000	35%	

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DEPRECIATION

- Fully expense 100% of cost of qualified property placed in service after 9/27/17 and before 1/1/23.
- In later years, the first-year bonus depreciation deduction phases down, as follows:
 - 80% for property placed in service after Dec. 31, 2022 and before Jan. 1, 2024.
 - 60% for property placed in service after Dec. 31, 2023 and before Jan. 1, 2025.
 - 40% for property placed in service after Dec. 31, 2024 and before Jan. 1, 2026.
 - 20% for property placed in service after Dec. 31, 2025 and before Jan. 1, 2027.

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DEPRECIATION

- First-year bonus depreciation sunsets after 2026.
- Base amount of depreciation caps for passenger automobiles increased
- Computers removed from listed property
- General 15-year recovery period and straight-line depreciation provided for qualified improvement property
- For property placed in service after Dec. 31, 2017, the ADS recovery period for residential rental property is shortened from 40 years to 30 years.

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SECTION 179 EXPENSING 2017 VS. CURRENT

2017 Allowance	Current Allowance
Immediately can expense up to \$500,000 of cost with phase out beginning at \$2 million.	Maximum amount \$1 million, and the phase-out threshold is \$2.5 million Indexed for inflation

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SMALL BUSINESS ACCOUNTING 2017 VS. CURRENT

2017	Item	Current
Can use if gross receipts are less than \$5 million	Cash Method	Can use if gross receipts are less than \$25 million
Required if the production, purchase, or sale of merchandise is a material income-producing method	Inventory Method	Only must use if average gross receipts are greater than \$25 million
Exempt if average gross receipts are less than \$10 million	UNICAP	Exempt if average gross receipts are less than \$25 million
Percentage of completion not required if average gross receipts are less than \$10 million	Long Term Contracts	Percentage of completion not required if average gross receipts are less than \$25 million

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BUSINESS RELATED DEDUCTIONS 2017 VS. CURRENT

2017	Item	Current
Generally allowed in the taxable year in which it is paid or accrued	Interest	Only allowed up to 30% of business's adjusted taxable income
Can be carried back 2 years or forward 20 years	NOL Deduction	Can be carried forward indefinitely Limited to 80% of taxable income
Allowed if property is held for productive use in trade, business, or investment	Like-Kind Exchanges	Only for real property that is not held primarily for sale

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BUSINESS RELATED DEDUCTIONS 2017 VS. CURRENT

2017	Item	Current
Permitted if for local government bodies	Local lobbying expenses	Eliminated
Can claim a deduction of 9% of the lesser a taxpayer's taxable income or qualified production activities	DPAD	Eliminated
Can deduct 50%	Business-related Entertainment	Eliminated
Can deduct transportation, on-site gyms, and other expenses that are personal in nature	Fringe Benefits	Eliminated

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QUALIFIED BUSINESS INCOME DEDUCTION – SEC. 199A

- General Rule: A deduction equal to 20% of Qualified Business Income (QBI) from a trade or business as defined under Sec. 162.
 - This applies to all entity types other than C-corporations
- What QBI is not:
 - Guaranteed Payments
 - Partnership/S-corp distributions
 - W-2 Wages paid to yourself or your spouse
- Deductibility is tied to taxable income

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TAXABLE INCOME LESS THAN \$315,000

- If your total taxable income, without regards to any QBI deduction, is less than \$315,000, then you receive the full deduction equal to 20% of QBI.

