2017 JOBS ACTS AND TAX CUTS SURVIVAL GUIDE

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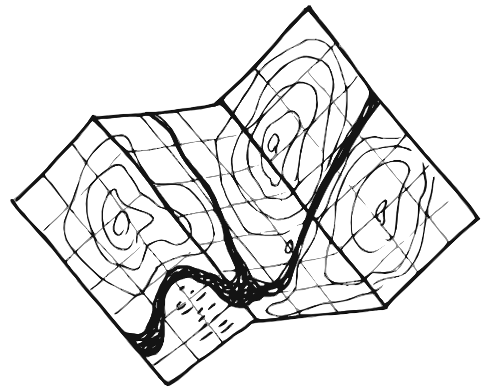
INTRODUCTION

The new tax law has been passed by Congress! As a tax preparer you may be thinking to yourself "what does this mean for me and my tax business?". The new tax law is touted as making taxes easier for your clients to file their own taxes, making your part in the process minimal. This is absolutely not the case!



The new tax law has over 500 pages of new regulations, with many more new regulations still to come! No need to worry about your clients filing with just a postcard either. Your clients still need you, and they most likely always will.

Now is the time to expand your practice by becoming an expert on the new tax law. With new regulations still coming out there will be lots of questions from your clients. As an expert on the new tax law you will be there for them for many years to come.

The main issues for individual tax preparers are as follows:

1. The New Standard Deduction
2. The loss of many Schedule A Deductions
3. New Tax Brackets
4. Fringe benefits (many are gone)
5. Deductions for AGI reduced
6. Individual Mandate
7. Pass-Through Taxation
8. New Due Diligence Issues
9. Tax Planning Techniques

The main issues for business taxes are as follows:

1. Corporate Tax Rate-21%
2. Section 179 Election doubled to $1,000,000
3. No entertainment deduction
4. Pass-Through Entity Deduction

This guide will provide some basic charts showing the new deductions that accompany the new tax revisions. Also included will be some simple scenarios to illustrate how the new numbers fit into everyday taxpayers returns.

HIGHLIGHTS OF THE TAX CUTS & JOBS ACT OF 2017

The legislation has been passed by Congress, so what are some of the items that tax preparers are waiting for? Whenever a large piece of legislation is passed at one time there are bound to be corrections or modifications for unintended consequences. Revenue Regulations will be released in order to help with these issues.

Revenue Rulings will also need to be released on areas where there are many questions. Revenue Rulings are most ofen released to the public much faster than Treasury Regulations. Other items that can help with understanding the new tax act include CE Courses, tax services and independent articles.

THE NEW STANDARD DEDUCTION:

One of the big changes for the new tax act are the new standard deductions. Single category has increased from $6,350 to $12,000. Married filing jointly has increased from $12,700 to $24,000. See the chart below that compares the old standard deductions and dependency exemptions to the new standard deductions. This is something you can work out with your clients should they have questions regarding how the new tax act will change their “numbers”.

Filing Status	**Standard Deduction**
Single	$12,000
Head of Household	$18,000
Married filing jointly	$24,000

Remember, there are no more dependency exemptions! The chart below will illustrate the effect of the new deductions. The chart shows the old Standard Deduction vs. the new Standard Deduction. The result of the dependency exemptions being eliminated can clearly be seen.

Filing Status	**OLD Standard Deduction**	**Exemption**	**Old Total**	**New Standard Deduction**
Married with 1	12700	8100 4050	24850	24000
Married with 2	12700	8100 8100	28900	24000

NEW ENHANCED CHILD TAX CREDITS!

You may have noticed in the calculation of the new standard deduction for married couples with children the new standard deduction was less than the old standard deduction. Where this is made up is with the new enhanced child tax credits. The first thing that should jump out from the chart below is the phase out range which has been significantly increased.

Year	Type	Amount	Refundable	Phaseout
2017	Under the age of 17	1000	Yes*	Single $75,000 MFJ $110,000
2018	Under the age of 17	2000	1400	Single $200,000 MFJ $400,000
	Other dependent child	500	No	

In addition to the increased phase out range the amount of the credit has been doubled to $2,000 for children under the age of 17 and the refundable amount has been set at $1,400. Also if a couple has a child that is over the age of 17 that qualifies (such as a college student) they will receive a $500 tax credit. This amount, however, is not refundable. See the scenarios below for comparison.

