Tax Cuts and Jobs Act: Tax Reform 2017
Selected Items for Discussion

Guido van der Hoeven, EA
Extension Specialist / Sr. Lecturer
Dept. Agricultural and Resource Economics
NC State University

HMMMM…..

The difference between death and taxes is death doesn't get worse every time Congress meets.

-- Will Rogers

Tax Management Objectives

- After tax profit maximization is the objective.
- Must consider tax as a cost, like any other cost of doing business.
- Do not let the tax tail wag the business dog – minimizing taxes can and often will result in over-investment in capital assets.
- Tax management = minimum legal tax
- Tax evasion = Jail

Baseline 2017

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2017** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2017, or other tax year beginning , 2017, ending , 20 See separate instructions.

Your first name and initial	Last name	**Your social security number**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing Status

Check only one box.

1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) (see instructions)

Exemptions

6a ☐ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a . . . . . .
b ☐ **Spouse** . . . .

Boxes checked on 6a and 6b

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
- **lived with you**
- **did not live with you due to divorce or separation (see instructions)**

Dependents on 6c not entered above

d Total number of exemptions claimed . . . .

Add numbers on lines above ▶

NC COOPERATIVE EXTENSION

Baseline 2017

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2		7
	8a	**Taxable** interest. Attach Schedule B if required		8a
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	b	**Tax-exempt** interest. **Do not** include on line 8a	8b	
	9a	Ordinary dividends. Attach Schedule B if required		9a
	b	Qualified dividends	9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes		10
	11	Alimony received		11
	12	Business income or (loss). Attach Schedule C or C-EZ		12
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13
If you did not get a W-2, see instructions.	14	Other gains or (losses). Attach Form 4797		14
	15a	IRA distributions	15a	b Taxable amount 15b
	16a	Pensions and annuities	16a	b Taxable amount 16b
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17
	18	Farm income or (loss). Attach Schedule F		18
	19	Unemployment compensation		19
	20a	Social security benefits	20a	b Taxable amount 20b
	21	Other income. List type and amount		21
	22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22
Adjusted Gross Income	23	Educator expenses	23	
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24	
	25	Health savings account deduction. Attach Form 8889	25	
	26	Moving expenses. Attach Form 3903	26	
	27	Deductible part of self-employment tax. Attach Schedule SE	27	
	28	Self-employed SEP, SIMPLE, and qualified plans	28	
	29	Self-employed health insurance deduction	29	
	30	Penalty on early withdrawal of savings	30	
	31a	Alimony paid **b** Recipient's SSN ▶	31a	
	32	IRA deduction	32	
	33	Student loan interest deduction	33	
	34	Tuition and fees. Attach Form 8917	34	
	35	Domestic production activities deduction. Attach Form 8903	35	
	36	Add lines 23 through 35		36
	37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2017)

NC COOPERATIVE EXTENSION

Baseline 2017

	38	Amount from line 37 (adjusted gross income)	38	
Tax and Credits	39a	Check if: ☐ **You** were born before January 2, 1953, ☐ Blind. ☐ **Spouse** was born before January 2, 1953, ☐ Blind. **Total boxes checked ▶ 39a** ☐		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
Standard Deduction for—	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	
• People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.	41	Subtract line 40 from line 38	41	
• All others:	42	**Exemptions.** If line 38 is $156,900 or less, multiply $4,050 by the number on line 6d. Otherwise, see instructions	42	
Single or Married filing separately, $6,350	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
Married filing jointly or Qualifying widow(er), $12,700	44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐	44	
Head of household, $9,350	45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962	46	
	47	Add lines 44, 45, and 46 ▶	47	
	48	Foreign tax credit. Attach Form 1116 if required	48	
	49	Credit for child and dependent care expenses. Attach Form 2441	49	
	50	Education credits from Form 8863, line 19	50	
	51	Retirement savings contributions credit. Attach Form 8880	51	
	52	Child tax credit. Attach Schedule 8812, if required	52	
	53	Residential energy credits. Attach Form 5695	53	
	54	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	54	
	55	Add lines 48 through 54. These are your **total credits**	55	
	56	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- ▶	56	
	57	Self-employment tax. Attach Schedule SE	57	

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"Tax Cuts and Jobs Act"

- December 22, 2017, President Trump signed H.R. 1, the "Tax Cuts and Jobs Act" into law which now changes the taxation landscape for individuals and businesses.

