



Tax Cuts and Jobs Act: Overview and Opportunities

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The Tax Cuts and Jobs Act overhauls the Internal Revenue Code and provides broad tax relief to many workers, families and businesses.

The law lowers tax rates for individual tax payers and businesses, increases tax deductions and credits, and eliminates or reduces various tax deduction and credits.

A typical family of four earning \$73,000 a year could receive a tax reduction of as much as \$2,000. Most of the provisions contained in the tax reform bill apply to tax year 2018 and future years through Dec. 31, 2025. This white paper offers a detailed breakdown of some of the major provisions in the Tax Cuts and Jobs Act and how they may impact your individual and business clients.

As your clients' trusted advisor, you can advise and help your individual and business clients save vital tax dollars. The Tax Cuts and Jobs Act provides additional opportunity to offer advisory and consultative services, and this white paper calls attention to these tax planning opportunities throughout.

Individual Taxes

Income Tax Rates and Brackets

Under prior law, an individual taxpayer's taxable income was taxed at a graduated rate of 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. The Tax Cuts and Jobs Act reduces the rates to 10%, 12%, 22%, 24%, 32%, 35% and 37%.

Tax Rate	Taxable Income			
	Single	Head of Household	Married Jointly	Married Separately
10%	\$0-\$9,525	\$0-\$13,600	\$0-\$19,050	\$0-\$9,525
12%	\$9,526-\$38,700	\$13,601-\$51,800	\$19,051-\$77,400	\$9,526-\$38,700
22%	\$38,701-\$82,500	\$51,801-\$82,500	\$77,401-\$165,000	\$38,701-\$82,500
24%	\$82,501-\$157,500	\$82,501-\$157,500	\$165,001-\$315,000	\$82,501-\$157,500
32%	\$157,501-\$200,000	\$157,501-\$200,000	\$315,001-\$400,000	\$157,501-\$200,000
35%	\$200,001-\$500,000	\$200,001-\$500,000	\$400,001-\$600,000	\$200,001-\$300,000
37%	>\$500,000	>\$500,000	>\$600,000	>\$300,000

Table 1. Tax Rates and Brackets Under the Tax Cuts and Jobs Act of 2017

As a result of the law changes, most taxpayers above the lowest 10% bracket will see a tax reduction compared to the rates under prior law.

Standard Deduction

Today, about 70% of taxpayers take the standard deduction and 30% itemize. The Tax Cuts and Jobs Act nearly doubles the standard deductions for every filing status in an attempt to help more taxpayers bypass itemizing. For 2018, the Tax Cuts and Jobs Act sets the standard deduction at:

- 24,000 for married individuals filing joint returns and surviving spouses
- \$18,000 for heads of households
- \$12,000 for single taxpayers and married individuals filing separately

Under prior law, standard deduction amounts were scheduled to be \$13,000 for married couples filing jointly and surviving spouses, \$9,550 for heads of households, and \$6,500 for single individuals and married individuals filing separately.

For a single taxpayer who claims the standard deduction, the increase represents a \$5,500 decrease in the amount of income subject to tax. For married couples filing jointly, the increased deduction shelters an additional \$11,000 from tax. However, when the elimination of personal and dependency exemptions are factored into the equation, those figures change dramatically.

Personal and Dependency Deductions

Year after year, taxpayers have routinely claimed personal and dependency exemption deductions for themselves, their spouses and their dependents—but not this year. The Tax Cuts and Jobs Act effectively repeals the exemption deductions by reducing the exemption amount to zero. This suspension is in place until 2026.

Tax Planning Opportunity

Higher standard deductions may provide an opportunity to help clients group certain deductions and itemize every other year to increase taxpayer deductions over two years.

Before the enactment of the Tax Cuts and Jobs Act, the exemption amount was scheduled to be \$4,150 for 2018. So, for a single taxpayer, the personal exemption would have sheltered \$4,150 from tax in 2018. And for a family of four, the elimination of personal exemptions potentially exposes as much as \$16,600 of income to tax in 2018.

Bear in mind that the personal and dependency exemptions are below-the-line deductions, taken after adjusted gross income.

Itemized Deductions

The Tax Cuts and Jobs Act makes a number of changes in the rules for taxpayers who itemize deductions. The new law bars write-offs of 2% miscellaneous itemized deductions and eliminates the overall limit on itemized deductions. Several changes are most likely to affect your clients who have claimed itemized deductions in prior years.

