

# Tax Cuts and Jobs Act of 2017

## Tax Changes Affecting Individual and Business Taxpayers

Compliments of the Members of Michigan Tax and Accounting Professionals



December 22, 2017

The *Tax Cuts and Jobs Act* was signed into law by President Donald Trump on December 22, 2017. The law takes effect on January 1, 2018. It DOES NOT apply to Tax Year 2017. The sweeping tax reform reduces tax rates for individuals and corporations and repeals many Deductions aimed at significantly simplifying tax filing for most taxpayers. Most of the individual changes will expire on December 31, 2025 unless Congress acts to extend them into 2026 and beyond. If Congress chooses not to extend these changes by December 31, 2025, the tax code rates and deductions set to expire on December 31, 2017 will return in 2026.

Here are the major changes taking effect after December 31, 2017.

## Individuals

### Tax Brackets and Tax Rates

There are seven tax rates: 10%, 12%, 22%, 24%, 32%, 35% and 37%.

#### Individual Taxpayers

If Taxable Income Is Between:	The Tax Due Is:
0 - \$9,525	10% of taxable income
\$9,526 - \$38,700	\$952.50 + 12% of the amount over \$9,525
\$38,701 - \$82,500	\$4,453.50 + 22% of the amount over \$38,700
\$82,501 - \$157,500	\$14,089.50 + 24% of the amount over \$82,500
\$157,501 - \$200,000	\$32,089.50 + 32% of the amount over \$157,500
\$200,001 - \$500,000	\$45,689.50 + 35% of the amount over \$200,000
\$500,001 +	\$150,689.50 + 37% of the amount over \$500,000

#### Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is Between:	The Tax Due Is:
0 - \$19,050	10% of taxable income
\$19,051 - \$77,400	\$1,905 + 12% of the amount over \$19,050
\$77,401 - \$165,000	\$8,907 + 22% of the amount over \$77,400
\$165,001 - \$315,000	\$28,179 + 24% of the amount over \$165,000
\$315,001 - \$400,000	\$64,179 + 32% of the amount over \$315,000
\$400,001 - \$600,000	\$91,379 + 35% of the amount over \$400,000
\$600,001 +	\$161,379 + 37% of the amount over \$600,000



**Married Filing Separately**

If Taxable Income Is Between:	The Tax Due Is:
\$0 - \$9,525	10% of taxable income
\$9,526 - \$38,700	\$952.50 + 12% of the amount over \$9,525
\$38,701 - \$82,500	\$4,453.50 + 22% of the amount over \$38,700
\$82,501 - \$157,000	\$14,089.50 + 24% of the amount over \$82,500
\$157,001 - \$200,000	\$32,089.50 + 32% of the amount over \$157,500
\$200,001 - \$300,000	\$45,689.50 + 35% of the amount over \$200,000
\$300,001 +	\$80,689.50 + 37% of the amount over \$300,000

**Heads of Household**

If Taxable Income Is Between:	The Tax Due Is:
0 - \$13,600	10% of taxable income
\$13,601 - \$51,800	\$1,360 + 12% of the amount over \$13,600
\$51,801 - \$82,500	\$5,944 + 22% of the amount over \$51,800
\$82,501 - \$157,500	\$12,698 + 24% of the amount over \$82,500
\$157,501 - \$200,000	\$30,698 + 32% of the amount over \$157,500
\$200,001 - \$500,000	\$44,298 + 35% of the amount over \$200,000
\$500,001 +	\$149,298 + 37% of the amount over \$500,000

**Trusts & Estates**

If Taxable Income Is Between:	The Tax Due Is:
\$0 - \$2,550	10% of taxable income
\$2,551 - \$9,150	\$255 + 24% of the amount over \$2,550
\$9,151 - \$12,500	\$1,839 + 35% of the amount over \$9,150
\$12,501 +	\$3,011.50 + 37% of the amount over \$12,500

**Alternative Minimum Tax****Alternative Minimum Tax (AMT) Exemptions**

Filing Status	Exemption Amount:
Individual	\$70,300
Married Filing Jointly & Surviving Spouses	\$109,400
Married Filing Separately	\$54,700

The phaseout thresholds are increased to \$1,000,000 for married taxpayers filing a joint return, and \$500,000 for all other taxpayers (other than estates and trusts). These amounts are indexed for inflation.