2017 Scenario #1 regarding Child Tax Credits:

Paul and Mary are married and file a joint return. They have two dependent children aged 12 and 8.

Their adjusted gross income is $130,000 and their tax is $20,000.

For 2017, they would not qualify for the Child Tax Credit of $1,000 per child for a total of $2,000. They exceeded the phase-out range.

Here is how the same scenario would be with the new Child Tax Credits (2018)

Paul and Mary are married and file a joint return. They have two dependent children aged 12 and 8. Their adjusted gross income is $130,000 and their tax is $20,000.

For 2018, they would qualify for the Child Tax Credit of $2,000 per child for a total of $4,000. They did not exceed the phase-out range.

In this first scenario Paul and Mary would not qualify for the $1,000 per child because they were phased out due to their $130,000 income. In the old child tax credit the phase-out for married filing jointly was $110,000. This made them ineligible. In the scenario below you will see that they do qualify for the new enhanced child tax credit with the increase phase-out range.

2017 Scenario #2 regarding Tax Credits:

Jeff and Kay are married and file a joint return. They have two dependent children aged 21 (college) and 16. Their adjusted gross income is $130,000 and their tax is $30,000.

For 2017, they would not qualify for the Child Tax Credit. One child is too old and they exceed the phase-out range on the other.

Here is how the same scenario would be with the new Child Tax Credits (2018)

Jeff and Kay are married and file a joint return. They have two dependent children aged 21 (college) and 16. Their adjusted gross income is $130,000 and their tax is $30,000.

For 2018, they would qualify for a combined Child Tax Credit of $2,500. $500 for the child in college and $2,000 for the child under the age of 17.

ITEMIZED DEDUCTIONS… HERE IS WHAT STAYS!

The new tax legislation was an important topic in Congress during the last quarter of 2017. Different versions of the tax bill were produced with some items being included in the new tax act, then all of the sudden not being included. This is the result of the two parties working towards a solution. When all the negotiating was complete these itemized deductions remained. As Revenue Regulations and Revenue Rulings are released there will be more information regarding all the tax items in the new act.

1) *Medical expenses subject to 7.5% and then 10% of AGI*
2) *Real estate and income taxes capped at $10,000*
3) *Acquisition indebtedness still on 2 homes*
4) *Charitable contributions*

ITEMIZED DEDUCTIONS... HERE IS WHAT GOES!

There are other itemized deductions that did not make it through Congress and subsequently are not included in the new tax act. There will be details of these items in the next section of the guide. Keep in mind that as regulations and rulings come out during the year there will be more information available on all the tax changes. We are very early in the process. Tax preparation is an ever-changing business as any tax preparation professional is aware. Keeping up-to-date is paramount for success.

1) *Other Taxes*
2) *Real "Home Equity" Loans*
3) *Casualty Losses, except federal disaster area*
4) *Miscellaneous 2% Deductions*

DETAILS ON ITEMIZED DEDUCTIONS AND OTHER TAX ITEMS THAT HAVE BEEN AFFECTED.

This section will offer more details on the items that have been affected by the new tax law. As tax preparers you have most likely become used to the same items being in the tax code every year with a few minor changes. With the new tax code the next tax year will be quite different. This will mean that your clients will need your services more than ever.

Your clients will look to you as the “go to” expert on the new tax law. This will enhance your communication with your clients and lead to more business through referrals.

MEDICAL EXPENSES:

Medical expenses were slated to expire. For 2017 and 2018 they are at 7.5% of AGI. For 2019 and on they are in at 10% of AGI.

MORTGAGE INTEREST

There are certain grandfathered provisions for mortgage interest. For loans entered into before December 15, 2017 acquisition indebtedness up to $1,000,000 still applies. This includes refinancing up to the loan balance (no new debt).

For new indebtedness the maximum is reduced to $750,000. Second residence indebtedness is still allowed. There will be no more real “home equity” loans.

CHARITABLE CONTRIBUTIONS

The 50% AGI ceiling limitation has been increased to 60% of AGI. This applies to carryovers as well. Charitable deductions for contributions in exchange for college athletic event seating is denied.

CASUALTY LOSSES

Still allowed but only for losses declared a disaster by the President. No more theft, fire, storm, shipwreck or other casualty losses.

