

2017 Tax Reform
Proposed Individual Income Tax Changes - Messina & Associates "Crayola" version
As of December 15, 2017 - Proposed Effective Date January 1, 2018 (unless noted otherwise)

Updates in Yellow

"TAX CUTS AND JOBS ACT" as of Dec 15

Joint Conference Report-TO BE VOTED ON BY HOUSE & SENATE

House Ways and Means Committee-APPROVED BY HR NOV 16	Senate Finance Committee-APPROVED BY SENATE DEC 2	"TAX CUTS AND JOBS ACT" as of Dec 15 Joint Conference Report-TO BE VOTED ON BY HOUSE & SENATE
<u>Individual Income Tax Rates (MFJ/MFS=married filing joint/filing separate; SS=Surviving Spouse; HoH=Head of Household; S=Single)</u>		
	10%	10%
12%* (phased out for AGI over \$1M)	12% (begins at \$19,050 MFJ/SS; \$13,600 HoH; \$9,525 MFS/S)	12% (begins at \$19,050 MFJ/SS; \$13,600 HoH; \$9,525 MFS/S)
25% (begins at \$90K MFJ/SS; \$67.5K HoH;\$45K MFS/S)	22% (begins at \$77,400 MFJ/SS; \$51,800 HoH; \$38,700 MFS/S)	22% (begins at \$77,400 MFJ/SS; \$51,800 HoH; \$38,700 MFS/S)
35% (begins at \$260K MFJ/SS; \$200K HoH/S; \$130K MFS)	24% (begins at \$140K MFJ; \$70K HoH/ MFS/S)	24% (begins at \$165K MFJ; \$82.5K HoH/ MFS/S)
39.6% (begin at \$1M MFJ/SS; \$500K HoH/MFS/S)	32% (begins at \$320K MFJ/SS; \$160K HoH/S/MFS)	32% (begins at \$315K MFJ/SS; \$157.5K HoH/S/MFS)
* original bill has been revised - active business income pass through taxed at 11% (2018-2019); 10% (2020-2021); 9% thereafter on 1st \$75K of income, but phased out at \$150K of taxpayer income.	35% (begins at \$400K MFJ/SS; \$200K HoH/S/MFS)	35% (begins at \$400K MFJ/SS; \$200K HoH/S/MFS)
	38.5% (begins at \$1M MFJ/SS; \$500K HoH/S/MFS)	37% (begins at \$600K MFJ/SS; \$500K HoH/S/MFS)
Alternative Minimum Tax would be repealed.	Alternative Minimum Tax would remain, with a higher exemption	Alternative Minimum Tax would remain, with a higher exemption
Net Investment Income Tax of 3.8% retained.	Net Investment Income Tax of 3.8% retained.	Net Investment Income Tax of 3.8% retained.
Capital Gains-20% max tax rate (plus 3.8% Net Invest Income Tax).	Capital Gains-20% max tax rate (plus 3.8% Net Invest Income Tax).	Capital Gains-20% max tax rate (plus 3.8% Net Invest Income Tax).
Standard Deductions: \$24,400 (MFJ/SS) \$18,300 (Unmarried with 1 child) \$12,200 (MFS/S)	Standard Deductions: \$24,000 (MFJ/SS) \$18,000 (Unmarried with 1 child) \$12,000 (MFS/S)	Standard Deductions: \$24,000 (MFJ/SS) \$18,000 (H of H) \$12,000 (MFS/S)
Personal Exemptions is repealed.	Personal Exemptions is repealed.	Personal Exemptions is repealed.
Business income pass through from passive activity plus 30% of active business income taxed at 25% max. (personal services income not eligible for the above)	23% of business income taxed at personal level would be exempt from tax; phased out at certain income thresholds. (pers.service businesses earning over \$250K not eligible for above)	20% of business income taxed at personal level would be exempt from tax; phased out at certain income thresholds. (pers.service businesses income generally not eligible for above)
Increased child tax credit from \$1,000 to \$1,600	Increased child tax credit from \$1,000 to \$2,000	Increased child tax credit from \$1,000 to \$2,000, of which \$1,400 would be refundable
Tax credits repealed: Credit for individuals over 65 or who have retired on disability Credit for plug-in electric drive motor vehicles		
Education related tax changes:		

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Deduction for educator expense would be eliminated.
 American Opportunity Tax Credit (AOTC) max is \$2,500
 1st \$2,000 of higher education expenses @ 50%
 Next \$2,000 of higher education expenses @25%
 AOTC eligible for 5 years of post-secondary education
 5th year credit is at 50% of max, with up to \$500 refundable.
 Student loan interest not deductible
 Discharge of student loan interest would be non-taxable.