- Purpose: reduce taxes but broaden the tax base to increase overall revenues

- Talk topics: Overview of changes:
  - Individual
  - Business

Individual Changes

- Tax rates have changed and brackets broadened:
  - 2017: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%
  - 2018: 10%, 12%, 22%, 24%, 32%, 35%, and 37%

  - Rate changes are effective for tax years beginning after December 31, 2017 and before January 1, 2026

  - Estates and Trusts: 10%, 24%, 35% and 37%
    - At $12,500 of taxable income goes to 37%

NC COOPERATIVE EXTENSION

Tax Rate Comparison for Married Filing Joint

Old Law		TCJA	
Rate	Break Point	Rate	Break Point
10%	>$0	10%	>$0
15%	>$19,050	12%	>$19,050
25%	>$77,400	22%	>$77,400
28%	>$156,150	24%	>$165,000
33%	>$237,950	32%	>$315,000
35%	>$424,950	35%	>$400,000
39.6%	>$480,050	37%	>$600,000

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Individual Changes

- Standard Deduction increased for tax years beginning after December 31, 2017 and before January 1, 2026
  - MFJ $24,000
  - Head-of-Household $18,000
  - Single / MFS $12,000
  - No changes to additional deduction amount for elderly or blind ($1,050 or $1,550 dependent upon filing status)

Individual Changes

- Personal Exemptions are SUSPENDED
  - For Tax years beginning after December 31, 2017 and before January 1, 2026.
  - Effectively reduces the exemption amount to zero.

  - 2017 was $4,050 per exemption
  - 2018 was to be $4,150 per exemption, but the TCJA zeroed it

Better off Tax wise?

Married Couple Filing Joint (no dependents)

	Old Law	TCJA
• Adj Gross Inc	100,000	100,000
• Std Deduction	13,000	24,000
• Exemption	8,300	0
• Taxable Income	78,700	76,000
• Tax Due	10,983	8,739

Individual Changes

- Child Tax Credit
  - New law increases to $2,000 from $1,000 for each qualifying child under 17 years of age.
    - AGI phase outs apply (MFJ $400,000)
    - Refundable amount increased to $1,400 per qualifying child
    - SSN required for each child
  - Non-child dependent was added under the new law for an amount of $500.

Better off Tax wise?

Married Couple Filing Joint w/2 children

	Old Law	TCJA
• Adj Gross Inc	100,000	100,000
• Std Deduction	13,000	24,000
• Exemption	16,600	0
• Taxable Income	70,400	76,000
• Tax before Credit	9,608	8,739
• Child Tax Credit	2,000	4,000
• Tax Due	7,747	4,739

Individual Changes

- Kiddie Tax Modified:
  - Beginning for tax years after December 31, 2017 taxable **earned** income is taxed at single individual rates; and
  - Taxable income that is derived from unearned sources (if > $2,100 from portfolio, capital gains, etc.) are taxed according to estate and trust income tax brackets.
    - Estates and Trusts: 10%, 24%, 35% and 37%
    - At $12,500 of taxable income goes to 37%

Individual Changes

- Capital Gains rates are retained:
  - 0%, 15%, and 20%
  - The new law maintains the breakpoints of the old law, but uses the chained CPI-U indexing for inflation for tax years after December 31, 2017.
  - 2018: 15% breakpoint is $77,200 MFJ

    20% breakpoint is $479,000 MFJ

Capital Gain is the gain in excess of what you paid for an asset or investment

Individual Changes

- Personal Casualty and Theft Losses
- For tax years beginning after December 31, 2017 and before January 1, 2026,
  - Are suspended, except for personal casualty losses incurred in a Federally-declared disaster.

Individual Changes

- Itemized Deduction Changes for tax years beginning after December 31, 2017 and before January 1, 2026:
  - A Taxpayer may deduct State, Local and foreign property taxes, and State and local income taxes to a cap of $10,000 or $5,000 (MFS)
  - Mortgage Interest is allowed subject to indebtedness limitations $750,000 ($375,000 MFS)
  - Home equity mortgage interest deduction is suspended.
  - NOTE: Business Property Taxes are STILL deductible

Individual Changes

- Charitable Contribution Deduction Limitation Increased
  - Beginning for tax years after December 31, 2017 and before January 1, 2026, the contribution limit is increased to 60%.
    - Example: AGI = $100,000, limit is now $60,000, any carry over of excess contributions can be carried forward five years.

The rule for contemporaneous written acknowledgment (CWA) has been repealed for tax years beginning after December 31, 2016.

Suspended Deductions

- Alimony Deduction after December 31, 2018
- Miscellaneous Itemized Deductions (2% floor)
  - Investment fees
  - Hobby expenses
- Tax Preparation expenses
- Moving Expense Reimbursements
- Home Office deduction
- Moving Expenses Deduction unless military
- Unreimbursed Employee Expenses (travel, meals, uniform, job search, etc)

Estate and Gift Tax

- Gift Tax Exclusion Amounts for tax years beginning after December 31, 2017 and before January 1, 2026:
  - Annual Exclusion $15,000
  - Lifetime Exclusion: $11.18 million ($22.36 per married couple)
- Step-up to FMV is retained
- Estate Exclusion Amount for tax years beginning after December 31, 2017 and before January 1, 2026:
  - $11.18 million ($22.36 per married couple)

Tax Reform Implications for Businesses

- C-corporation Changes
  - Flat tax at 21% (for those in 15% an increase of 40%)
  - Dividends-received deduction percentage decreased to 65% from 80%
  - Corporate AMT is repealed for tax years beginning after Dec 31, 2017.

