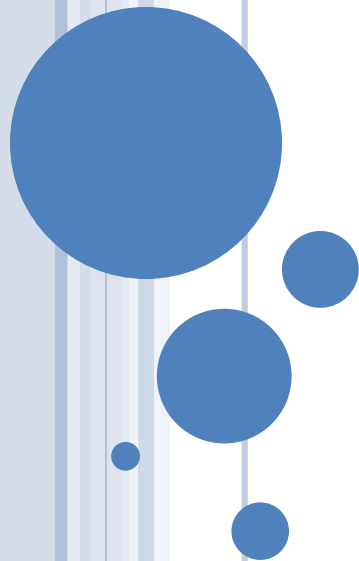




Chemel Kornick & Mooney, LLC
Certified Public Accountants

Navigating the Complexities of Tax Simplification



PART 1
TAX CUTS & JOBS ACT
(TCJA)

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

PERSONAL EXEMPTIONS 2017 vs. CURRENT

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

TAX BRACKET (MFJ)

2017 vs. CURRENT

2017 Bracket	Rate
\$0 - \$18,650	10%
\$18,650 - \$75,900	15%
\$75,900 - \$153,100	25%
\$153,100 - \$233,350	28%
\$233,350 - \$416,700	33%
\$416,700 - \$470,700	35%
> \$470,700	39.6%

Current Bracket	Rate
\$0 - \$19,050	10%
\$19,050 - \$77,400	12%
\$77,400 - \$165,000	22%
\$165,000 - \$315,000	24%
\$315,000 - \$400,000	32%
\$400,000 - \$600,000	35%
> \$600,000	37%

TAX BRACKET (SINGLE)

2017 vs. CURRENT

2017 Bracket	Rate
\$0 - \$9,325	10%
\$9,325 - \$37,950	15%
\$37,950 - \$91,900	25%
\$91,900 - \$191,650	28%
\$191,650 - \$416,700	33%
\$416,700 - \$418,400	35%
> \$418,400	39.6%

Current Bracket	Rate
\$0 - \$9,525	10%
\$9,525 - \$38,700	12%
\$38,700 - \$82,500	22%
\$82,500 - \$157,500	24%
\$157,500 - \$200,000	32%
\$200,000 - \$500,000	35%
> \$500,000	37%

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)

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

ITEMIZED DEDUCTIONS

2017 vs. CURRENT

2017	Item	Current
<p>“Pease Limitation” or “3%/80% rule”</p>	Overall Limitation	Suspended for tax years beginning after 12/31/17 and before 1/1/2026
<p>>10% of AGI</p> <p>For tax years beginning after 12/31/12 and ending before 1/1/17 - >7.5% for taxpayers age 65 or older</p>	Medical Expenses	<p>For tax years beginning after 12/31/16 and ending before 1/1/19 >7.5% of AGI</p> <p>For tax years ending after 12/31/18 >10% of AGI</p>
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

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

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

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

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.

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

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>

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

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>

C - CORPORATION TAX RATES – 2017 vs. CURRENT

2017 Bracket	Rate
< \$50,000	15%
	20%
\$50,001 - \$75,000	25%
\$75,001 - \$10,000,000	34%
>\$10,000,000	35%

Current Rate
For tax years beginning after 12/31/17, the tax rate is a flat 21% rate

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.

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.

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

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

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

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

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

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.

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)

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

PART 2 NEW FORM 1040

NEW 1040 – A BRIEF WALKTHROUGH

Form	1040	Department of the Treasury—Internal Revenue Service (99)	2018	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
Filing status: <input type="checkbox"/> Single <input type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)					
Your first name and initial		Last name		Your social security number	
Your standard deduction: <input type="checkbox"/> Someone can claim you as a dependent <input type="checkbox"/> You were born before January 2, 1954 <input type="checkbox"/> You are blind					
If joint return, spouse's first name and initial		Last name		Spouse's social security number	
Spouse standard deduction: <input type="checkbox"/> Someone can claim your spouse as a dependent <input type="checkbox"/> Spouse was born before January 2, 1954 <input type="checkbox"/> Full-year health care coverage or exempt (see inst.) <input type="checkbox"/> Spouse is blind <input type="checkbox"/> Spouse itemizes 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.	Presidential Election Campaign (see inst.) <input type="checkbox"/> You <input type="checkbox"/> Spouse
City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6.					If more than four dependents, see inst. and <input checked="" type="checkbox"/> here <input type="checkbox"/>
Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> 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"/>
				<input type="checkbox"/>	<input type="checkbox"/>
Sign Here Under penalties 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.					
Joint return? See instructions. Keep a copy for your records.	Your signature		Date	Your occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.) <input type="text"/>
	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.) <input type="text"/>
Paid Preparer Use Only	Preparer's name		Preparer's signature		PTIN
	Firm's name ▶		Firm's EIN		Phone no.
	Firm's address ▶		Check if: <input type="checkbox"/> 3rd Party Designee <input type="checkbox"/> Self-employed		

NEW 1040 - A BRIEF WALKTHROUGH

Form 1040 (2018)

Page **2**

Attach Form(s) W-2. Also attach Form(s) W-2G and 1099-R if tax was withheld.

Standard Deduction for --

- Single or married filing separately, \$12,000
- Married filing jointly or Qualifying widow(er), \$24,000
- Head of household, \$18,000
- If you checked any box under Standard deduction, see instructions.

1	Wages, salaries, tips, etc. Attach Form(s) W-2	1	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRAs, pensions, and annuities	4a	
5a	Social security benefits	5a	
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 inst) (check if any from: 1 <input type="checkbox"/> Form(s) 8814 2 <input type="checkbox"/> Form 4972 3 <input type="checkbox"/>)	11	
12	b Add any amount from Schedule 2 and check here <input type="checkbox"/>	12	
13	a Child tax credit/credit for other dependents b Add any amount from Schedule 3 and check here <input type="checkbox"/>	13	
14	Subtract line 12 from line 11. If zero or less, enter -0-	14	
15	Other taxes. Attach Schedule 4	15	
16	Total tax. Add lines 13 and 14	16	
17	Federal income tax withheld from Forms W-2 and 1099	17	
18	Refundable credits: a EIC (see inst.) b Sch 8812 c Form 8863 Add any amount from Schedule 5	18	
19	Add lines 16 and 17. These are your total payments	19	
20a	If line 18 is more than line 15, subtract line 15 from line 18. This is the amount you overpaid	20a	
21	Amount of line 19 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	21	
22	Refund Direct deposit? <input type="checkbox"/> See instructions. b Routing number c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings d Account number	22	
23	Amount of line 19 you want applied to your 2019 estimated tax	23	
24	Amount You Owe 22 Amount you owe . Subtract line 18 from line 15. For details on how to pay, see instructions	22	
25	23 Estimated tax penalty (see instructions)	23	

Go to www.irs.gov/Form1040 for instructions and the latest information.

Form **1040** (2018)

QUESTIONS?



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