Taxpayer Beware! A Brief Summary of the Tax Cuts and Jobs Act of 2017

The Tax Cuts and Jobs Act of 2017 is viewed as the Trump Administration's major legislative victory in 2017. Per the House and Senate Conference Committee the overall policy highlights of the (TCJA of 2017) is to overhaul America's tax code to deliver tax relief for workers, families, and job creators. By lowering taxes across the board and modernizing our international tax system, the Tax Cuts and Jobs Act will help create jobs, increase paychecks, and make the tax code simpler for Americans of all walks of life.

Myth or Reality: Help create simplification of tax law.

- Under the Tax Cuts and Jobs Act of 2017, the tax rate schedules, and standard deduction are changed for the tax year 2018. In 2017 there were seven tax rates ranging from 10% through 39.6%, in 2018 there are still seven tax rates but they will now range between 10% and 37%. Like other changes in the TCJA these tax rates are temporary and will revert to prior tax law if Congress does not extend the law pass 2025.
- The TCJA temporarily increases the basic standard deduction for individuals across all filing statuses. Under the provision, the amount of the standard deduction is temporarily increased to $24,000 for married individuals filing a joint return, $18,000 for head-of-household filers, and $12,000 for all other individuals. The amount of the standard deduction is indexed for inflation using the C-CPI-U for taxable years beginning after December 31, 2018. The additional standard deduction for the elderly and the blind is not changed by the provision.
- Under the TCJA the personal exemption is repealed.

On June 29,2018 a "draft" form of a new 1040 was released by the IRS, it is rumored that it will be a replacement for the 1040A and 1040EZ. The IRS is working with the tax community to finalize and streamline the new streamlined 1040 that would indeed replace the 1040A and 1040EZ. The streamlined 1040 could be used by 90% of the taxpayers. Currently, the ½ page 1040 would have additional schedules for more complex returns.

Simplification and Reform of Family and Individual Tax Credits

- The TCJA temporarily increases the Child Tax Credit to $2,000 per qualifying child. The credit is further modified to temporarily provide for a $500 nonrefundable credit for qualifying dependents other than qualifying children. In order to receive the Child Tax Credit a taxpayer must include a Social Security number for each qualifying child.
- Under TCJA Section 529 plans (Qualified Tuition Plans) is modified to allow such plans to distribute not more than $10,000 in expenses for tuition incurred during the taxable year in connection with the enrollment or attendance of the designated beneficiary at a

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Simplification and Reform of Deductions and Exclusions

- The Act provides that in the case of taxable years beginning after December 31, 2017, and beginning before January 1, 2025, a taxpayer may treat no more than $750,000 as acquisition indebtedness (1st mortgage).
- The Act temporarily modifies the deduction for personal casualty and theft losses. Under the provision, a taxpayer may claim a personal casualty loss (subject to the limitations described above) only if such loss was attributable to a disaster declared by a President under section 401 of the Robert T Stafford Disaster Relief and Emergency Assistance Act.
- The Act clarifies the scope of "losses from wagering transactions". The provision is intended to clarify that the limitation on losses from wagering transactions applies not only to the actual costs of wagers incurred by an individual, but to other expenses incurred by the individual in connection with the conduct of that individual's gambling activities.
- The TCJA increases the income-based percentage limit for certain charitable contributions by an individual taxpayer of cash to public charities and certain other organizations from 50 percent to 60 percent.
- The TCJA suspends all miscellaneous itemized deductions that are subject to the two percent floor under present law
- The TCJA alimony and separate maintenance payments are not deductible by the payor spouse. The Act repeals the Code provisions that specify that alimony and separate maintenance payments are included in income.

Treatment of Business Income of Individuals

In reviewing the TCJA, it is clear that businesses rather than individuals will be the clear winners under this recent tax legislation. The TCJA will impact sole proprietorships, partnerships, S-corporations, and C-corporations. A major provision of the TCJA is the Qualified Business Income Deduction that is effective for tax years beginning after December 31, 2017 and before January 1, 2026. Under the provision an individual taxpayer generally may deduct 20 percent of qualified business income from a partnership, S corporations, or sole proprietorship. In the last few months the IRS has issued guidance of the applicability of the Business Income Deduction in regards to "passive income" from rental income. As clarification on this subject becomes available I will update taxpayers in a later newsletter.

In Conclusion

The Tax Cuts and Jobs Cuts Act of 2017 will have long term impacts upon both individuals and businesses. In 2018 the first of these impacts will heavily involve the individual taxpayer's ability to deduct many of the itemized deductions we have been accustomed to using.