Tax Reform Implications for Businesses

- Expensing and Depreciation
  - Section 179 increased to $1 million with investment limit of $2.5 million (Many states do not conform)
  - SUVs limited to $25,000
    - Full size crew cab ½ Ton pickups with a short box are SUVs by definition.
  - Qualified Real Property allowed
    - Roofs, HVAC, fire protection, security and alarm systems

Tax Reform Implications for Businesses

- First-year (Bonus) Depreciation
  - 100% first-year depreciation (Sept 27, 2017 – Dec 31, 2022) Now allowed for new and **<u>used</u>** property
  - 80% 2023
  - 60% 2024
  - 40% 2025
  - 20% 2026
  - Bonus sunsets after December 31,2026

  <u>Many states do not conform to Bonus</u>

Tax Reform Implications for Businesses

- New Farming and Machinery Depreciation
  - For property placed into service after December 31, 2017:
  - Cost recovery period is now 5 years for **<u>new</u>** machinery and equipment; **<u>used</u>** is still 7 years
  - Grain bins, fences, cotton ginning equipment, and land improvements are 7 year assets.
  - 200% declining balance is to be used on 3-, 5-, 7- and 10-year property
  - 150% declining balance on 15 and 20 year property

Tax Reform Implications for Businesses

- Limits on Deduction of Business Interest
  - Beginning after December 31, 2017, every business, regardless of form, is generally subject to a disallowance of a deduction of net interest expense in excess of 30% of the business's adjusted taxable income.
  - This is determined at the tax filer level.
  - However, for pass-through entities, the determination is made at the entity level.

Tax Reform Implications for Businesses

- Limits on Deduction of Business Interest
  - An exemption from these rules applies for taxpayers with average gross receipts for a three-tax year period ending with the prior taxable year that do not exceed $25 million.
  - Farming businesses can elect out if they use ADS to depreciate any property used in the farming business with a recovery period of ten years or more.
    - Single purpose structures (poultry / hog houses)

Tax Reform Implications for Businesses

- Modification of Net Operating Loss Deduction
  - Generally the carry-back provisions are repealed and replaced carry forward with deduction limited to 80% of taxable income.
  - For Farmers, the 5-year carry back is modified to 2-year carry-back and then any remaining NOL can be carried forward indefinitely.
  - For losses created in tax years beginning after December 31, 2017, the NOL deduction is limited to 80% of taxable income. Carryovers are subject to this limitation too.

Tax Reform Implications for Businesses

- Domestic Production Activities Deduction (DPAD) is repealed

- DPAD replaced with Section 199A 20% deduction discussed below

- In March the "Grain Glitch" was fixed by Congress.

Code Section 199A

- Income from Pass-Through **Entities**
  - For tax years beginning after December 31, 2017 and before January 1, 2026 a new deduction is added.
  - Sec. 199A “Qualified Business Income” (QBI), from Partnership, S-corp, LLC, sole proprietor is allowed to generally deduct 20% of QBI (farm profit) subject to W-2 wage limitations, except for sole proprietors, the greater of
    - 50% of W-2 wages with respect to the QBI
    - 25% of W-2 wages plus 2.5% of unadjusted basis of “qualified property” acquired in the tax year.

Code Section 199A - QBI

Qualified Business Income

- Farm net income (less coop dividends)
- Plus depreciation recap on sales of farm assets
- Plus cash rent income
- Less any capital gain on sale of farm assets

Code Section 199A - QBI

Qualified Business Income – Deduction

- Deduction on 1040 after itemized deductions
- Does not reduce Adjusted Gross Income
- Does not reduce self-employment tax
- Does reduce federal taxable income (20% reduction of business income from taxable income)
- States will either conform or opt out

Tax Reform Implications for Businesses

- Like-Kind Exchanges are now LIMITED
  - Generally, for tax years beginning after December 31, 2017, like-kind exchanges are going to be allowed for real property that is not held primarily for sale (inventory)
  - Therefore, in the future, trades of equipment and machinery will be a two-step transaction:
    - Sale of traded in item at trade allowance (FMV)
    - Purchase of new item (higher basis) can use Section 179 expense or Bonus depreciation to offset tax consequence of sale.

Tax Reform Implications for Businesses

- Research and Experimentation expenses
  - Beginning for tax years after December 31, 2021, "specified R&E expenses" must be capitalized and amortized ratably over 5-year period beginning with the midpoint of the tax year in which these expense occur.

Tax Reform Implications for Businesses

- Employer's Deduction for Fringe Benefit Expenses Limited
  - Entertainment expenses are disallowed
  - The current 50% business meals deduction limit now includes "in-house cafeteria" or otherwise on the premises of the employer.
    - Not clear how this will impact farmers at this time.
    - The exclusion of income for employees for this and other such benefits is retained.

Where to from here?

- A "Technical Corrections Bill" is already in the works to address issues that emerged from the passage of the "Tax Cuts and Jobs Act".
- The Treasury Department must issue rules and regulations pertinent to the new tax law, which are forthcoming.
- IRS will be gearing up…but they, too, are adjusting to a "new reality" as of December 22, 2017.

Questions?

- Thank you for your attention!!

Guido van der Hoeven, EA
Extension Specialist / Senior Lecturer
Email: gvanderh@ncsu.edu
Phone: 919.515.9071
Fax: 919.515.6268