

The IMPACT of the TAX ACT

Presented By:

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One Solution | Endless Possibilities



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Overview

1. Individuals
2. C Corporation Changes
3. Pass-through Businesses Deduction
4. Other Business Changes
5. Planning Opportunities
6. Impact on Franchisees



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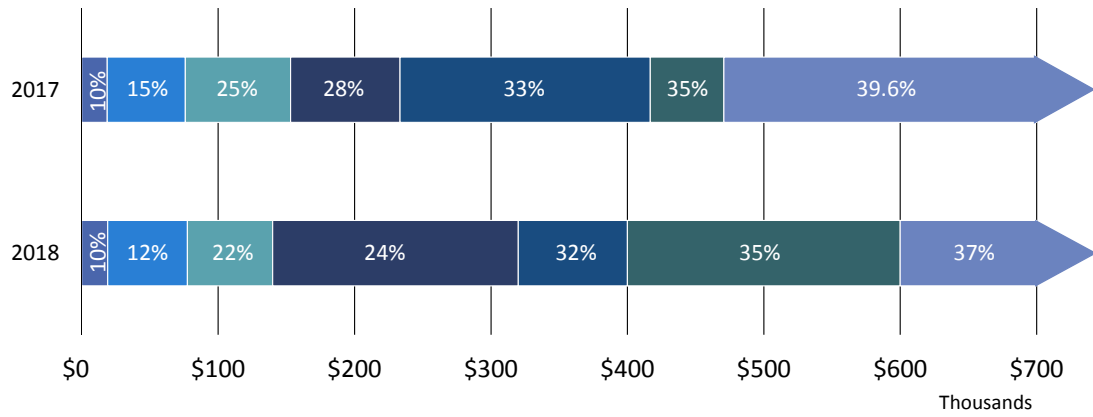


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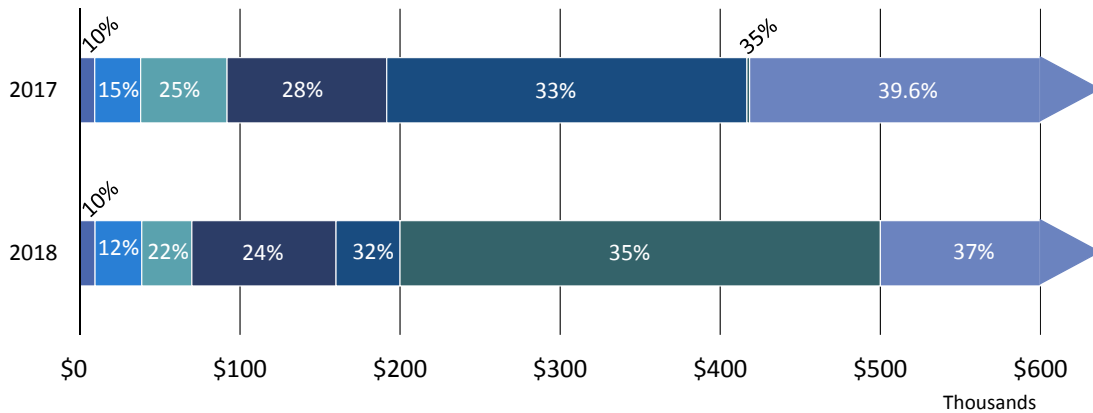
Income Brackets & Tax Rates

MARRIED FILING JOINTLY



Income Brackets & Tax Rates

SINGLE



INDIVIDUAL TAX BRACKETS

RATE	TAXABLE INCOME	
	SINGLE	MARRIED
10%	\$0 to \$9,525	\$0 to \$19,050
12%	\$9,525 to \$38,700	\$19,051 to \$77,400
22%	\$38,701 to \$70,000	\$77,401 to \$140,000
24%	\$70,001 to \$160,000	\$140,001 to \$320,000
32%	\$160,001 to \$200,000	\$320,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	\$500,001 or more	\$600,001 or more



