Dear Client:

Well, for better or worse we finally have a tax reform bill. As I am sure most of you have heard, The Senate passed the bill, and the House passed the bill yesterday. Unfortunately, it was not until late day before yesterday that we received a complete summary of the entire bill. We received a simplified summary of the Bill late yesterday. In an attempt to inform everyone as soon as possible, we are sending this summary now and as we learn and interpret more, we will be back in touch.

Important, many of these changes are only temporary and most expire on January 1, 2026 and start with tax years beginning after December 31, 2017.

For now, what you need to know ASAP!

- If you usually pay Alternative Minimum Tax (AMT), in general it does NOT benefit you to prepay your personal or 2nd home property taxes early or to prepay your January 15, 2018 estimated tax payment or expected 2017 balance due before year end.
- If you normally do NOT pay AMT, call us and we can look at your 2016 return to see if is potentially worth it for you to prepay your property taxes and state income taxes before year end.
- Pay any moving expenses related to a job in 2017 (the deduction is eliminated in 2018).
- If you are buying a vehicle that weighs LESS than 6000lbs, wait to buy a business vehicle until 2018 (depreciation on luxury autos goes up substantially in 2018).
- Prepay unreimbursed employee business expenses if your employer does not have a reimbursement plan, (the deduction is eliminated in 2018).

Here is a general summary of changes to the tax bill that we know will affect our clients.

- **Individual rates will range from 10% to 37%, and the corporate tax rate will be 21%, (this does not apply to pass-through entities like S-Corporations, Partnerships and Trusts;**
    - New law. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, seven tax brackets apply for individuals: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- **The Act also provides four tax brackets for estates and trusts: 10%, 24%, 35%, and 37%;**
- **The standard deduction is increased and personal and dependent exemptions are eliminated;**
    - For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the standard deduction is increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other taxpayers, adjusted for inflation in tax years beginning after 2018. No changes are made to the current-law additional standard deduction for the elderly and blind.
    - Dependency deduction have been completely suspended until 2026.
- **The Child Tax Credit is enhanced and a new Family Tax Credit is enacted;**
    - For tax years beginning after Dec. 31, 2017, the taxable income of a child attributable to earned income is taxed under the rates for single individuals, and taxable income of a child attributable to net unearned income is taxed according to the brackets applicable to trusts and estates (see above).

- For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the child tax credit is increased to $2,000, the income levels at which the credit phases out are increased to $400,000 for married taxpayers filing jointly ($200,000 for all other taxpayers) and The amount of the credit that is refundable is increased to $1,400 per qualifying child, and this amount is indexed for inflation, up to the base $2,000 base credit amount.

- **Deduction for Personal Casualty & Theft Losses Suspended;**
  - For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the personal casualty and theft loss deduction is suspended, except for personal casualty losses incurred in a Federally-declared disaster
- **2016 "Net Disaster Loss" Relief Available to Non-Itemizers & Taxpayers Subject to Alternative Minimum Tax (AMT);**
  - Effective for tax years beginning after Dec. 31, 2017, and before Jan. 1, 2026, if an individual has a net disaster loss for any tax year beginning after Dec. 31, 2017, and before Jan. 1, 2026, the standard deduction is increased by the net disaster loss.
  - The Act also provides that, if any individual has a net disaster loss for any tax year beginning after Dec. 31, 2017 and before Jan. 1, 2026, the AMT adjustment for the standard deduction doesn't apply to the increase in the standard deduction that is attributable to the net disaster loss.
  - 2016 disaster area. The Act provides tax relief relating to any "2016 disaster area," which means any area with respect to which a major disaster was declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act during calendar year 2016.
- **Mortgage interest deductions on personal residence and second homes will be limited to underlying indebtedness of up to $750,000 ($375,000 for married filing separate) and no deduction is allowed for equity debt;**
  - the deduction for interest on home equity indebtedness is suspended until December 31, 2025.
  - For tax years after Dec. 31, 2025, the prior $1 million/$500,000 limitations are restored, and a taxpayer may treat up to these amounts as acquisition indebtedness regardless of when the indebtedness was incurred.
- **Individuals may deduct a maximum of $10,000 in state income tax and/or property tax;**
  - A taxpayer may claim an itemized deduction of up to $10,000 ($5,000 for a married taxpayer filing a separate return) for the aggregate of (i) State and local property taxes not paid or accrued in carrying on a trade or business.
- **No Deduction For Amounts Paid For College Athletic Seating Rights;**
  - For contributions made in tax years beginning after Dec. 31, 2017, no charitable deduction is allowed for any payment to an institution of higher education in exchange for which the payer receives the right to purchase tickets or seating at an athletic event.
- **Alimony Deduction by Payor/Inclusion by Payee Suspended;**
  - For any divorce or separation agreement executed after Dec. 31, 2018, or executed before that date but modified after it (if the modification expressly provides that the new amendments apply), alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse.
- **No deduction is allowed for miscellaneous itemized deductions subject to the 2% floor;**
  - For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, and includes deductions for Unreimbursed Employee Business expenses, Union dues, Uniforms, Job Search, Tax Preparation, Certain Attorney Fees, Investment Advisory Fees, Safe Deposit box etc.