State and local tax deductions. For 2018, the new tax law places a \$10,000 limit on itemized deductions for state and local income and property taxes. The deduction limit is \$5,000 for married individuals filing separately. As in prior years, taxpayers can claim a deduction for state and local general sales taxes instead of deducting state and local income taxes; the \$10,000/\$5,000 deduction limit also applies to those taxes. In the past, there was no dollar limit on these deductions. For clients in high-tax states like California, New York, New Jersey and others, this limited deduction may have an impact on their taxes.

Tax Planning Opportunity

For high-tax states, the \$10,000 limit on itemized deductions for state and local income and property tax may make tax planning more complex for current clients and open the door for new clientele.

Mortgage interest deductions. Under prior law, taxpayers could claim a deduction for interest up to \$1 million (\$500,000 for married individuals filing separately) of acquisition indebtedness incurred to buy, build or substantially improve a main home and one other residence. In addition, a deduction was allowed for the interest on up to \$100,000 (\$50,000 for married individuals filing separately) of home equity debt.

The Tax Cuts and Jobs Act limits mortgage interest deduction to the interest on \$750,000 (\$375,000 for married individuals filing separately) of acquisition debt.

The reduction in the dollar cap for acquisition debt does not apply to debt incurred on or before Dec. 15, 2017, or certain debt incurred pursuant to a binding contract entered into before that date. Debt incurred before Dec. 15, 2017, that is refinanced may use the old law limits up to the balance due on the date of refinancing but must apply the new law on additional borrowings. If the refinancing extends the term of the loan, the new limits apply as well.



The deduction for interest paid on home equity loans and lines of credit is eliminated, unless they are used to buy, build or substantially improve the home of the taxpayer who secures the loan.

Charitable contributions. Starting in tax year 2018, your clients can get a bigger deduction for their charitable contributions. In tax year 2017, taxpayers were subject to a 50% limit for cash contributions to public charities and certain private foundations. The Tax Cuts and Jobs Act increased this limit to 60%.

Medical expense deductions. Under longstanding tax law rules, out-of-pocket medical expenses were deductible to the extent that they exceeded 7.5% of a taxpayer's adjusted gross income (AGI). Starting in 2012, a tax law change raised the deduction floor to 10% of AGI for most taxpayers, although the 7.5% floor continued to apply through 2016 if either the taxpayer or the taxpayer's spouse had reached age 65 before the end of the tax year. The deduction floor was scheduled to be 10% of AGI for all taxpayers for 2017 and later years. The Tax Cuts and Jobs Act of 2017 reduces the deduction floor to 7.5% of AGI for 2017 and 2018 only. After 2018, the deduction floor will reset to 10% for all taxpayers. Consequently, 2018 is the last year that your clients can take advantage of the lower deduction floor.



There are many other deductions affected by the Tax Cuts and Jobs Act. Below is a summary of a few of them:

- Moving expense deduction is suspended, except for members of the Armed Forces on active duty.

Tax Planning Opportunity

Clients whose medical expenses for 2018 are at or near 7.5% of AGI may be able to get a deduction by accelerating planned medical procedures or purchases into 2018. Clients whose expenses to date exceed the 7.5% deduction floor may want to shift medical expenses into 2018, especially if it's unclear whether expenses for 2019 will exceed 10% of AGI.

- Exclusion for moving expense reimbursements is suspended, except for members of the Armed Forces on active duty.
- Qualified bicycle commuting exclusion is suspended.
- Deduction for living expenses of Members of Congress while away from home is eliminated.
- Personal casualty and theft loss deduction is suspended, except those incurred in a federally-declared disaster.

Child Tax Credit

For taxpayers with children or other dependents, one of the most significant provisions in the Tax Cuts and Jobs Act may be the changes to the child tax credit. As under prior law, taxpayers can claim a child tax credit for each qualifying child under age 17.



However, the new law *doubles* the amount of the credit from \$1,000 to \$2,000 per child. For higher-income taxpayers, the new law also significantly raises the income levels at which the otherwise allowable credit is phased out. In the past, the total credit was reduced by \$50 for each \$1,000 (or fraction thereof) of income over \$110,000

for joint filers, \$75,000 for singles and heads of households, and \$55,000 for married individuals filing separately. Under the new law, the reduction of the credit does not begin until income exceeds \$400,000 on a joint return or \$200,000 on all other returns. Up to \$1,400 of credit per child is refundable for 2018.

It should be noted, however, that the new law does include one crackdown on the child tax credit. Starting in 2018, taxpayers claiming a child credit will have to show the child's Social Security number (SSN) on the return. In the past, a taxpayer could provide another tax identification number for a child without an SSN.