## Estate Tax Exemption

The estate and gift tax exemption is doubled for estates of decedents dying and gifts made after December 31, 2017, and before January 1, 2026. This is accomplished by increasing the basic exclusion amount provided in §2010(c)(3), and indexed for inflation. The exemption increases to \$11,200,000 in 2018.

The generation skipping transfer (GST) tax exemption is also doubled.

## Standard Deduction

<b>Married filing jointly</b>	\$24,000
<b>Head of Household</b>	\$18,000
<b>Single</b>	\$12,000
<b>Married filing separately</b>	\$12,000
<b>Additional amount if over age 65, blind or disabled</b>	\$1,600 – Unmarried individuals \$1,300 – Each spouse meeting criterion

## Child Tax Credit

The child tax credit will increase to \$2,000 per qualifying child and will be refundable up to \$1,400, subject to phaseouts. To receive the refundable portion of the child tax credit, a taxpayer must include a social security number for each qualifying child claimed on the tax return.

Also included is a temporary \$500 nonrefundable credit for other qualifying dependents who are not qualifying children.

Phaseouts, which are not indexed for inflation, will begin with adjusted gross income of more than \$400,000 for married taxpayers filing jointly and more than \$200,000 for all other taxpayers.

## Student Loan Interest Deduction

For 2018, the maximum amount that you can deduct for interest paid on student loans remains at \$2,500. Phaseouts apply for taxpayers with modified adjusted gross income (MAGI) in excess of \$65,000 (\$135,000 for joint returns) and is completely phased out for taxpayers with modified adjusted gross income (MAGI) of \$80,000 or more (\$165,000 or more for joint returns).

For graduate students who teach, or the children of university employees, the deferred tuition provided would not be taxable.

There are no changes to the current law regarding the American Opportunity Credit or the Lifetime Learning Credit.

## **Section 529 Plans**

Distributions of up to \$10,000 per beneficiary can be used for tuition expenses for public, private or religious elementary or secondary school. The limitation applies on a per student basis rather a per account basis.

Rollovers from a 529 plan to an ABLE account are allowed without penalty provided the ABLE account is owned by the same designated beneficiary of the 529 plan or a member of the designated beneficiary's family. Rolled-over amounts count towards the overall annual limitation on contributions to the ABLE account.

## **Discharged of Student Loan Indebtedness**

The exclusion from income resulting from the discharge of student loan debt is expanded to include discharges resulting from death or disability of the student.

## **Itemized Deductions**

With the exception of state and local income taxes, mortgage interest, medical expenses, disaster losses, charitable contributions and other deductions not subject to the 2% floor, all other itemized deductions are repealed. The overall limitation on itemized deductions for upper income individuals is also repealed.

## **State and Local Taxes**

Taxpayers can claim a deduction for a combination of state and local income tax, sales tax, or real property tax. The aggregate deduction is capped at \$10,000. Foreign real property taxes are no longer deductible. Under this provision, an individual may not claim an itemized deduction in 2017 on a prepayment of income tax for a future taxable year in order to avoid the dollar limitation applicable for taxable years beginning after 2017.

## **Medical Expenses**

For 2017 through 2018, expenses exceeding 7.5% of income are deductible; that percentage increases to 10% in 2019. Under this provision, these thresholds also apply for determining AMT.

## **Charitable Contributions**

Taxpayers who are able to itemize deductions can include charitable contributions. The current limitation of 50% of income is increased to 60%. The standard mileage rate with regard to the use of a taxpayer's automobile for charitable purposes is indexed for inflation in taxable years beginning after December 31, 2017.

## **Mortgage Interest**

The deduction for mortgage interest is capped at \$750,000 of debt. The interest deduction is allowed on a first or second home. The interest on home equity loans will no longer be deductible. Interest on up to \$1 million of acquisition debt for loans prior to December 15, 2017 is grandfathered.

## **Casualty Losses**

Deductions for unexpected losses to personal property are no longer deductible unless covered by specific federal disaster declarations.

