Tax Reform Update

The vote on the final tax bill is this expected this week. What should you do now?

December 18, 2017: Late on Friday, December 15, Congress issued the tax reform Conference Report for the Tax Cuts and Jobs Act. This Conference Report combined and resolved differences between the tax bills passed by the House of Representatives and the Senate. The next step is for both the House and Senate to vote on the Conference Report. This is scheduled for early this week and it appears the GOP has the votes necessary to get the consolidated tax bill approved. Therefore, it seems likely that we will have a new tax bill before Christmas. **Happy Holidays!**

Although almost all of the tax law changes are not effective until next year, there may be tax planning action to consider before December 31 of this year to take full advantage of this major tax overhaul.

The purpose of this tax alert is to identify items in the tax bill that may require action yet this year and provide recommendations on next steps for you to consider. We will provide more detailed explanations of both the individual tax provisions and business tax provisions in subsequent tax blog posts.

Reduction in Individual Ordinary Income Tax Rates

The final bill keeps the seven-bracket structure in current law, but reduces most of the rates, including the top rate from 39.6% to 37%
Here is a comparison of the tax rates for single and married taxpayers:

Single Taxpayers

Income Level	Current Rate	Proposed New Rate
$0 - $9,525	10%	10%
$9,525 - $38,700	15%	12%
$38,700-$82,500	25%	22%
$82.500 - $93,700	25%	24%
$93,700-$157,500	28%	24%
$157,500-$195,450	28%	32%
$195,450 - $200,000	33%	32%
$200,000 - $424,950	33%	35%
$424,950-$426,700	35%	35%
$426,700 - $500,000	39.6%	35%
> $500,000	39.6%	37%

Married Taxpayers

Income Level	Current Rate	Proposed New Rate
$0 - $19,050	10%	10%
$19,050-$77,400	15%	12%
$77,400-$156,150	25%	22%
$156,150-$165,000	28%	22%
$165,000-$237,950	28%	24%
$237,950-$315,000	33%	24%
$315,000-$400,000	33%	32%
$400,000-$424,950	33%	35%
$424,950-$480,050	35%	35%
$480,050-$600,000	39.6%	35%
> $600,000	39.6%	37%

As you can see, for most taxpayers individual tax rates will be lower next year.

H+C Recommendation: If possible, defer income to 2018 and/or accelerate deductions into 2017. If you are sole proprietor perhaps you could defer billing or collections until next year, or pay accounts payable or employee bonuses now.

For taxpayers who itemize deductions – more on that later – it could be beneficial to maximize charitable contributions, medical expenses or miscellaneous deductions this year.

Increase in Standard Deduction

Under current law, the standard deduction is $6,350 for single taxpayers and $12,700 for married taxpayers. The final consolidated tax bill increases the standard deduction to $12,000 for single filers and $24,000 for joint filers.

As result of the standard deduction nearly doubling and a limitation on state and local taxes beginning next year – see below – for many taxpayers beginning next year the standard deduction may be greater than their itemized deductions.

H+C Recommendation: If possible, pay appropriate deductible items this year. This may include:

» Incurring deductible medical expenses after considering the current floor limit of 10%
» Making year end charitable contributions or opening a Donor Advised Fund
» Paying deductible miscellaneous deduction items – like investment management fees or safe deposit box fees – after considering the current AGI limit of 2%. These will be totally eliminated for 2018
» Prepaying state and local taxes – however since not applicable for AMT check if AMT applies first, also only prepay 2017 taxes since the new law specifically prohibits deductions in 2017 for prepayment of 2018 taxes

State and Local Tax Deduction will be Limited to $10,000

Beginning next year taxpayers who can itemize deductions will only be able to deduct up to $10,000 of combined property taxes and state and local income taxes.

H+C Recommendation: Consider prepaying the expected estimated balance due with your state and local income tax returns for 2017. Perhaps you had a taxable capital gain or some other special income item in 2017 that results in state or local income tax. If you are not subject to Alternative Minimum Tax ("AMT") – taxes are not deductible for AMT - then it may beneficial to prepay these 2017 tax balances due by 12.31.2017.