The Tax Cuts and Jobs Act also creates a new \$500 nonrefundable tax credit for dependents who do not qualify for the regular child tax credit, including children under 17 who do not have an SSN. The new credit is treated as part of the regular child credit in determining the amount of the credit reduction for higher-income taxpayers.

Alternative Minimum Tax

While the Tax Cuts and Jobs Act eliminated the Corporate Alternative Minimum Tax (AMT), it's retained for individuals. The exemption amounts for the AMT have been increased to \$109,400 for married filing jointly taxpayers, \$70,300 for single taxpayers, and \$54,700 for married filing separately taxpayers.

In addition, Congress also increased the phaseout threshold for the AMT exemption. In tax year 2017, the phaseout for joint filers began at \$160,900, and \$120,700 for other files. These amounts have been increased to \$1 million for joint filers and \$500,000 for other filers. Exemption amounts will be reduced by 25% of the amount by which the AMTI exceeds these thresholds. These changes are intended to reduce the number of taxpayers affected by the AMT.

Kiddie Tax

The Tax Cuts and Jobs Act made modifications to the Kiddie Tax. Previously, children under the age of 19 and college students under the age of 24 were taxed (above a certain threshold) at their parents' top marginal tax rate. Beginning in tax year 2018, the net unearned income of a child subject to the rules will be taxed at the rates that apply to trusts and estates, and be unaffected by the parents' tax rates. A child's earned income will be taxed at their own single filer rate.

Alimony

Under prior law, alimony and separate maintenance payments were deductible by the payer and includible in the income of the recipient. Under the Tax Cuts and Jobs Act, for divorce or separation agreements executed after Dec. 31, 2018 (or executed before that date and modified after), alimony and separate maintenance payments are not deductible by the payer and are not included in the income of the recipient.



Tax Planning Opportunity

Consider asking your clients about the income of their children under the age of 24 to find out if they are affected by the change in the Kiddie Tax. Add the question to your organizers and tax planning interviews as you prepare for next tax season.

IRS Wage Withholding

The IRS released an updated [Withholding Calculator](#) on IRS.gov and a new version of [Form W-4](#) to help taxpayers check their 2018 tax withholding following passage of the Tax Cuts and Jobs Act. You can use these tools to help ensure your clients have the right amount of tax taken out of their paychecks.

Affordable Care Act

Taxpayers are still required to have health insurance for 2018, but beginning in 2019, the Affordable Care Act shared responsibility payment will be eliminated.



What Didn't Change?

Much has changed with the Tax Cuts and Jobs Act, but a few things remain the same that are worth noting since different versions of the Tax Cuts and Jobs Act contained different provisions before passage and may cause confusion.

Capital gains rates and breakpoints. The Tax Cuts and Jobs Act didn't make changes to the capital gains rates; they remain at 0%, 15% and 20%.

Affordable Care Act surtaxes. The 3.8% net investment income tax and the 0.9% additional Medicare tax have been left in place.

Qualified Business Income Deduction (Sec. 199A)

The Tax Cuts and Jobs Act of 2017 did not break new ground in adding write-offs to the Tax Code—with one key exception. The new law creates a new deduction starting in 2018 and expiring on Dec. 31, 2025, for qualified business income from sole proprietorships, partnerships and S corporations.

In the simplest terms, the new deduction will shelter up to 20% of an eligible taxpayer's qualified business income from tax. However, the law is not that simple. The new deduction is subject to numerous qualification requirements, limitations and special rules.

Qualified Business Income, Defined

Qualified business income is the net amount of income, gain, deduction and loss from a qualified business, provided the items are effectively connected with the conduct of the business in the United States. However, specified investment items are not taken into account, including capital gains and losses, dividends or interest income. In addition, qualified business income does not include reasonable compensation received from an S corporation or a guaranteed payment from a partnership for services provided.

Who Qualifies: Eligibility and Limitations

The new deduction for qualified business income is generally available to sole proprietors as well as to partners, S corporation shareholders and limited liability company (LLC) members who receive pass-through income. Trusts and estates are also eligible for the 20% deduction rule. The deduction applies to income from a trade or business, but does not include a trade or business of being an employee.

Service business limitation. Specified service businesses that fall under the limitation are those that involve the performance of services in the following fields: health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, or any trade or business where the principal asset is the reputation or skill of one or more of its employee owners. Specified service businesses also include any business that involves the performance of services that consist of investing and investment management, trading or dealing in securities, partnership, interests or commodities.