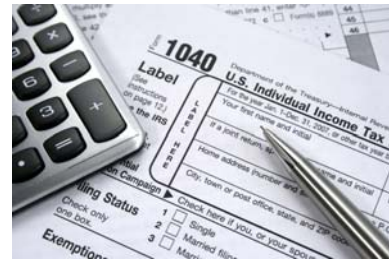
CAPITAL GAIN RATES & NII

SINGLE	MARRIED	QUALIFIED DIVIDENDS & LT CAPITAL GAINS	MEDICARE TAX – NET INVESTMENT INCOME
\$0	\$0	0%	0%
\$38,600	\$77,200	15%	0%
\$200,000	\$250,000	15%	3.80%
\$425,800	\$479,000	20%	3.80%



Standard Deduction/Exemption

- Married filing joint – \$24,000
 - 2017 – \$12,700
- Single - \$12,000
 - 2017 – \$6,350
- HOH - \$18,000
 - 2017 – \$9,350
- Personal exemption repealed.
 - 2017 - \$4,050 per person



Child Tax Credit

- \$2,000 with refundable amount of \$1,400
 - 2017 - \$1,000
- \$500 nonrefundable credit for non-child dependent
 - 2017 - \$0
- Phases out \$400,000 – MFJ/ \$200,000 - Single



Itemized Deductions - State and local tax deduction

- Allows up to \$10,000 for property tax and income tax or sales
- Can still deduct full amount property and sales tax incurred in carrying on a trade or business.
- Prohibits pre-payment of 2018 income taxes
- Real estate taxes must be assessed to be deducted in 2017



Itemized Deductions - Mortgage

- Limits deduction to \$750,000 mortgages – applies to mortgages incurred after December 15, 2017.
 - 2017 – \$1M mortgages
- No deduction for home equity loans
 - 2017 – \$100k of home equity debt



Itemized Deductions – Miscellaneous

- Repeal of 2% miscellaneous itemized deductions
 - Unreimbursed employee expenses
 - Tax Preparation Fees
 - Investment fees and expenses



Itemized Deductions - Other

- Medical Deductions – Deductible to extent exceeds 7.5% of AGI for 2017 and 2018
 - Prior – 10% of AGI
- Charitable Deductions - Increases limit to 60% of AGI
 - 2017 – 50% of AGI
- Personal casualty loss
 - Repealed except for federally declared disasters
 - 2017 – Deductible if greater than 10% of adjusted gross income
- Repeals overall limitations on itemized deductions – “Pease Limitation”



Other Deductions

- Alimony – Divorce decrees after 12/31/2018 – Eliminates deduction and income inclusion
- Repeal of moving expenses - exception for Armed Forces
 - 2017 – Above the line deduction
- Gambling losses – expands the definition of what is considered a “gambling loss”
 - Gambling losses are only deductible up to gambling winnings



Education

- Expansion of Section 529 plan – up to \$10,000 per year on K-12
- Excludes the discharge of student loan debt for death or disability



Retirement

- Recharacterization of conversion are not permitted



Alternative Minimum Tax

- Exemptions Increased
 - Married - \$78,750 amount to \$109,400
 - Single - \$50,600 amount to \$70,300



Miscellaneous Provisions

- Affordable Care Act – Penalty lowered to \$0 after 2018
- Carried Interest – 3 year holding period required
- Qualified bicycle commuting reimbursement - repealed
- Unchanged deductions:
 - Principal residence sale exclusion
 - Teacher expenses
 - Student loan interest
 - Dependent care



Estate Tax, Gift and GST

- \$11.2 Million Single
 - 2017 - \$5.6 Million
- \$22.4 Million Married
 - 2017 \$11.2 Million
- Exemption sunsets December 31, 2025



C Corporations

- Corporate income tax rate – 21%
 - 2017 – 35% top rate
- Corporate AMT Repealed
 - 2017 – 20% rate
- Net Operating Loss (NOL) limited to 80% of taxable income
 - No Carryback
 - Indefinite carryforward
 - Pre-2018 NOL's allowed at 100% and still retains the 2 back, 20 forward rule.
- Reduces the Dividend Received Deduction from 70% to 50% and 80% to 65%



