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On Friday December 22, 2017, President Donald Trump signed into law the Tax Cuts and Jobs Act. The new law contains sweeping tax reform, the likes which we haven't seen in over 30 years. The majority of the provisions in the new tax law don't take effect until 2018, but it is important to be aware of the changes as your 2017 tax returns are prepared and you start planning for 2018. To help with the planning process, the following are some of the main provisions included in the new tax law that will affect most business and individual taxpayers:

Business Tax Provisions:

Unless specified below, the following provisions are for tax years beginning after December 31, 2017 and do not have a sunset provision.

C Corporation Rates – C corporations will be subject to a flat 21% income tax rate. This new rate also applies to C Corporations that are personal service corporations.

Corporate AMT – Corporate AMT has been repealed.

Business Interest Deduction Limitation – In general, business interest expense is limited to the total of, business interest income, 30% of the taxpayer's adjusted taxable income and floor plan financing interest for the tax year. The limitation applies at the entity level for Partnerships and S Corporations. Interest that is not deductible can be carried over to subsequent tax years. A small taxpayer exception does exist for taxpayer's with average annual gross receipts of $25,000,000 over the three prior tax years. Due to the complexity of this provision, please contact Packer Thomas for further analysis of this new provision.

Net Operating Losses – Except for qualified farming businesses, net operating loss carrybacks are no longer allowed. Qualified farming businesses will now be able to carryback a loss two years instead of five years. Net operating losses can be carried forward indefinitely, but are limited to 80% of taxable income.

Depreciation – Significant changes were made to how businesses can write off their capital assets and improvements. The following are some of the main provisions that changed:

Section 179 – Expensing limit was increased to $1,000,000 with a new phase-out threshold of $2,500,000. These amounts will be indexed for inflation after tax year 2018. The definition of Section 179 property has expanded to include property such as roofs, heating, ventilation and air-conditioning property.

Qualified Improvement Property – This property type is now combined into one single category and is generally depreciated over 39 years using the straight line method and half year convention.

Bonus Depreciation – A 100% first year deduction is allowed for property acquired pursuant to a written contract entered into after September 27, 2017 and before January 1, 2023. In later years, the first-year bonus depreciation phases down as follows:

Placed in Service Year	Qualified Property in General	Longer Production Period Property and Certain Aircraft
2023	80%	100%
2024	60%	80%
2025	40%	60%
2026	20%	40%
2027	None	20%

The first-year bonus depreciation sunsets after 2026 for most qualified property.

Farming Businesses – Cost recovery period for machinery and equipment has been reduced from 7 years to 5 years. In addition, 200% declining balance method can be used on farm property that has a 10 year asset class life or less instead of 150% declining balance method. The 150% declining balance method will still apply to 15 and 20 year property.

Accounting Methods for Small Taxpayers – The new tax law expands the scope of businesses that are eligible to use the cash method of accounting. It allows taxpayers with annual average gross receipts of $25,000,000 or less over the three prior tax years to use the cash method of accounting. In addition, businesses that keep inventories are eligible for cash method of accounting if they meet the gross receipts test.

Like-Kind Exchanges – The deferral of gain from like-kind exchange transactions under Section 1031 has been limited to real property that is not held primarily for sale.

Individual Tax Provisions:

Unless specified below, the following provisions are for tax years beginning after December 31, 2017 and are scheduled to expire for tax years starting January 1, 2026.

Tax Brackets – The new law maintains 7 different individual income tax rates. The rates range from 10% to 37%.

Capital Gain Rates – The capital gain rates remain unchanged.

Standard Deduction – The deduction was substantially increased to the following amounts based on filing status:

Filing Status	Standard Deduction
Married filing joint	$24,000
Head of Household	$18,000
Single & Married filing separately	$12,000

The new law maintained the additional standard deduction for the blind and elderly.

Personal Exemptions – Personal exemptions have been eliminated.

Child Tax Credit – To help offset the loss of personal exemptions, the child tax credit was increased from $1,000 to $2,000. The refundable component of the credit is now $1,400. The credit begins to phase out for married filing joint taxpayers with adjusted gross income of $400,000 and $200,000 for all other taxpayers.

Medical Expenses – For tax years beginning after December 31, 2016 and ending before January 1, 2019, taxpayers can deduct medical expenses if they exceed 7.5% of the taxpayer's adjusted gross income. For tax years ending after December 31, 2018, medical expenses can be deducted if they exceed 10% of the taxpayer's adjusted gross income.

State & Local Taxes – State and local income or sales taxes and property tax deductions are limited to a total of $10,000 for married filing joint taxpayers and $5,000 for single and married filing separate taxpayers.

Mortgage Interest – Mortgage interest deduction will be limited to interest on $750,000 of acquisition indebtedness. Mortgages existing on or before December 15, 2017 will be grandfathered under the previous threshold of $1,000,000.

The interest deduction for home equity indebtedness has been repealed. Due to interest tracing rules, this interest would not be deductible if refinanced and rolled into primary mortgage.

Miscellaneous Itemized Deductions – Miscellaneous itemized deductions subject to 2% adjusted gross income limitation have been repealed. These deductions include, but are not limited to, unreimbursed employee business expenses, uniforms, tax preparation fee and investment expenses.

Charitable Contributions – The adjusted gross income limitation for gifts of cash to public charities and certain other charitable organizations has been increased from 50% to 60%.

Moving Expenses – Moving expenses have been suspended except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order and incident to a permanent change of station.

Alimony – For any divorce or separation agreements entered into after December 31, 2018 alimony payments will no longer be deductible by payer nor will they be taxable by the recipient.

Excess Business Loss – The excess farm loss rules have been repealed and replaced with a new loss limitation for all non C corporation businesses. The business loss limitation is $500,000 for married filing joint taxpayers and $250,000 for single taxpayers. Any excess loss is carried forward to the next tax year and is treated as part of the taxpayer's net operating loss carryforward. If the taxpayer has multiple business activities, these are aggregated together first, before determining if there is an excess loss.

Qualified Business Income Deduction – The deduction is generally 20% of a taxpayer's qualified business income from a form of business other than a C Corporation. The deduction has phase-outs based on taxable income and is subject to limitations based on W-2 wages and adjusted basis of qualified property. Due to the complexity of this provision, please contact Packer Thomas for further analysis on the benefits and limitations of this new provision.

Individual AMT – The law retains the alternative minimum tax for individuals, but with a higher exemption amounts and phase-out thresholds. Both amounts are indexed for inflation.

	Single Taxpayers	Married Filing Joint Taxpayers
Exemption	$70,300	$109,400
Phase-out thresholds	$500,000	$1,000,000

ACA Mandate – The shared responsibility payment will no longer be required after 2018 and there will no longer be a penalty assessed to maintain minimum essential medical insurance coverage.

Estates:

The estate tax exemption was increased from $5,490,000 in 2017 to $11,200,000 in 2018. This amount will be indexed for inflation going forward. The new exemption is set to expire after 2025 and will revert to pre-2018 law.

Due to the extent of changes made and their complexity, this tax law isn't something that should be taken likely. The above items are just a sample of what is included in the new tax law. If you would like to discuss how these provisions or other aspects on the new law will affect you personally or your business, please contact:

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