However, taxpayers with income from specified service businesses can claim the new deduction if taxable income for the year is less than \$315,000 on a joint return or \$157,500 on all other returns. Moreover, a partial deduction remains available until taxable income reaches \$415,000 on a joint return or \$207,500 on other returns.

Taxable Income: Joint Filers	Taxable Income: Other Filers	20% Deduction
< \$315,000	<\$157,500	Full
\$315,000-\$415,000	\$157,500-\$207,500	Partial
>\$415,000	>\$207,500	None

Table 2. Service business limitation affect on filers by income under the Tax Cuts and Jobs Act of 2017

Wage limitation. A wage limitation on the deduction may apply to all businesses; it is based on either wages paid, or wages paid plus a capital element. Depending on taxable income, the deduction for qualified business income cannot exceed the greater of:

- 50% of the taxpayer’s allocable share of W-2 wages paid, or
- the sum of 25% of W-2 wages plus 2.5% of the unadjusted basis of certain qualified business property immediately after acquisition.

This wage limitation does not apply to taxpayers with taxable incomes below the \$157,500 (other filers) and \$315,000 (joint filers) thresholds.

Taxable Income: Joint Filers	Taxable Income: Other Filers	Wage Limit
< \$315,000	<\$157,500	Not applied
\$315,000-\$415,000	\$157,500-\$207,500	Partially applied
>\$415,000	>\$207,500	Fully applied

Table 3. Wage limitation affect on filers by income under the Tax Cuts and Jobs Act of 2017

Calculating the Deduction

The deduction is generally equal to 20% of qualified business income. The qualified business income deduction is a below-the-line deduction; it is not taken into account in determining adjusted gross income. However, the deduction can be claimed by non-itemizers in addition to the standard deduction.

On the other hand, the deduction is allowed only for income tax purposes. It does not reduce the amount of income subject to self-employment tax. The deduction cannot exceed 20% of the excess of taxable income over net capital gain.

If QBI is less than zero, it is treated as a loss from a qualified business in the following year.

Examples

Some examples may help clarify this complex law and the impact it may have on your small business clients.

Example 1. Courtney is single and operates a solo accounting practice. Courtney is self-employed and doesn't have any employees. In 2018, Courtney's practice nets \$100,000 in qualified business income, which is below the threshold for service businesses. Assuming Courtney's taxable income does not top \$157,500 and is above \$100,000 for 2018, her qualified business income deduction is \$20,000 (20% x \$100,000) for 2018.



Example 2. David owns a retail business in a partnership structure, where he has one part-time employee. He is married and files jointly. In 2018, his taxable income is \$420,000, and his share of net income from the business is \$130,000. The W-2 wages for his part-time employee are \$24,000. David is not in a service business, so he isn't subject to the service business limitation. His deduction for 2018 would be \$26,000 (20% x \$130,000), yet he is subject to the wage limitation. Instead, his deduction is limited to \$12,000 (50% x 24,000).



This summary of the qualified business income deduction should help you identify clients who may qualify for the new deduction. However, the deduction rules are extremely complex and subject to myriad special rules that may apply depending on a taxpayer's situation. The Tax Cuts and Jobs Act directs the IRS to issue regulations to implement the new deduction. Hopefully, those regulations will be forthcoming before tax practitioners will have to grapple with the deduction on 2018 returns. It is also anticipated that the IRS will issue specific forms and instructions for claiming the new deduction.

Tax Planning Opportunity

Changes to corporate rates and the AMT open the door for tax professionals to perform entity analyses to determine if their clients should organize as a pass-through entity, a C corporation or a combination.

Corporate/Business Taxes

Corporate Rates

Under prior law, corporations were taxed at graduated rates, from 15% to 35%. Personal service corporations, including tax and accounting professionals, were taxed at a flat rate of 35%.

Under the Tax Cuts and Jobs Act, your corporate clients will see a significant decrease in their income tax to a flat tax of 21%; this flat tax also applies to personal service corporations.

This is the lowest rate that corporations have been taxed since 1939 and a big simplification over prior graduated rates.



AMT

In addition, the Corporate AMT has been repealed. This is another significant milestone toward tax simplification for corporations. AMT credit carryovers are refundable and can offset regular tax liability at 50%.

Tax Planning Opportunity

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customers can enter 2018 assets in the 2017 program to create a next-year depreciation schedule – a great planning tool for you to use with your clients.