- **State income tax paid in 2017 for the 2018 tax year is not deductible**;
    - In other words, a taxpayer who, in 2017, pays an income tax that is imposed for a tax year after 2017, can't claim an itemized deduction in 2017 for that prepaid income tax.
- **Phase Out of Itemized Deductions is Suspended;**
    - Before the suspension, a higher-income taxpayers who itemized their deductions were subject to a limitation on these deductions. For taxpayers who exceed the threshold, the otherwise allowable amount of itemized deductions was reduced by 3% of the amount of the taxpayers' adjusted gross income exceeding the threshold. The total reduction couldn't be greater than 80% of all itemized deductions, and certain itemized deductions were exempt from the Pease limitation. For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the phase out on itemized deductions is suspended.
- **The exclusion for moving expense reimbursements and the moving expense deduction are generally eliminated;**
    - For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2026, the exclusion for qualified moving expense reimbursements is suspended, except for members of the Armed Forces on active duty (and their spouses and dependents) who move pursuant to a military order and incident to a permanent change of station.
- **Short-Term Reduction to Medical Expense Deduction Threshold;**
    - For tax years beginning after Dec. 31, 2016 and ending before Jan. 1, 2019, the threshold on medical expense deductions is reduced to 7.5% for all taxpayers.
    - In addition, the rule limiting the medical expense deduction for AMT purposes to 10% of Adjusted Gross Income doesn't apply to tax years beginning after Dec. 31, 2016 and ending before Jan. 1, 2019.
- **The Affordable Care Act (ACA) individual mandate is eliminated and the shared responsibility payment is $0;**
- **Alternative Minimum Tax (AMT) for individuals is retained but exemption amounts are increased, and the corporate AMT is repealed;**
- **The gift and estate tax is retained with an increased exemption amount;**
    - For estates of decedents dying and gifts made after Dec. 31, 2017 and before Jan. 1, 2026, the Act doubles the base estate and gift tax exemption amount from $5 million to $10 million. The $10 million amount if indexed for inflation occurring after 2011 and is expected to be approximately $11.2 million in 2018
- **IRC §179 expensing is increased;**
    - For property placed in service in tax years beginning after Dec. 31, 2017, the maximum amount a taxpayer may expense under Code Sec. 179 is increased to $1 million, and the phase-out threshold amount is increased to $2.5 million. For tax years beginning after 2018, these amounts (as well as the $25,000 sport utility vehicle limitation) are indexed for inflation. Property is not treated as acquired after the date on which a written binding contract is entered into for such acquisition.
    - "Qualified real property." The definition of Code Sec. 179 property is expanded to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging. The definition of qualified real property eligible for Code Sec. 179 expensing is also expanded to include the following improvements to nonresidential real property after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.
- **Bonus depreciation is increased;**

- A 100% first-year deduction for the adjusted basis is allowed for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. The additional first-year depreciation deduction is allowed for new and used property.
- 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.

