

2017 Tax Cuts and Jobs Act

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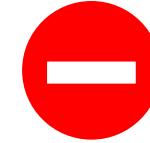
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What Changed for Individuals



- ✓ Overall Rate reduction
- ✓ Standard Deduction went up
- ✓ AMT Threshold went up
- ✓ Child Tax Credit went up
- ✓ Charitable Deduction Limit for cash gifts increased from 50% to 60% of AGI
- ✓ 529 Plans allow distributions up to \$10K for elementary and secondary schools.



- ✓ Personal Exemptions Are Gone
- ✓ \$10,000 Limit on Deduction for State and Local Taxes
- ✓ Mortgage Interest Deduction Limited to \$750,000 Loan / Eliminated HEL
- ✓ Misc. Itemized Deductions eliminated
- ✓ Inflation based on Chained CPI
- ✓ No More Roth Re-characterization

QBI Deduction for Pass Through Entities

- **20% Deduction on Qualified Business Income**
- Pass Through Entities
 - Sole Prop
 - S-corporations
 - Partnerships
 - LLCs
- **Sunsets on December 31, 2025**
- Applies to income from a trade or business
- Does not apply to “reasonable compensation”
- **Subject to phase out limits**
\$157,500 single /\$315,000 MFJ

QBI Deduction for Pass Through Entities

- Subject to limitations based on Taxable Income
 - Single taxpayer limitations begin at \$157,500
 - Married filing jointly limitations begin at \$315,000
 - Phased out completely for “Specified Service Businesses”
 - Attorneys, CPAs, Physicians, Financial Professionals
 - Not Phased out for architects and engineers

QBI Deduction for Pass Through Entities

- Limitations for NON-Specified Service Businesses
 - 20% of QBI
 - 50% of W-2 compensation paid by business to all employees (including owners)
 - 2.5% of business capital (original cost basis) plus 25% of W-2 compensation paid by business.

QBI Deduction for Pass Through Entities

\$1,000,000 of QBI

20% = \$200,000

\$300,000 W-2 Base

50% = \$150,000

**\$10 million capital assets
plus 25% of \$300,000**

2.5% = \$250,000

= \$75,000

Total = \$325,000

21% Tax Rate for C-Corporations

- **Flat 21% Rate for a types of businesses operating as C- Corp**
 - Prior rates were tiered with a top rate of 35%
- Dividends still subject to taxation **at time of distribution**
- Corporate AMT eliminated
 - This is not subject to the 2025 Sunset!

21% Tax Rate for C-Corporations

- Who should consider C Corporation Status?
 - Specified Service Businesses with high income
(Tax, Legal, Medical, Consultants)
 - Businesses with high fluctuations in annual income

* Financial Services are subject to FINRA requirements that income is paid to an individual rather than a corporation. This makes C-corporation less viable option.

Tax Change Pot Pourri

Meals and Entertainment

- Deductions for entertainment expenses are disallowed
- Deductions for employee transportation fringe benefits (e.g., parking and mass transit) are denied
- Exclusion from income for such benefits received by an employee is retained

Tax Change Pot Pourri Highly Compensated Employees

- A deduction for compensation paid or accrued with respect to a covered employee of a publicly traded corporation is limited to no more than \$1 million per year

Tax Change Pot Pourri

Section 1031 Like Kind Exchanges

- Deferral of gain on like-kind exchanges:
 - Now only apply to exchanges of real property that is not held primarily for sale
- Prior rule allowed like kind exchange of other types of property
 - Cattle
 - Collectibles such as Art, Cars, and Antiques

Tax Change Pot Pourri

Qualified Production Activity Deduction

- **Section 199 Elimination of deduction for Qualified Production Activities:**
 - Qualifying receipts were derived from property that was manufactured, produced, grown, or extracted within the U.S.;
 - Qualified film productions;
 - Production of electricity, natural gas, or potable water;
 - Construction activities performed in the U.S.;
 - Certain engineering or architectural services.

Tax Change Pot Pouri Net Operating Losses

- Repeal of the Two Year Carryback For NOLs arising in tax years ending after Dec. 31, 2017
 - A two-year carryback applies in the case of certain losses incurred in the trade or business of farming.

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Limitation on Business Interest Deduction

- Net business interest expense deduction limited to 30% of the business's adjusted taxable income
 - 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 tax year that do not exceed \$25 million

Tax Change Pot Pourri

Replanting – Casualty Losses

- Certain majority owners of Ag property can deduct costs incurred in replanting edible crops for human consumption following loss or damage due to freezing temperatures, disease, drought, pests, or casualty.
- Certain other taxpayers may deduct costs:
 - Minority interest owner who works on the property
 - Taxpayer who acquires land on which the loss occurred

Tax Change Pot Pourri

Shorter Cost Recovery Period

- The cost recovery period for machinery or equipment used in a farming business is shortened from seven to five years
 - Does not apply to grain bin, cotton ginning asset, fence, or other land improvements
 - Must be new machinery or equipment.

Tax Change Pot Pourri Deductions

- Passenger automobiles placed in service after Dec. 31, 2017:
 - the maximum amount of allowable depreciation is increased to
 - \$10,000 for the year in which the vehicle is placed in service, then decreases annually (\$16,000 / \$9,600 / \$5,760)
- Computer or peripheral equipment no longer subject to heightened substantiation requirements that apply to listed property.

Tax Change Pot Pourri

Section 179 Deduction

- **Amount which may be expensed has increased to \$1 million**
- ***Qualified real property***“ is expanded to include:
 - Certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging.
 - Certain 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.**

Take Aways

- Every business owner should take the time to understand their own situation
- Consider working with qualified professionals to help guide your decision making
- Take time to consider changing the way you think about paying yourself and your employees



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