Tax Section

AICPA

Tax reform quick reference guide

An overview of changes to federal tax law

Current as of Nov. 1, 2018

Fast facts: Individual taxpayers

Income tax brackets for individuals	Effective for tax year 2018 (tax rates are effective through 2025 and dollar amounts will be adjusted for inflation using the chained consumer price index method)			
Rate	Single	Married filing jointly (and surviving spouses)	Heads of household	Married filing separately
10%	Up to $9,525	Up to $19,050	Up to $13,600	Up to $9,525
12%	$9,526–$38,700	$19,051–$77,400	$13,601–$51,800	$9,526–$38,700
22%	$38,701–$82,500	$77,401–$165,000	$51,801–$82,500	$38,701–$82,500
24%	$82,501–$157,500	$165,001–$315,000	$82,501–$157,500	$82,501–$157,500
32%	$157,501–$200,000	$315,001–$400,000	$157,501–$200,000	$157,501–$200,000
35%	$200,001–$500,000	$400,001–$600,000	$200,001–$500,000	$200,001–$300,000
37%	Over $500,000	Over $600,000	Over $500,000	Over $300,000

Long-term capital gains and qualified dividends rates	Under the Tax Cuts and Jobs Act, the three capital gains income thresholds are applied to maximum taxable income levels, as follows:			
Rate	Single	Married filing jointly (and surviving spouses)	Heads of household	Married filing separately
0%	Up to $38,600	Up to $77,200	Up to $51,700	Up to $38,600
15%	$38,600–$425,800	$77,200–$479,000	$51,700–$452,400	$38,600–$239,500
20%	Over $425,800	Over $479,000	Over $452,400	Over $239,500

For tax years after 2018 through 2025, the threshold amounts will be adjusted for inflation.

Footnote: Nov. 1, 2018, edition

Fast facts: Individual taxpayers (continued)

Standard deduction and exemptions

Personal exemptions

There are no personal or dependent exemptions under the new tax law. The repeal of these exemptions is effective through Dec. 31, 2025.

Standard deduction

- Effective Jan. 1, 2018, the standard deduction is:

$24,000
for married filing jointly

$18,000
for heads of household

$12,000
for all other taxpayers

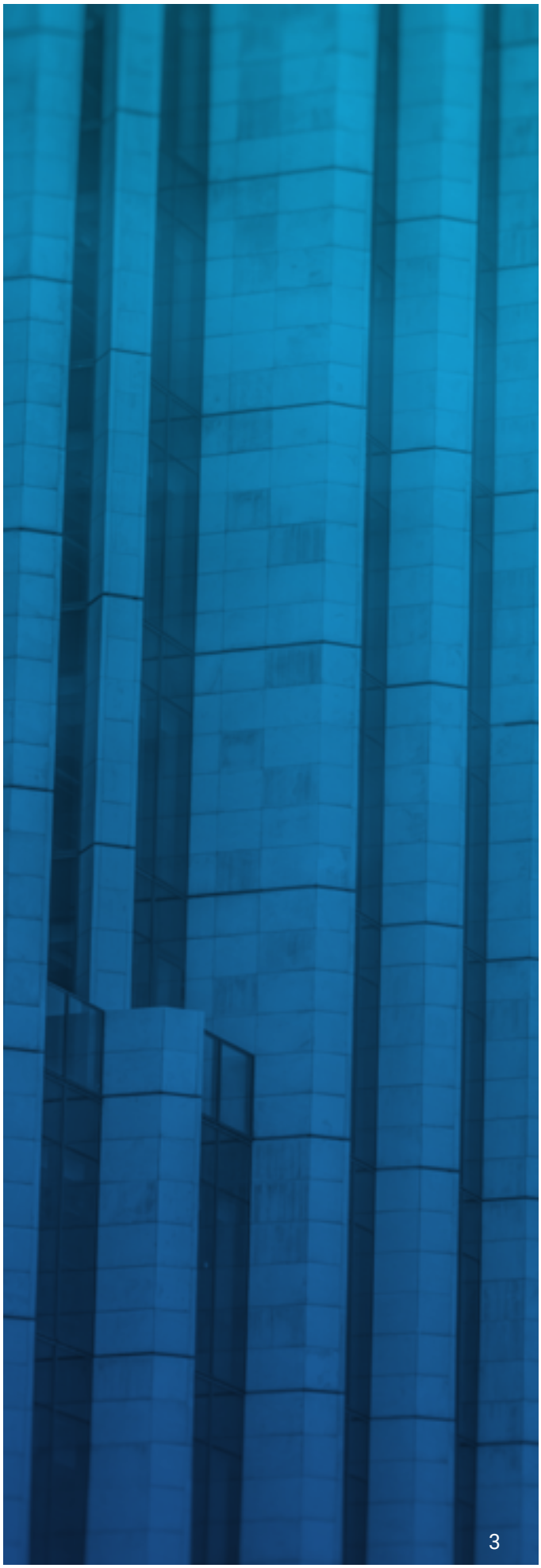
- The increased standard deduction is effective through Dec. 31, 2025.
- Additional standard deductions are also available for the aged or the blind.