There has also been considerable chatter about possibly prepaying your 2018 state and local taxes. Some states – like WI and MN – actually have special forms and procedures to accomplish this. However, be aware that the Conference Report specifically prohibits taking a deduction in 2017 for taxes related to 2018 income. This rule specifically refers to income taxes. Therefore, perhaps it may be possible to prepay your 2018 property taxes, if you can get the bill, and deduct the payment in 2017.

Tax Benefit on Business Income of Sole-proprietors, S Corporation Shareholders, and Partners/members in Partnerships/LLCs

Since the top corporate tax rate will be reduced from 35% to 21% - more on that below – both houses of Congress wanted to give a benefit to businesses that were not operated as regular corporations. Therefore, the tax bill provides that sole proprietors, S corporation shareholders and partners/LLC members will be entitled to a deduction equal to 20% of their allocable share of business income. This is the basic rule, there are other factors and limitations which will be discussed in greater detail in a future tax blog regarding the business provisions of the tax bill. However, generally, most sole proprietors, S corporation shareholders and partners/LLC members with business income should be able to get some deduction next year.

H+C Recommendation: Since in 2018 these affected taxpayers will likely be subject to lower individual income tax rates AND should benefit from this 20% deduction – sole proprietors, S corporations and partnerships/LLCs should, if possible, defer income to 2018 and/or accelerate deductions into 2017.

As discussed above – this may include delaying billing or collections OR paying accounts payable or employee bonuses now. In addition, as explained below, it may be beneficial to make acquisitions of business assets now rather than next year.

Corporate Tax Rate Reduction

The top corporate tax rate will be reduced from the current rate of 35% to 21% next year.

H+C Recommendation: Defer income and accelerate deductions – similar to the recommendations above for non-corporate businesses, due to this significant tax rate reduction, if possible, regular corporations should attempt to defer income into 2018 and accelerate deductions into 2017.

100% Expensing of Business Assets Placed in Service after September 27, 2017 and Increase in Automobile Depreciation for Auto Acquired After that Date.

Prior to the proposed tax bill the bonus depreciation rate for qualified property, generally new property with a depreciable life of 20 years or less and specified building improvements, placed in service in 2017 was 50%.

The proposed tax bill increases the bonus depreciation percentage to 100% for qualifying property, including used assets, placed in service after September 27, 2017. In addition, the limitation on depreciation with respect to certain passenger automobiles is increased to $16,000 from $8,000 for passenger automobiles acquired and placed in service after September 27, 2017.

H+C Recommendation: For a business desiring to accelerate deductions into 2017 to gain the most beneficial tax benefit from the deduction this year consider the purchase of business assets, including automobiles to be used in the business, prior to December 31, 2017.

Note that the asset must also be placed in service before year end.

Increase in Estate and Gift Tax Exemption Amounts

Under current law each taxpayer is entitled to an estate and gift tax exemption of nearly $5.5 million, which, with proper planning is approximately $11.1 million for married couples.

The proposed tax bill doubles the exemption amounts for decedents dying and gifts made after December 31, 2017.

H+C Recommendation: For potential heirs of wealthy benefactors make sure they hang on until next year – no risky business such as hand gliding, bungee jumping or skydiving in December!

Seriously, for gift tax purposes, wealthy donors should wait until next year to make large gifts.

Conclusion

So, there you have it. If, as expected, the Conference Report is approved by both the House and the Senate this week there will be new tax legislation this year. Hopefully, this summary and our recommendations provide some opportunities for you to benefit from this monumental tax law change.

Please reach out to your Herbein + Company, Inc. contact person to discuss these opportunities further.

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For More Information...

Our website - www.herbein.com - provides a great deal of information and recommendations on how to grow your business, minimize your taxes, and plan for your financial success.

Keeping up-to-date is simple: You can visit the Herbein Blog page to easily sign up for important updates and news items.

Herbein maintains a current listing of tax rates and planning tools on www.herbein.com. The Resources section of our website includes the following current 2017-18 tax information:

- 2018 Payroll Tax Rates and Other Matters
- 2017 Year End Tax Planning Guide
- 2017 S Corporation Letter
- 2017 Auto Letter

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