Bonus Depreciation

For all businesses, the Tax Cuts and Jobs Act significantly enhances bonus depreciation, which impacts the cost of new computer systems, software, vehicles, machinery, office furniture and more. Congress passed a 100% first-year deduction for property placed in service after Sept. 27, 2017, and before Jan. 1 2023, compared to 50% in prior year. The law expands this deduction to be allowed for new *and* used qualifying property.

Beginning in 2023, bonus depreciation is scheduled to be phased down by 20 percentage points per year and phase out after 2026.

In addition, Congress repealed the election to accelerate AMT credits in lieu of bonus depreciation.

Section 179 Expensing

The Tax Cuts and Jobs Act doubled the Section 179 limit from \$500,000 in prior years to \$1 million for qualified property in 2018. Qualified real property is expanded to include personal property used predominately to furnish lodging, roofs, HVAC property, fire protection, alarm systems and security systems.

Luxury Automobile Depreciation Limits

Another big gift for business is in the area of automobile depreciation limits. Under prior law, if bonus depreciation wasn't claimed, maximum depreciation increased to \$3,160; if bonus depreciation was claimed, the first year limited increased by an additional \$8,000.

Under the Tax Cuts and Jobs Act, the maximum depreciation increased to \$10,000 in the first year, \$16,000 in the second year, \$9,600 in the third year, and \$5,760 in the fourth and following years.

For automobiles eligible for bonus depreciation, the maximum first year depreciation increase remains at \$8,000.

First Year Luxury Auto Limits	2017 Max. Depreciation	2018 and Forward Max. Depreciation
Not claiming bonus depreciation	\$3,160	\$10,000
Claiming bonus depreciation	\$11,160	\$18,000

Table 4. Luxury automobile depreciation limits under the Tax Cuts and Jobs Act compared to 2017

Employer’s Deduction for Meals and Entertainment

Under the Tax Cuts and Jobs Act, entertainment expenses are no longer deductible after Dec. 30, 2017. In addition, the current 50% limit on deductibility of business meals is expanding to include meals provided through an in-house cafeteria or on the premises of the employer through 2025.

What You Can Expect from Intuit® ProConnect™

We know when there is a major change in tax legislation, you will need to spend more time helping your clients understand the impact. We created the [Tax Reform Resource Center](#) as a single source for news, tools and more that will help you and your clients prepare for the changes to come as a result of the Tax Cuts and Jobs Act. You can find information about continuing education webinars, articles with in-depth information about the new laws, tools summarizing the tax law to share with your clients, and product updates, with more to come. We hope that these steps make a difference for you and your clients and that we can be partners in your efforts.

In addition, our customers can rest assured that all Intuit ProConnect professional tax products are up to date with current tax laws. Since the Tax Cuts and Jobs Act will mainly impact 2018 taxes, we’ve implemented a number of tools within our products to help you and your clients plan for the future. Learn more about ProConnect solutions at <https://proconnect.intuit.com>, or call 1-877-682-4254. For information on how ProConnect Tax Online, the #1 cloud-based professional tax software, can support your firm during these changes, please visit intuitproconnect.com/PTOintheKnow.¹

1. The “#1 cloud-based professional tax software” statement is based on Intuit internal data of the number of paid users of ProConnect Tax Online for tax year 2016 (formerly called Intuit Tax Online) compared to publicly available statements from competitors for the same time period.

Additional Resources

- [IRS Tax Reform site](#)

The IRS is implementing the Tax Cuts and Jobs Act and is expected to provide additional information and guidance to the tax community as it becomes available. Stay tuned to the IRS website for updates and resources.

- [Intuit ProConnect Tax Reform Resource Center](#)

Intuit ProConnect will continue to update this site with news, tools, product updates and more to help you and your clients plan for tax reform.

- [Policy Highlights](#)

The House and Senate Conference Committee for the Tax Cuts and Jobs Act provided this two-page overview of policy highlights.

- [Joint Explanatory Statement](#)

Read the joint statement of the Conference Committee for the Tax Cuts and Jobs Act.

- [Legislative Text](#)

The full legislative text of H.R. 1, the Tax Cuts and Jobs Act, is available here.

About the Author



Mike D'Avolio, CPA, JD, Senior Tax Analyst, has worked with ProConnect™ Lacerte® at Intuit® since 1987. He monitors legislative and regulatory activity, serves as a government liaison, circulates information to employees and customers, analyzes and tests software, trains employees and customers, and serves as a public relations representative.

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