Footnote: Nov. 1, 2018, edition

Fast facts: Individual taxpayers (continued)

Tax credits and deductions highlights for individuals

- **New deduction for individuals who have qualified business income (QBI)** — Effective Jan. 1, 2018, through Dec. 31, 2025, there is a potential 20% deduction for individuals who have qualified business income (QBI) from a partnership, S corporation or sole proprietorship. This deduction also applies to REIT dividends, qualified cooperative dividends and qualified publicly traded partnership income.
- **Child tax credit** — The new tax law increases the credit to $2,000 per qualifying child; the threshold at which the credit begins to phase out is increased to $400,000 for married taxpayers filing a joint return and $200,000 for other taxpayers. The new rules include a $1,400 refundable child tax credit.
- **State and local taxes deduction** — Under the new rules, individuals can deduct up to $10,000 ($5,000 for married taxpayers filing separately) in state and local income or property taxes.
- **Mortgage interest deduction** — The new law reduces the ceiling of acquisition indebtedness to $750,000, unless the indebtedness was incurred before Dec. 15, 2017, where the limitation is still $1 million. This reduced ceiling is in effect from Jan. 1, 2018, to Dec. 31, 2025.
- **Home equity interest deduction** — The home equity loan interest deduction was repealed through Dec. 31, 2025. Home equity interest that qualifies as acquisition debt (secured by the principal residence and incurred in acquiring, constructing or substantially improving the home) and is less than the $750,000 limit noted previously would still be deductible.
- **Miscellaneous itemized deductions** — The new law suspends all deductions that were subject to the 2% adjusted gross income (AGI) limitation (e.g., tax preparation fees, safe deposit box, etc.).
- **Pease limitations for high-income taxpayers who itemize their deductions** — The phase-out also goes away through Dec. 31, 2025, under the new law.
- **Charitable contributions** — The new law increases the income-based percentage limit for charitable contributions of cash to public charities to 60%.



Other changes for individuals

- **Shared responsibility payment** (that is, the penalty on individuals who do not have health insurance) — The new law reduces the penalty to zero for tax years starting Jan. 1, 2019. However, note that the penalty still is in effect for the 2018 calendar year, and even when the penalty goes away, other aspects of the Affordable Care Act are still in place.
- **529 plans** — 529 savings plans allow for annual tax free distributions per beneficiary (regardless of the number of contributing plans) for qualifying expenses. Beginning in 2018, the federal rules allow these plans to fund the educational costs to cover students in grades K-12 who are enrolled in religious and other private schools. However, distributions for grades K-12 cannot exceed $10,000 per beneficiary and not all state-sponsored plans have adopted the expanded use of these funds.
- **Net operating losses (NOLs)** — The carryback of NOLs is repealed effective for tax years ending after Dec. 31, 2017. NOLs generated for years beginning after 2017 cannot reduce taxable income by more than 80%. NOLs carryforward indefinitely. Special rules apply for farm NOLs.
- **Alternative minimum tax (AMT)** — For tax years starting Jan. 1, 2018, through Dec. 31, 2025, the AMT exemption amount has been increased to $109,400 for married filing jointly taxpayers, $54,700 for married filing separately taxpayers and $70,300 for other taxpayers. The exemption phases out if AGI exceeds $1 million for married taxpayers and $500,000 for all other taxpayers. The exemption will be indexed for inflation.
- **Kiddie tax** — The tax calculations will now be based on the tax brackets applicable to estates and trusts.
- **Family tax credit** — A new $500 nonrefundable credit is available for qualifying dependents. Guidance from the IRS states that this credit applies to two categories of dependents: qualifying children who do not qualify for child tax credit and qualifying relatives as defined in Sec. 152(d).

Footnote: Nov. 1, 2018, edition

Guidance on tax reform is still in development. Always make sure you are working with the latest information. Learn more at **aicpa.org/taxreform**.

Fast facts: Estates and trusts

Income tax brackets for estates and trusts

Rate	Estate and trusts
10%	Up to $2,550
24%	$2,551–$9,150
35%	$9,151–$12,500
37%	Over $12,500

Long-term capital gains and qualified dividends rates

- For 2018, the 15% tax rate will apply to net capital gains for estates and trusts with taxable income over $2,600. The 20% tax rate will apply to net capital gains when taxable income amounts exceed $12,700.
- For tax years after 2018 through 2025, the dollar amounts will be adjusted for inflation.

Estate/gift exemptions/exclusions

- Estate and gift tax exemptions — For decedents dying in 2018, the basic exclusion amount for determining the unified credit against estate tax is $11,180,000. This exemption will be indexed for inflation and will revert to pre-TCJA levels for years starting Jan. 1, 2026.
- The annual gift tax exclusion for 2018 is $15,000.

