FROMM ACCOUNTING LLC

632 Fremont Street
P.O. Box 173
Kiel, WI 53042
Phone: 920-894-2143
Fax: 920-894-7357

The Tax Cuts and Jobs Act (H.R. 1) was signed into law on December 22, 2017 and contains many changes to our tax laws for 2018 and beyond. The following is a summary of those changes. If you have any questions, please never hesitate to call or email me. Thank you for the opportunity to be of service.

Jeremy J Fromm

INDIVIDUALS

Tax Rates

H.R. 1 carries temporary tax rates of 10, 12, 22, 24, 32, 35, and 37 percent after 2017. Under prior law, individual income tax rates have been 10, 15, 25, 28, 33, 35, and 39.6 percent.

The rate changes in the new law are effective starting in 2018, but expire after 2025.

Brackets

Rate	**Joint Return**	**Individual Return**
10%	$0 - $19,050	$0 - $9,525
12%	$19,050 - $77,400	$9,525 - $38,700
22%	$77,400 - $165,000	$38,700 - $82,500
24%	$165,000 - $315,000	$82,500 - $157,500
32%	$315,000 - $400,000	$157,500 - $200,000
35°%	$400,000 - $600,000	$200,000 - $500,000
37°%	Over $600,000	Over $500,000

Standard Deduction

H.R. 1 nearly doubles the standard deduction. It increases the standard deduction to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other individuals, indexed for inflation (using chained CPI) for tax years beginning after 2018. All increases are temporary, starting in 2018 but ending after December 31, 2025. Under prior law, the standard deduction for 2018 had been set at $13,000 for joint filers, $9,550 for heads of households, and $6,500 for all other filers. The additional standard deduction for the elderly and the blind ($1,300 for married taxpayers, $1,600 for single taxpayers) is retained.

Deductions and Credits

H.R. 1 makes significant changes to some popular individual credits and deductions, effective starting in 2018. Many of the changes, however, are temporary, generally ending after 2025, in order to keep overall revenue costs for the new law within budgetary constraints.

Mortgage interest deduction. The new law limits the mortgage interest deduction to interest on $750,000 of acquisition indebtedness ($375,000 in the case of married taxpayers filing separately), in the case of tax years beginning after December 31, 2017, and beginning before January 1, 2026. For acquisition indebtedness incurred before December 15, 2017, the new law allows current homeowners to keep the current limitation of $1 million ($500,000 in the case of married taxpayers filing separately).

The new law also allows taxpayers to continue to include mortgage interest on second homes, but within those lower dollar caps. However, no interest deduction will be allowed for interest on home equity indebtedness.

State and local taxes. The new law limits annual itemized deductions for all nonbusiness state and local taxes deductions, including property taxes, to $10,000 ($5,000 for married taxpayer filing a separate return). Sales taxes may be included as an alternative to claiming state and local income taxes.

Miscellaneous itemized deductions. The new law temporarily repeals all miscellaneous itemized deductions that are subject to the two-percent floor under current law.

Medical expenses. The new law temporarily enhances the medical expense deduction. It lowers the threshold for the deduction to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018.

Family Incentives

The new law temporarily increases the current child tax credit from $1,000 to $2,000 per qualifying child. Up to $1,400 of that amount would be refundable. It also raises the adjusted gross income phaseout thresholds, starting at adjusted gross income of $400,000 for joint filers ($200,000 for all others).

The child tax credit is further modified to provide for a $500 nonrefundable credit for qualifying dependents other than qualifying children.

Education

The new law retains the student loan interest deduction. It also modifies section 529 plans and ABLE accounts. It does not overhaul the American Opportunity Tax Credit, as proposed in the original House bill. The new law also does not repeal the exclusion for interest on U.S. savings bonds used for higher education, as proposed in the House bill.

Alimony

The new law repeals the deduction for alimony payments and their inclusion in the income of the recipient.