Graduate student tuition waiver would be taxable
 Section 529 distributions for elementary and high school
 qualified expenses allowed, up to \$10,000 per year.

Deduction changes:
 Mortgage interest deduction allowed for up to \$500K in loans.
 HELOC interest would not be allowed.
 Mortgage interest deduction allowed only for principal residence.
 Real Estate tax deduction capped at \$10K.
 Charitable deductions 50% limit increased to 60%.
 Medical Expenses would not be allowed.
 State and local income taxes would not be allowed.
 Casualty losses would not be allowed.
 Alimony payments would not be deductible.
 Moving expenses would not be allowed, except for military.

Tax preparation fees would not be allowed.
 Employee business expenses would not be allowed.

Deduction for educator expense would increase from \$250 to \$500

Student loan interest would remain deductible
 Discharge of student loan interest would be non-taxable as a
 result of death or disability.
 Graduate student tuition waiver would be non-taxable
 Section 529 distributions for elementary and high school
 qualified expenses allowed, up to \$10,000 per year.

Mortgage interest deduction would be retained.
 HELOC interest would not be allowed.

Real Estate tax deduction capped at \$10K.
 Charitable deductions 50% limit increased to 60%.
 Medical expenses would be deductible above 7.5% of income.
 State and local income taxes would not be allowed.
 Casualty losses would not be allowed (Pres declared disaster exc)

Moving expenses would not be allowed.
 Investment fees would not be allowed.
 Tax preparation fees would not be allowed.
 Employee business expenses would not be allowed.

Deduction for educator expense would remain at \$250.
 No change to current law for American Opportunity Tax Credit.
 No change to current law for Lifetime Learning Credit

Student loan interest would remain deductible
 Discharge of student loan interest would be non-taxable as a
 result of death or disability.
 Graduate student tuition waiver would be non-taxable
 Section 529 distributions for elementary and high school
 qualified expenses allowed, up to \$10,000 per year.
 Qualified tuition and related expense deduction remains.

Mortgage int allowed for loans up to \$750K after Dec 15, 2017 .
 HELOC interest would not be allowed effective 2018.

State tax deduction (real estate, income, sales) capped at \$10K.
 Charitable deductions 50% limit increased to 60%.
 Medical exp would be deductible above 7.5% of income in 2018.

Casualty losses would not be allowed (Pres declared disaster exc)
 Alimony not deductible/reportable for divorces eff 2019.
 Moving expenses would not be allowed.
 Investment fees would not be allowed.
 Tax preparation fees would not be allowed.
 Employee business expenses would not be allowed.

\$250K/\$500K gain on sale of principal residence excluded if
 used as residence 5 of the previous 8 years, and can only be used
 once every 5 years. Exclusion phased out at higher income levels.

\$250K/\$500K gain on sale of principal residence excluded if
 used as residence 5 of the previous 8 years, and can only be used
 once every 5 years,

No change from current law re sale of principal residence

Estate, Gift and Generation Skipping Transfer (GST) tax changes:

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Base exclusion amount doubled-increased to \$11.2M for 2018.
Estate & GST repealed after 2024, while still allowing step-up basis.
Gift tax annual exclusion would increase to \$15,000
Gift tax top rate would be 35% in 2024.

Base exclusion amount doubled-increased to \$11.2M for 2018.
Estate and GST would be retained .

Basic exclusion amount doubled to \$10M effective 2018.
Estate, Gift and Generation Skipping Tax would be retained .

ACA individual penalty for not having health ins would be \$0
for health coverage status for months beg after Dec 31, 2018.

ACA individual penalty for not having health ins would be \$0
for health coverage status for months beg after Dec 31, 2018.

All individual provisions will expire at end of 2025.

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Corporate tax rate would be 20% (flat rate).
 Offshore earnings repatriated would be taxed at 14%
 Corporate AMT would be repealed.

Corporate tax rate would be 20% (flat rate) eff 2019.
 Offshore earnings repatriated would be taxed at 14.5%
 Corporate AMT would remain.

Corporate tax rate would be 21% (flat rate).
 Offshore earnings would be taxed at 5% for 2018; 10%-2025.
 Corporate AMT would be repealed.

Personal service corporations tax rate would be 25%.

Personal service corporations tax rate would be 20%.

No special tax rate for personal service corporations

100% expensing cost of qualified property acquired
 after Sept 27, 2017 and before Jan 1, 2023.
 Property has to be taxpayers 1st use..new or used.
 Property used in a real property trade/business would
 not qualify.

100% expensing cost of qualified property acquired
 after Sept 27, 2017 and before Jan 1, 2023; reduced by 20% per year
 effective 2023.
 Property has to be new.

100% expensing cost of qualified property "acquired"
 after Sept 27, 2017 and before Jan 1, 2023; reduced by 20% per year
 effective 2023.

