TAX BILL SUMMARY

On December 20th, the final tax reform bill, titled Tax Cuts and Job Acts (TCJA) was approved by the House and the Senate and signed by the President on December 22. Most provisions are effective starting in the 2018 tax year. Many of the changes with respect to individuals were made temporary in order to meet budgetary requirements with no guarantee that a future Congress will extend them (generally expiring 12/31/25). Corporate changes are permanent.

For those interested, the House and Senate conference committee report (legislative text and Joint Committee on Taxation estimate) and the conference committee’s Explanatory Statement are both available for review and download.

Below are the changes that should have the most impact on WCOE members. It is not a comprehensive summary. This summary is for your information only. CWOE members should continue to consult their own accountants and tax advisors.

**Individuals**

- **Maintains seven tax brackets**, but at reduced rates, including a top marginal rate of 37 percent with the other rates being 10%, 12%, 22%, 24%, 32% and 35%. Provisions sunset at end of 2025. Note: Income levels will now be indexed to “chained CPI” which will result in a smaller rise in rate brackets.
- **Increases the standard deduction** to $12,000 for single filers, $18,000 for heads of household, and $24,000 for joint filers, while eliminating the additional standard deduction and the personal exemption. Provisions sunset at the end of 2025.
- **Retains the charitable contribution deduction**
- **Retains the mortgage interest deduction for acquisition**, but limited for new purchases to $750,000 in mortgage debt, while eliminating the deduction for equity debt. Current homeowners to keep current limitation of $1 million. Available for second homes. Reverts back to $1M in January 2026. (Note: Could hurt the housing industry).
- **Caps the state and local tax deduction at $10,000** (property plus choice of income or sales taxes, as under current law), except for taxes paid or accrued in carrying on a trade or business.
- **Medical expense deduction** – applies to expenses that exceed 7.5% of AGI in 2017 and 2018, and expenses that exceed 10% of AGI thereafter. The medical expense deduction threshold is lowered to 7.5 percent for 2018, and reverts to 10 percent thereafter. Eliminates other itemized deductions.
- **Increases the child tax credit to $2,000**. Of this, $1,400 would be refundable. All dependents ineligible for the child tax credit are eligible for a new $500 per-person family tax credit. Phase out begins at $400,000 ($200,000 for single filers). All provisions sunset at the end of 2025.
- **Retains but increases the exemption for the alternative minimum tax (AMT)** - Increases the exemption to $70,300 single/$109,400 MFJ and raises the phaseout threshold to $500,000 single/$1 million for joint filers. (Corporate AMT is repealed.)
- **Expands the use of 529 accounts to cover tuition for students in K-12 private school** up to $10,000 in distributions.
- **Retains retirement savings options such as 401(k)s and IRAs**. Changes conversion rules for Roth and IRA accounts.
- **Reduces the healthcare individual mandate penalty to $0 in 2019**, effectively repealing it
- **Net capital gains and qualified dividends would continue to be taxed at the current 0%, 15%, 20% rates and also would continue to be subject to the 3.8% net investment tax**
- **Repeals the moving expense deduction** (except for active duty military personnel)
- **Repeals all itemized deductions subject to the 2% floor** (home office, license and regulatory fees, professional dues)
- **Retains adoption credit**
- **Retains current law ownership period for the exclusion of gain** from the sale of a principal residence
- **Continues to allow deductions for student loan interest** and for qualified tuition and related expenses
Businesses (Focus on small business/construction industry businesses)

- Lowers the Corporate rate to 21% from 35% (effective January 1, 2018)
- Lowers and improves pass through tax rates for partnerships and S corps setting a 20% business income deduction of the first $315,000 income earned by a pass-through business
- Business interest deductions were capped at 30% of income but small businesses are exempt as long as they have average gross receipts of $25 million or less
- Eliminates the corporate ATM beginning after Dec. 31, 2017
- Estate tax exemption is doubled to $11.2 million per individual and increased for inflation
- Allows 100% expensing of machinery and equipment, for five years, then phases out the provision over the subsequent five—now includes used property
- Section 179 Expensing limit is increased to $1 million for new or used property and expands "qualified property" to include certain depreciable personal property used to furnish lodging and improvements to nonresidential real property including roofing, fire safety and HVAC equipment.
- Retains the historic preservation and rehab credits for construction and development – only for pre-1936 property
- Raises the cap to $10,000 for the first year on depreciation write-offs of business use vehicles
- Numerous business tax preferences are eliminated but does include a temporary credit for employers paying employees who are family and medical leave—expires 12-31-2019
- Eliminates net operating loss carrybacks but provides for indefinite net operating loss carryforwards, limited to 80% of taxable income for losses in tax years beginning after 2017
- Energy tax credits were not repealed
- Extends from 9 months to 2 years the period for bringing a civil suit for wrongful levy by the IRS
- Reduces the deduction for dividends received from other than certain small businesses or those treated as "qualifying dividends" from 70% to 50%.
- Retains current law for Work Opportunity Tax Credit, New Markets Tax Credit, Low Income Housing Tax Credit
- Limits meals and entertainment expenses, including meals for the convenience of the employer
- Repeals deduction for qualified transportation fringes, including commuting except as necessary for employee’s safety
- Cash method of accounting - Increases eligibility to businesses with up to $25 million in income;
- Eliminates deduction for certain fringe benefit expenses
- Business entertainment activities and membership dues; transportation or commuting expenses are not excludable from income or deductible by the employer
- Employee achievement awards may not be deducted or excluded from income if the award is paid in cash, gift cards, meals, lodging, tickets, securities, or other similar items
- No longer exempts employer-provided eating facilities from 50% deduction limitation; in 2026, deductions are completely disallowed for employer-provided eating facilities and meals provided for the convenience of the employer