Footnote: Nov. 1, 2018, edition

Fast facts: Business

Tax credits and deductions highlights for businesses

- **Domestic production activity deduction (DPAD)** — The new tax act repeals the DPAD effective for tax years beginning after Dec. 31, 2017.
- **Entertainment and transportation expenses** — The tax act modifies the provision to disallow any deduction for activities generally considered to be entertainment, leisure, amusement or recreation; membership dues with respect to any club organized for business, pleasure, recreation or social purposes; and facilities used regarding the previous two items. IRS Notice 2018-76 provides transitional guidance on the deductibility of business meals.Based on recent guidance, taxpayers may deduct 50% of an otherwise allowable business meal as long as certain criteria are met, such as the expense is ordinary, and the meal is necessary (not lavish and extravagant). Review IRS Notice 2018-76 for additional information on the deductibility of business meals.
- **Deductibility of interest expense** — The deduction for business interest is limited to the sum of the following: business interest income, 30% of the adjusted taxable income (as defined in the new law), and the floor plan financing interest. (Note that certain caveats apply to this new rule and calculations can be tricky, especially regarding tiered structures.)
- **Bonus depreciation** — Taxpayers can claim a 100% first-year deprecation deduction on qualified property. In 2023, there will be a phase out of 20% per year until 2027, when the first-year depreciation will be 0%. In addition, used property now is considered qualified property.
- **Sec. 179 expensing** — The tax law increased the maximum Sec. 179 deduction to $1 million with the phase-out threshold for acquired property being $2.5 million. These amounts are indexed for inflation beginning after 2018. The provision also expanded the definition of eligible Sec. 179 property.
- **Auto depreciation limits** — The limitations on depreciation for listed property is changed to: $10,000 first year, $16,000 second year, $9,600 third year and $5,760 for subsequent years.
- **Employer credit for paid family and medical leave** — A new credit may be claimed based on wages paid to qualifying employees while they are on family and medical leave, subject to certain conditions. The credit is a percentage of the amount of wages paid while on leave for up to 12 weeks per taxable year (12.5%–25% of wages, based on the rate of pay). IRS Notice 2018-71 provides guidance on eligible employers and how to calculate and claim this credit.

Corporate tax rate

The new corporate tax rate effective for tax years starting Jan. 1, 2018.

Fiscal-year corporations will use a blended rate approach (Sec. 15) based on the proportion of the year when the different rates were in effect.

Other changes for businesses

- **Like-kind exchanges (LKEs)** — The new law restricts the non-recognition of gain in an LKE to exchanges of real property effective for exchanges completed by Dec. 31, 2017.
- **Net operating losses (NOLs)** — The carryback of NOLs is repealed effective for tax years ending after Dec. 31, 2017. NOLs generated for years beginning after 2017 cannot reduce taxable income by more than 80%. NOLs carryforward indefinitely. Special rules apply for farm NOLs.
- **Corporate alternative minimum tax (AMT)** — The corporate AMT is repealed effective for tax years beginning after Dec. 31, 2017.
- **Partnership technical terminations** — The new tax law repeals the Sec. 708(b)(1)(B) rule regarding technical terminations of partnerships effective Dec. 31, 2017.
- **Expansion of eligibility for more favorable accounting methods** — Taxpayers subject to Sec. 448 (other than tax shelters) with three-year average annual gross receipts of $25 million or less are eligible for the cash basis of accounting.

Tax planning tips

- Tax reform has brought about exciting opportunities for CPAs. Advise your clients by holding planning sessions that address how tax reform affects their specific situations. Your guidance will help your clients' financial future and help you generate new business.
- Use planning software to consider the benefits of bunching deductions (especially charitable contributions) to see the potential benefit of maximizing deductions in certain years. Your clients may see the benefit of coordinating years of itemized deductions with years of standard deductions over a multi-year period.
- With changes to qualified education expenses that can be paid from a Sec. 529 plan, revisit education planning for dependents or grandchildren.
- Clients may think the shared responsibility penalty was repealed immediately, even though it is still in effect for the 2018 calendar year. Use this as an opportunity to communicate to clients about penalty exposure and tax law changes.
- Consider a Roth IRA conversion for potential tax savings. However, be careful about new re-characterization rules.
- It's vital that small business owners understand how their current business structure affects their taxes. Every client's situation is different. Therefore, it's advisable to do an analysis for your business clients to help them determine if a change in entity structure is appropriate.
- Are your clients getting the most out of their entity choice given the changes to the corporate tax rate? Determine if making or terminating an S corporation election is appropriate. Many factors must be considered, including the application of the Sec. 199A qualified business income deduction and state taxes.

Your clients need to be aware of the changes to the deduction for entertainment expenses.

- Review accounting methods to determine if a small business client (1) can now qualify to use the cash basis of accounting, (2) is no longer subject to UNICAP (Sec. 263A) rules or (3) can use the long-term contract income recognition for construction contractors.
- Your clients need to be aware of the changes to the deduction for entertainment expenses. Ensure they are properly tracking expenses that will be fully deductible, partially deductible or no longer deductible.
- Explore the expanded Sec. 179 expensing and bonus depreciation with your business clients. Clients may need to approach purchasing decisions differently to take advantage of the 100% deduction before it phases out. Note that there have also been changes in the type of property that qualifies.
- Advise your clients that more clarification is expected, and you will be contacting them soon to discuss their situation.

Footnote: Nov. 1, 2018, edition