Retirement

The new law generally retains the current rules for 401(k) and other retirement plans. However, it repeals the rule allowing taxpayers to recharacterize Roth IRA contributions as traditional IRA contributions to unwind a Roth conversion. Rules for hardship distributions are modified, among other changes.

Federal Estate Tax

The new law follows the original Senate bill in not repealing the estate tax, but rather doubling the estate and gift tax exclusion amount for estates of decedents dying and gifts made after December 31, 2017, and before January 1, 2026. The generation-skipping transfer (GST) tax exemption is also doubled.

Alternative Minimum Tax

The new law retains the alternative minimum tax (AMT) for individuals with modifications. It temporarily increases (through 2025) the exemption amount to $109,400 for joint filers ($70,300 for others, except trusts and estates). The new law also raises the exemption phase-out levels so that the AMT will apply to an income level of $1 million for joint filers ($500,000 for others). These amounts are all subject to annual inflation adjustment.

Affordable Care Act

The new law repeals the Affordable Care Act (ACA) individual shared responsibility requirement, making the payment amount $0. This change is effective for penalties assessed after 2018.

Carried Interest

Under the new law, the holding period for long-term capital gains is increased to three years with respect to certain partnership interests transferred in connection with the performance of services.

BUSINESSES

Corporate Taxes

H.R. 1 calls for a 21-percent corporate tax rate beginning in 2018. The new law makes the new rate permanent. The maximum corporate tax rate currently tops out at 35 percent.

Under the new law, the 80-percent and 70-percent dividends received deductions under current law are reduced to 65-percent and 50-percent, respectively. It also repeals the AMT on corporations.

Bonus Depreciation

H.R. 1 increases the 50-percent "bonus depreciation" allowance to 100 percent for property placed in service after September 27, 2017, and before January 1, 2023 (January 1, 2024, for longer production period property and certain aircraft). A 20-percent phase-down schedule would then kick in. It also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Vehicle Depreciation

The new law raises the cap placed on depreciation write-offs of business-use vehicles. The new caps will be $10,000 for the first year a vehicle is placed in service (up from a current level of $3,160); $16,000 for the second year (up from $5,100); $9,600 for the third year (up from $3,050); and $5,760 for each subsequent year (up from $1,875) until costs are fully recovered. The provision is effective for property placed in service after December 31, 2017, in taxable years ending after such date.

Section 179 Expensing

The new law enhances Code Sec. 179 expensing. The Conference bill sets the dollar limitation at $1 million and the investment limitation at $2.5 million.

Deductions and Credits

Numerous business tax preferences are eliminated. These include the Code Sec. 199 domestic production activities deduction, non-real property like-kind exchanges, and more. Additionally, the rules for business meals are revised, as are the rules for the rehabilitation credit.

The new law leaves the research and development credit in place, but requires five-year amortization of research and development expenditures. It also creates a temporary credit for employers paying employees who are on family and medical leave.

Interest Deductions

The new law generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income, among other criteria. Exceptions exist for small businesses, including an exemption for businesses with average gross receipts of $25 million or less.

Pass-Through Businesses

Currently, up to the end of 2017, owners of partnerships, S corporations, and sole proprietorships - as "pass-through" entities - pay tax at the individual rates, with the highest rate at 39.6 percent. The original House bill proposed a 25-percent tax rate for certain pass-through income after 2017, with a nine-percent rate for certain small businesses. The original Senate bill generally would have allowed a temporary deduction in an amount equal to 23 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications.

H.R. 1 generally follows the Senate's approach to the tax treatment of pass-through income, but with some changes, including a reduction in the percentage of the deduction allowable under the provision to 20 percent (not 23 percent), a reduction in the threshold amount above which both the limitation on specified service businesses and the wage limit are phased in, and a modification in the wage limit applicable to taxpayers with taxable income above certain threshold amounts.

Net Operating Losses

The new law modifies current rules for net operating losses (NOLs). Generally, NOLs will be limited to 80 percent of taxable income for losses arising in tax years beginning after December 31, 2017. It also denies the carryback for NOLs in most cases while providing for an indefinite carryforward, subject to the percentage limitation.