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TAXABLE INCOME GREATER THAN \$315,000

- If your total taxable income, without regards to any QBI deduction, is greater than \$315,000, then your QBI deduction is potentially limited or disallowed completely
- Overview of calculation: Your QBI deduction equals:
 - The lesser of 20% of QBI (general rule) OR
 - The greater of:
 - 50% of W-2 wages OR
 - 25% of W-2 wages + 2.5% of unadjusted basis (UBIA)

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TAXABLE INCOME GREATER THAN \$315,000

- Deduction is limited if a Specified Service Trade or Business (SSTB).
 - healthcare professionals, law, accounting, actuarial science, performing artists, consulting, athletics, financial services, brokerage services, including investing and investment management, trading, or dealing in securities, partnership interests, or commodities, and any trade or business whose principal asset is the reputation or skill of one or more of its employees
- The phase-out range for an SSTB is \$315,000 - \$415,000

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PART 2 NEW FORM 1040

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NEW 1040 – A BRIEF WALKTHROUGH

Form 1040 Department of the Treasury—Internal Revenue Service (99) **2018** U.S. Individual Income Tax Return OMB No. 1545-0047 IRS Use Only—Do not write or staple in this space.

Filing status: Single Married filing jointly Married filing separately Head of household Qualifying widow(er)

Your first name and initial Last name Your social security number

Your standard deduction: Someone can claim you as a dependent You were born before January 2, 1954 You are blind

If joint return, spouse's first name and initial Last name Spouse's social security number

Spouse standard deduction: Someone can claim your spouse as a dependent Spouse was born before January 2, 1954 Full-year health care coverage or exempt (see inst.)

Spouse is blind Spouse remarries on a separate return or you were dual-status alien

Home address (number and street), if you have a P.O. box, see instructions. Apt. no. Residential Election Campaign (see inst.) You Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule B. If more than four dependents, see inst. **add** here ▶

Dependents (see instructions):		(D) Social security number	(R) Relationship to you	(C) If qualifies for (see inst.)
(1) First name	Last name		Child tax credit	Credit for other dependents
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>

Sign Here Under penalty of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature Date Your occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Spouse's signature. If a joint return, both must sign. Date Spouse's occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

Paid Preparer Use Only Preparer's name Preparer's signature PTIN Firm's EIN Check it: Self-employed Self-Party Designee

Firm's name ▶ Phone no. Firm's address ▶

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 113208 Form **1040** (2018)

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NEW 1040 – A BRIEF WALKTHROUGH

Form 1040 (2018) Page **2**

1 Wages, salaries, tips, etc. Attach Form(s) W-2	1
2a Tax-exempt interest	2a
2b Taxable interest	2b
3a Qualified dividends	3a
3b Ordinary dividends	3b
4a IRAs, pensions, and annuities	4a
4b Taxable amount	4b
5a Social security benefits	5a
5b Taxable amount	5b
6 Total income. Add lines 1 through 5. Add any amount from Schedule 1, line 22	6
7 Adjusted gross income. If you have no adjustments to income, enter the amount from line 6; otherwise, subtract Schedule 1, line 36, from line 6	7
8 Standard deduction or itemized deductions (from Schedule A)	8
9 Qualified business income deduction (see instructions)	9
10 Taxable income. Subtract lines 8 and 9 from line 7. If zero or less, enter -0-	10
11 a Tax (see instructions) (check if any from: 1 Form(s) 8814 2 Form 4972 3)	11
b Add any amount from Schedule 2 and check here	11
12 a Credit tax credit(s) for other dependents	12
b Add any amount from Schedule 3 and check here	12
13 Subtract line 12 from line 11. If zero or less, enter -0-	13
14 Other taxes. Attach Schedule A	14
15 Total tax. Add lines 13 and 14	15
16 Federal income tax withheld from Forms W-2 and 1099	16
17 Refundable credits: a (DC (see instructions)) b Sch 8812 c Form 8863	17
18 Add any amount from Schedule 5	18
19 Add lines 16 and 17. This is the amount you overpaid	19
20a Amount of line 19 you want refunded to you. If Form 8888 is attached, check here	20a
Direct deposit? See instructions.	20a
b Routing number	20a
c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	20a
d Account number	20a
21 Amount of line 19 you want applied to your 2019 estimated tax	21
22 Amount you owe. Subtract line 18 from line 15. For details on how to pay, see instructions	22
23 Estimated tax penalty (see instructions)	23

Go to www.irs.gov/Form1040 for instructions and the latest information. Form **1040** (2018)

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QUESTIONS?

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