Original use not required; new and used property would qualify.

Section 179 small business expense limits (used equipment)
 increase from \$500K per year to \$5M, phase out beginning at \$20M.

Section 179 small business expense limits (used equipment)
 increase from \$500K per year, phase out beginning at \$2.5M.
 Certain non-residential real property costs eligible for IRC 179.
 Depreciable life on real estate reduced to 25 years; 10 years for
 "qualified improvements" to non-residential property.

Section 179 small business expense limits (used equipment)
 increased to \$1M per year, phase out beginning at \$2.5M.

Certain non-residential real property costs eligible for IRC 179.

No change to current class lives of real estate

Increase in annual depreciation limits for passenger automobiles.

Increase in annual depreciation limits for passenger automobiles.

Corporate dividend received deduction is reduced from 80% to 65%
 and from 70% to 50%.

Corporate dividend received deduction is reduced from 80% to 65%
 and from 70% to 50%.

Corporate dividend received deduction is reduced from 80% to 65%
 and from 70% to 50%.

Expanded use of cash method of accounting for corporations with
 gross receipts up to \$25M.

Expanded use of cash method of accounting for corporations with
 gross receipts up to \$15M.

Expanded use of cash method of accounting for corporations with
 gross receipts up to \$25M.

UNICAP rules would not apply for businesses with less than
 \$25M in gross receipts.

UNICAP rules would not apply for businesses with less than
 \$15M in gross receipts.

UNICAP rules would not apply for businesses with less than
 \$25M in gross receipts.

% of completion accounting would not be required for
 businesses with less than \$25M in gross receipts.

% of completion accounting would not be required for
 businesses with less than \$15M in gross receipts.

% of completion accounting would not be required for
 businesses with less than \$25M in gross receipts.

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Business interest expense* would be limited to 30% of businesses EBITDA. Excess interest could be carried forward 5 years. *=excludes floor plan interest

Business interest expense* would be limited to 30% of businesses EBIT if average gross receipts exceed \$15M. Excess interest carried forward 5 years. *=excludes floor plan interest

Business interest expense* would be limited to 30% of businesses EBITDA for 4 years; 30% of EBIT thereafter. Interest not allowed is carried forward to next year. *=excludes floor plan interest

Net Operating Losses carried back would be eliminated; carry forwards allowed to the extent of 90% of taxable income.

Net Operating Losses carried back would be eliminated; carry forwards allowed to the extent of 90% of taxable income (80% of T.I. effective for tax years beginning after Dec 31, 2022.)

Net Operating Losses carried back would be eliminated; carry forwards allowed to the extent of 80% of taxable income

Like kind exchanges would be allowed only for real estate.

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Like kind exchanges would be allowed only for real estate.

Contributions to a businesses capital would be taxable to the extent the amount/FMV of the contribution exceeds the businesses market value of the stock or interest received.

No deduction allowed for transportation fringe benefits, including expenses for commuting transportation of an employee

50% deduction for meals and entertainment would only be allowed for food and beverages.

50% deduction for meals and entertainment would only be allowed for food and beverages; no deduction for employer provided meals at the employer's business premise eff Jan 1, 2026. No deduction allowed for any activity or facility considered to be entertainment; membership dues for clubs organized for business, pleasure, entertainment or social purpose.

50% deduction for meals and entertainment would only be allowed for food and beverages; no deduction for employer provided meals at the employer's business premise eff Jan 1, 2026. No deduction allowed for any activity or facility considered to be entertainment; membership dues for clubs organized for business, pleasure, entertainment or social purpose.

No deduction would be allowed for any amenity provided to an employee that are primarily personal in nature unless taxed to the employee.

No deduction would be allowed for any amenity provided to an employee that are primarily personal in nature unless taxed to the employee.

No deduction would be allowed for any amenity provided to an employee that are primarily personal in nature unless taxed to the employee.

Deduction for local lobbying expenses would be repealed
Deduction for domestic production activities would be repealed.

Deduction for domestic production activities would be repealed.

Deduction for domestic production activities would be repealed.

Employer social security tip credit would be allowed only for tips reported above the current minimum wage, rather than \$5.15/hr. All restaurants must report tips of no less than 10% of gross receipts.

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12.5% business credit equal to the amount of wages paid to employees on family and medical leave if rate paid is at least 50% of the employees normal pay.

Business credits repealed:

Credit for clinical testing for certain drugs.

Employer provided child care credit

Rehabilitation credit

Work opportunity credit

New markets tax credit

Credit for expenditures to provide access to disabled individuals.

Many changes for energy credits also proposed.

Changes made to deductibility of R & D expenses eff Jan 1, 2026.

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