## **Wagering Losses**

The meaning of losses from wagering transactions is clarified to include other expenses incurred by the individual in connection with the conduct of that individual's gambling activity such as travel expenses to or from a casino.

## **Teacher Expenses**

The bill retains the present law above-the-line deduction of \$250 (indexed for inflation) for out-of-pocket expenses.

## **Bicycle Commuting Reimbursement**

The exclusion from gross income and wages for qualified bicycle commuting reimbursements up to \$20 is suspended.

## **Moving Expense Reimbursements**

The exclusion from gross income and wages for qualified moving expense reimbursements is repealed except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order.

## **Alimony**

Beginning with new divorces in 2019, alimony payments to an ex-spouse are no longer deductible and not taxable to the recipient.

## **Affordable Care Act**

The penalty for failing to maintain minimum essential coverage for individuals (individual mandate) is repealed beginning in 2019. The tax on net investment income (NIIT) remains.

## **IRA Recharacterizations**

The special rule allowing a contribution to one type of IRA to be recharacterized as a contribution to the other type of IRA no longer applies to a conversion contribution to a Roth IRA.

Thus, recharacterization cannot be used to unwind a Roth conversion. However, recharacterization is still permitted with respect to other contributions. For example, an individual may make a contribution for a year to a Roth IRA and, before the due date for the individual's income tax return for that year, recharacterize it as a contribution to a traditional IRA.

In addition, an individual may still make a contribution to a traditional IRA and convert the traditional IRA to a Roth IRA, but the provision precludes the individual from later unwinding the conversion through a recharacterization.

## **Plan Loan Offsets**

An employee's obligation to repay a plan loan is accelerated and, if the loan is not repaid, the loan is cancelled and the amount in employee's account balance is offset by the amount of the unpaid loan balance, referred to as a loan offset.

A loan offset is treated as an actual distribution from the plan equal to the unpaid loan balance and is eligible for tax-free rollover to another eligible retirement plan.

A rollover contribution is extended from 60 days after the date of the offset to the due date (including extensions) for filing the federal income tax return for the taxable year in which the plan loan offset occurs, that is, the taxable year in which the amount is treated as distributed from the plan.

A qualified plan loan offset amount is a plan loan offset amount that is treated as distributed from a qualified retirement plan, a section 403(b) plan or a governmental section 457(b) plan solely by reason of the termination of the plan or the failure to meet the repayment terms of the loan because of the employee's severance from employment.

## **Corporations and Businesses**

### **Tax Rates**

The tax rate for corporations is reduced to 21% beginning January 1, 2018 and is made permanent.

### **Dividends Received Deduction**

The 80% and 70% dividends received deductions under current law are reduced to 65% and 50%, respectively.

### **Alternative Minimum Tax**

Effective for tax years beginning after 2017, corporations are no longer subject to AMT. In the case of a corporation, the bill allows the AMT credit to offset the regular tax liability for any taxable year. In addition, the AMT credit is refundable for any taxable year beginning after 2017 and before 2022 in an amount equal to 50% (100% in the case of taxable years beginning in 2021) of the excess of the minimum tax credit for the taxable year over the amount of the credit allowable for the year against regular tax liability.

### **Pass-through Businesses**

Non-corporate taxpayers, including trusts or estates, who have domestic qualified business income (QBI) from a partnership, S corporation, or sole proprietorship are allowed to deduct 20% of business-related income, subject to certain wage limits and exceptions. The remaining income is subject to normal individual rates.

The 20% deduction is not allowed in computing adjusted gross income (AGI), but rather is allowed as a deduction reducing taxable income. It does not reduce income subject to SE tax.

The deduction is also not allowed for businesses offering certain personal services.

The deduction ratably phases out for joint filers with income between \$315,000 and \$415,000 and between \$157,500 and \$207,500 for others.

This provision provides an alternate limitation based on wages and capital. The limitation is the greater of 50% of the wages paid or 25% of the wages paid plus 2.5% of the unadjusted basis of the business' capital assets.

## **Carried Interest**

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.

## **Domestic Production Activities Deduction (DPAD)**

Repealed effective for tax years beginning after December 31, 2017.

## **Like-Kind Exchanges**

The nonrecognition of gain in the case of the like-kind exchange of property used in a trade or business or for investment is limited to real property only.

