2017 Tax Cuts Act: What it Means for Individuals

For individuals, there are new, lower income tax rates, a substantially increased standard deduction, severely limited itemized deductions and no personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT), among many other changes.

- Lower tax rates – 10%, 12%, 22%, 24%, 32%, 35%, 37%
- Child tax credit $2,000 for children under age 17
- Additional family tax credit of $500 for other dependents
- Net Investment Income tax still at 3.8% (Joint filers over $250,000)
- Additional Medicare tax still at 0.9% (Joint filers over $250,000)
- No change to Capital gains tax rates – 0%, 10%, 15%, 20%

Beginning in 2018, many taxpayers who claimed itemized deductions year after year will no longer be able to do so. That's because the basic standard deduction has been increased (to $24,000 for joint filers, $12,000 for singles, $18,000 for heads of household, and $12,000 for marrieds filing separately), and many itemized deductions have been cut back or abolished. No more than $10,000 of state and local taxes may be deducted including real estate taxes; miscellaneous itemized deductions (e.g., tax preparation fees, investment advisory fees) and unreimbursed employee expenses are no longer deductible; and personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100-per-casualty and 10%-of-AGI limits are met. You can still itemize medical expenses to the extent they exceed 7.5% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, plus mortgage interest deductions on a restricted amount of qualifying residence debt (mortgages over $750,000), but payments of those items won't save taxes if they don't cumulatively exceed the new, higher standard deduction.

Some taxpayers may be able to work around the new reality by applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, if a taxpayer knows he or she will be able to itemize deductions this year but not next year, the taxpayer may be able to make two years' worth of charitable contributions this year, instead of spreading out donations over 2018 and 2019.

2017 Tax Cuts Act: What it Means For Businesses

The Tax Cuts and Jobs Act was signed by President Trump on December 22. The Act makes sweeping changes to the U.S. tax code and impacts virtually every taxpayer.

Bonus Depreciation

The bonus depreciation rate has fluctuated wildly over the last 15 years, from as low as zero percent to as high as 100 percent. It is often seen as a means to incentivize business growth and job creation. The Tax Cuts and Jobs Act temporarily increases the 50-percent "bonus depreciation" allowance to 100 percent. 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.

Section 179 Expensing

The Tax Cuts and Jobs Act sets the Code Sec. 179 dollar limitation at $1 million and the investment limitation at $2.5 million. Although the differences between bonus depreciation and Code Sec. 179 expensing would now be narrowed if both offer 100-percent write-offs for new or used property, some advantages and disadvantages for each will remain. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to elect to expense only particular qualifying assets within any asset class.

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/entertainment are revised, as are the rules for the company paid parking costs. However, the Tax Cuts and Jobs Act 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.

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 Tax Cuts and Jobs Act allows a temporary deduction in an amount equal to 20 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications.

For 2018, if taxable income exceeds $315,000 for a married couple filing jointly, or $157,500 for all other taxpayers, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in for joint filers with taxable income between $315,000 and $415,000 and for all other taxpayers with taxable income between $157,500 and $207,500.

Net Operating Losses

The Tax Cuts and Jobs Act 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.