Section 199A & Pass-through Income

- 20% Deduction of “Qualified Business Income” (QBI)
- QBI:
 - Net amount of qualified items of income, gain, deduction, and loss with respect to any qualified trade or business of the taxpayer.
 - Excludes qualified REIT dividends, qualified cooperative dividends, or qualified publicly traded partnership income.
- “Qualified Trade or Business”: Any trade or business other than
 - A specified service trade or business, or
 - Includes fields of law, health, consulting, athletics, financial services
 - The trade or business of being an employee
 - S-Corporation reasonable compensation
 - Guaranteed payments



Section 199A & Pass-through Income - Continued

- Taxpayers with **TAXABLE INCOME** over \$315,000 are limited to:
 - 20% of qualified trade or business income
 - Or the Greater of:
 - 50% of W-2 wages with respect to the qualified business
 - 25% of W-2 wages with respect to the qualified trade or business plus 2.5% of the unadjusted basis of qualified property immediately after acquisition.
- Trust and Estates are eligible to receive deduction



C vs S Example – Complete Distribution

	<u>C-Corp</u>	<u>S-Corp</u>
Net Income before Owner's Comp	1,200,000	1,200,000
Owner Compensation	(200,000)	(200,000)
Net Income	1,000,000	1,000,000
§199A	-	(200,000)
Taxable Income	1,000,000	800,000
Tax	(210,000)	(235,379)
Tax on Dividend	(188,020)	-
Tax on Wages	(36,579)	(74,000)
Total Tax	(434,599)	(309,379)
Net Cash Received	765,401	890,621
Overall Effective Tax Rate	36.22%	25.78%



Business Provisions

- Capital expensing – 100% expensing of qualified property purchased after SEPTEMBER 27, 2017.
 - Phased out starts in 2023 – 20% reduction per year
 - Can be either new or used
- Section 179 – \$1M with phase-outs starting at \$2.5M
 - Expanded the definition to include certain improvements nonresident property: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.
- Like-Kind Exchanges repealed except for real property primarily not held for resale.



Business Provisions - Continued

- Interest expense limitation
 - Applies to companies with average gross receipts of \$25M and greater
 - Limits the interest deduction to 30% of ADJUSTED taxable income
 - Real property businesses can elect to not be subject to the limitation.
 - Any disallowed interest is carried forward indefinitely
- Accounting Methods
 - Cash method for C Corporations – average gross receipts under \$25M
 - Cash method for taxpayers with inventory - average gross receipts under \$25M
 - Exclusion from Section 263A - average gross receipts under \$25M
 - Exception for percentage-of-completion - average gross receipts under \$25M



Business Provisions - Continued

- Repeal Section 199 – DPAD
- Repealed 50% deduction of business-related entertainment expense
- R&D Credit – Starting 1/1/2022, capitalize and amortize expense over 5 years.
 - Reduces the 280C deduction



Pass-through Losses – Section 461(l)

- Excess business losses disallowed
 - Only applies to taxpayers with income greater than \$500,000 (MFJ) / \$250,000 (Single)
 - Aggregates all trade or businesses income/losses
 - Excess losses carried over
 - Expires December 31, 2025



Action Items to Consider

- Entity Structure
- Cost Segregation studies
- Accounting method changes
- R&D studies
- IC-DISC



How does this impact YOU?

- Other considerations
 - Don't lose benefit of 199A Deduction for Qualified Business Income
 - ✓ Target allocations
 - ✓ Multi-tiered structures
 - Strategies for depreciation rules:
 - ✓ Lease build-outs
 - ✓ bonus depreciation
 - ✓ personal property vs. real
 - Tip credit, Work Opportunity Tax Credit (WOTC)
 - Cash basis accounting – think outside of the box
- Open floor for questions



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