## **Net Operating Losses**

Net operating losses are limited to 80% of taxable income for losses arising in tax years beginning after December 31, 2017.

The two-year carryback and special carryback provisions are repealed except for losses incurred in the business of farming. Carryovers are allowed indefinitely. NOLs of a property and casualty insurance company are allowed a two-year carryback and 20-year carryforward period.

## **Excess Business Losses**

Currently taxpayers who incur a net business loss are allowed to carry that loss back two years and forward 20 years. Under the new law, non-corporate taxpayers are allowed an "excess business loss." Instead, the loss is carried forward and treated as part of the taxpayer's NOL carryforward in subsequent taxable years.

An excess business loss for a taxable year is the excess of the taxpayer's aggregate deductions attributable to the taxpayer's trades or businesses for that year, over the sum of the taxpayer's aggregate gross income or gain for the year plus a "threshold amount" of \$500,000 for married individuals filing jointly, or \$250,000 for other individuals. The provision applies after taking into account the passive activity loss rules.

## **Section 179 Expensing**

The maximum amount a taxpayer may expense under §179 increases to \$1,000,000. The phase-out threshold amount increases to \$2,500,000. The \$1,000,000 and \$2,500,000 amounts, as well as the \$25,000 sport utility vehicle limitation, are indexed for inflation for taxable years beginning after 2018.

The definition of §179 property is expanded to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging, such as furniture and appliances.

The definition of qualified real property eligible for §179 expensing now includes any of the following improvements to nonresidential real property placed in service after the date such property was first placed in service:

- Roofs
- Heating, ventilation, and air-conditioning property
- Fire protection and alarm systems
- Security systems

Computers and peripheral equipment are removed from the definition of listed property.

### Bonus Depreciation

Additional first year depreciation is available to new and used property. In other words, the requirement that the first qualified use begin with the taxpayer is repealed.

Bonus depreciation rates are as follows:

Placed in Service Year	Bonus Depreciation Percentage	
	Qualified Property in General/Specified Plants	Longer Production Period Property and Certain Aircraft
<b>Portion of Basis of Qualified Property</b>		
<b>Acquired before September 28, 2017</b>		
September 28, 2017 – December 31, 2017	50%	50%
2018	40%	50%
2019	30%	40%
2020	None	30%
2021 and thereafter	None	None

Portion of Basis of Qualified Property		
Acquired after September 27, 2017		
September 28, 2017 – December 31, 2022	100%	100%
2023	80%	100%
2024	60%	80%
2025	40%	60%
2026	20%	40%
2027	None	20%
2028 and thereafter	None	None

As a conforming amendment to the repeal of corporate AMT, the election to accelerate AMT credits in lieu of bonus depreciation is repealed.

## **Vehicle Depreciation**

The cap placed on depreciation write-offs of business-use vehicles is increased and indexed for inflation. The new limits are as follows:

- 1st year - \$10,000
- 2nd year - \$16,000
- 3rd year - \$9,600

Each year thereafter until cost is fully recovered - \$5,760

The new, higher limits apply to vehicles placed in service after December 31, 2017, and for which additional first-year depreciation §168(k) is not claimed.

## **Entertainment Expenses**

No deduction is allowed with respect to (1) an activity generally considered to be entertainment, amusement or recreation, (2) membership dues with respect to any club organized for business, pleasure, recreation or other social purposes, or (3) a facility or portion thereof used in connection with any of the above items.

In addition, the provision disallows a deduction for expenses associated with providing a qualified transportation fringe to employees of the taxpayer, and except as necessary for ensuring the safety of an employee, any expense incurred for providing transportation (or any payment or reimbursement) for commuting between the employee's residence and place of employment.

Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). For amounts incurred and paid after December 31, 2017 and until December 31, 2025, the provision expands this 50 percent limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for de minimis fringes and for the convenience of the employer.

## **Technical Termination of Partnerships**

The rules under §708(b)(1)(B) providing for technical terminations of partnerships is repealed effect for tax years beginning after December 31, 2017. The provision does not change the present-law rule of §708(b)(1)(A) that a partnership is considered as terminated if no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership.

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