- **Luxury Automobile Depreciation Limits Increased;**
  - For passenger automobiles placed in service after Dec. 31, 2017, in tax years ending after that date, for which the additional first-year depreciation deduction (Bonus Depreciation) is not claimed, the maximum amount of allowable depreciation is increased to: $10,000 for the year in which the vehicle is placed in service, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years in the recovery period. For passenger automobiles placed in service after 2018, these dollar limits are indexed for inflation. For passengers autos eligible for bonus first-year depreciation, the maximum first-year depreciation allowance remains at $8,000
- **Deductible business interest is reduced;**
  - For tax years beginning after Dec. 31, 2017, every business, regardless of its form, is generally subject to a disallowance of a deduction for net interest expense in excess of 30% of the business's adjusted taxable income. The net interest expense disallowance is determined at the tax filer level. However, a special rule applies to pass-through entitles, which requires the determination to be made at the entity level, for example, at the partnership level instead of the partner level.
  - For tax years beginning after Dec. 31, 2017 and before Jan. 1, 2022, adjusted taxable income is computed without regard to deductions allowable for depreciation, amortization, or depletion.
  - An exemption from these rules applies for taxpayers (other than tax shelters) with average annual gross receipts for the three-tax year period ending with the prior taxable year that do not exceed $25 million.
  - Real property trades or businesses can elect out of the provision if they use ADS to depreciate applicable real property used in a trade or business.
  - Farming businesses can also elect out if they use ADS to depreciate any property used in the farming business with a recovery period of ten years or more.
- **The Net Operating Losses (NOL) carryback is repealed and the NOL deduction amount is limited;**
  - For NOLs arising in tax years ending after Dec. 31, 2017, the two-year carryback and the special carryback provisions are repealed, but a two-year carryback applies in the case of certain losses incurred in the trade or business of farming.
  - For losses arising in tax years beginning after Dec. 31, 2017, the NOL deduction is limited to 80% of taxable income (determined without regard to the deduction). Carryovers to other years are adjusted to take account of this limitation, and, except as provided below, NOLs can be carried forward indefinitely.
  - NOLs of property and casualty insurance companies can be carried back two years and carried over 20 years to offset 100% of taxable income in such years.
- **The domestic production activities deduction is repealed;**
- **IRC §1031 treatment is limited to certain real property**;

  - Generally effective for transfers after Dec. 31, 2017, the rule allowing the deferral of gain on like-kind exchanges is modified to allow for like-kind exchanges only with respect to real property that is not held primarily for sale. However, under a transition rule, the pre-Act like-kind exchange rules apply to exchanges of personal property if the taxpayer has either disposed of the relinquished property or acquired the replacement property on or before Dec. 31, 2017.
- **Entertainment expenses are disallowed;**
  - For amounts incurred or paid after Dec. 31, 2017, deductions for entertainment expenses are disallowed, eliminating the subjective determination of whether such expenses are sufficiently business related; the current 50% limit on the deductibility of business meals is expanded to meals provided through an in-house cafeteria or otherwise on the premises of the employer; and deductions for employee transportation fringe benefits (e.g., parking and mass transit) are denied, but the exclusion from income for such benefits received by an employee is retained.
- **Recovery Period for Real Property Shortened;**
  - For property placed in service after Dec. 31, 2017, the separate definitions of qualified leasehold improvement, qualified restaurant, and qualified retail improvement property are eliminated, a general 15-year recovery period and straight-line depreciation are provided for qualified improvement property, and a 20-year ADS recovery period is provided for such property.
  - Qualified improvement property placed in service after Dec. 31, 2017, is generally depreciable over 15 years using the straight-line method and half-year convention, without regard to whether the improvements are property subject to a lease, placed in service more than three years after the date the building was first placed in service, or made to a restaurant building. Restaurant building property placed in service after Dec. 31, 2017, that does not meet the definition of qualified improvement property, is depreciable as nonresidential real property, using the straight-line method and the mid-month convention.
- **New Farming Equipment and Machinery Is 5-Year Property;**
  - For property placed in service after Dec. 31, 2017, in tax years ending after that date, the cost recovery period is shortened from seven to five years for any machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business, the original use of which commences with the taxpayer.
  - The required use of the 150% declining balance depreciation method for property used in a farming business (i.e., for 3-, 5-, 7-, and 10-year property) is repealed. The 150% declining balance method continues to apply to any 15-year or 20-year property used in the farming business to which the straight-line method does not apply, and to property for which the taxpayer elects the use of the 150% declining balance method.
- **A deduction is allowed for qualified business income for pass through entity owners; and**
  - This rule is VERY complicated on how the "deduction is computed.
  - It appears to NOT apply to certain pass through entities that are specified service industries (accounting, legal, professional, consulting, health, performing arts, athletics)
  - It does appear to apply to Engineers, Architects and Investment -type activities.
  - We will have to study this part of the bill in detail and get a separate letter out to all of you who are pass through entities.
- **Recharacterization to an IRA cannot be used to undo a Roth conversion.**

- For tax years beginning after Dec. 31, 2017, the rule that allows a contribution to one type of IRA to be recharacterized as a contribution to the other type of IRA does not apply to a conversion contribution to a Roth IRA. Thus, Recharacterization cannot be used to unwind a Roth conversion.

That is it for now until we have had a chance to read the bill in its entirety.

Please do not hesitate to let us know if you have any questions.

Nikki