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To Our Valued Clients-

In late December of 2017, the Tax Cuts and Jobs Act of 2017 was signed into law. This was the most sweeping tax reform since 1986. This tax overhaul will affect virtually every individual and business taxpayer.

Here are highlights of the major tax changes you should not ignore because they will make a difference in your tax situation:

Lower individual tax rates

There are still seven tax brackets, but the rates were lowered to: 10%, 12%, 22%, 24%, 32%, 35% and 37%. 2017 rates were 10%, 15%, 25%, 28%, 33%, 35% and 39.6%. As a result of this change, the tables for federal tax withholdings were changed in February of this year. Depending on your situation you may not have enough withholding to cover your taxes or avoid an underpayment penalty, especially if you have other income sources.

Larger standard deduction adds uncertainty

The standard deduction increased to $12,000 for individuals and $24,000 for married couples (up from $6,350 and $12,700, respectively). While some will find themselves moving from itemizing to using the standard deduction, many will not. This is especially true if you own a home, have high medical bills, or donate to charities.

Limits added and deductions removed

A cap of $10,000 is placed on state tax deductions — this includes property taxes, state income taxes and sales taxes. In addition, home equity loan interest can now only be deducted if the funds are used to buy, build or significantly improve your home. Plus, all miscellaneous deductions have been eliminated, including non-reimbursed job expenses, union dues and investment-related expenses.

Personal exemptions eliminated and the Child Tax Credit expanded

Personal exemptions of $4,050 for you, your spouse and each dependent are gone. The Child Tax Credit, however, has been doubled to $2,000 per child. The income limits are

(over)

drastically higher for the credit phaseout: $200,000 for single and $400,000 for married (up from $75,000 and $110,000, respectively). As a result, most people with children under age 17 will be entitled to the Child Tax Credit.

Exempts almost everybody from the estate tax

Estate tax exemption raised to $11.2 million for individuals and $22.4 million for married couples. Previously it was $5.49 million and $10.98 million, respectively.

Big changes for small businesses

The top C corporation tax rate has been lowered to a 21% flat rate. There is a new tax benefit for sole proprietors, partnerships and S corporations in the form of a 20% qualified business income deduction. This 20% deduction may be limited for certain types of service businesses, depending on the income level of the individual. This is the new Internal Revenue Code Section 199A. Determining eligibility for this deduction can become onerous, involving multiple tests and calculations. Several questions remain as to what types of businesses qualify for this deduction that will hopefully be clarified by the IRS in the near future.

In addition, bonus depreciation and Section 179 expensing have been expanded. Unfortunately, the domestic production activities deduction (DPAD) is no longer available this year.

What to do before the end of the year

Our motto is "No Surprises" but this only works with proper tax planning.

With all the complexities of tax law it is no longer an option to do a "back of the napkin" calculation. It is imperative to run the numbers and we have the tax planning software to do this. If you are considering year-end tax planning strategies, please contact us so that we can run the numbers for you.

Very truly yours,

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