MISCELLANEOUS 2% DEDUCTIONS

Basically, everything is repealed. Fees for personal and investing tax preparations, employee business expenses, home office deductions and investing advice fees are all eliminated.

GAMBLING LOSS DEDUCTION MODIFIED

Gambling losses are to the extent of winnings. Gambling losses include expenses incurred in the wagering activity such as travelling to and from the casino.

KIDDIE TAX:

Unearned income of children under the age of 19 or fulltime student under the age of 24 is taxed as following. Exemption is still $1050 plus the first $1050 tax at the child's rate. Everything else is taxed at the new trust rates, not the parent's rate. Example as follows:

Little Mike has unearned income from interest on a savings account of $20,600. His parents are in the 15% tax bracket. How much is the tax on his income?

For 2018, the first $1,050 is not taxed. The next $1,050 is taxed at Mikey's rate of 10%. The balance of $18,500 is taxed at the new trust tax rates, some as high as 37%!

TRUST TAX RATES

The new Trust Tax Rates increased and is important to be aware of if involved in filing IRS Form 1041. Where the new trust tax rates have an important influence is for the Kiddie Tax in the example above.

Range	Tax Rate on Taxable Income
$2,550 or less	10%
Over $2,550 and up to $9,150	$255 plus 24% of amounts over $2,550
Over $9,150 and up to $12,500	$1,839 plus 35% of amounts over $9,150
Over $12,500	$3,011.50 plus 37% of amounts over $12,500

ALTERNATIVE MINIMUM TAX

The AMT is still in place but radically reduced. No add back of personal or dependency exemptions. State taxes limited to $10,000 and impacts the add back. No more employee business expenses.

AMT EXEMPTIONS AND RATE

The chart below indicates the increased exemption and phase-out amounts for the AMT. Many tax payers (and tax preparers) will find it beneficial that the AMT is radically reduced. It is not deemed as a favorite area among many preparers.

	2017	**2018**
Exemption: Single	55400	70300
Exemption: Married	86200	109400
Phase-out: Single	123100	500000
Phase-out: Married	164100	1000000

MOVING EXPENSES

Moving expenses are suspended through 2025. They still exist for military. If you are a member of the Armed Forces and your move was due to a military order and permanent change of station you do not have to satisfy the distance or time tests. Direct expenses are no longer excludible as a fringe benefit. Examples below:

Dave and Eva move from Maine to Rhode Island to take a new job for his company. They incur $2,500 in direct moving expenses and $1,000 in indirect moving expenses including meals en route to their new house.

For 2018, they would not to be able to deduct any moving expenses.

Dave and Eva move from Maine to Rhode Island to take a new job for his company. They incur $2,500 in direct moving expenses and $1,000 in indirect moving expenses including meals en route to their new house. Dave's employer reimburses him $3,500.

For 2018 the company must include the reimbursement of both the indirect expenses of $3,500 on their W-2 as additional gross income.

ALIMONY PAYMENTS

The payment of alimony is no longer a deduction for adjusted gross income. The receipt of alimony is no longer income to the recipient. Effective for agreements executed after December 31, 2018. Earlier adoption is allowed if the agreement expressly provides it applies.

THE PASS-THROUGH TAX

With the corporate taxes decreasing to 21% and individual rates largely staying the same, operating as a partnership (LLC) or S Corporation may subject the owner to a higher tax. New pass through "tax" is really a deduction to pass through income to reduce the impact higher individual rates to approximate the corporate rates.

Congress passed a new code Section 199A while repealing Section 199 (Domestic Production Activities Deduction)

Deduction is 20% of Income of the following business income:

- *Partnerships*
- *Corporations*
- *Schedule C*
- *Rental Income*

It is important to remember that this list does not include engineering or architectural firms. This is not an adjusted gross income (AGI) deduction but is calculated for taxable income. See the basic example below:

Example:

In 2018, Matt received a salary of $100,000 from his position at a corporation. In addition, Matt sells insurance and earned $50,000 in fees after his expenses. He files this information on his Schedule C.

In calculating his taxable income, Matt will be able to deduct $10,000 (20% of $50,000). If Matt is in the 25% tax bracket, he will effectively be taxed at 20% on his pass through income. (80% x 25%)

DUE DILIGENCE

Circular 230 requires we exercise due diligence. First there was EITC (Earned Income Tax Credit). Then they added ACTC (Additional Child Tax Credit) and the AOTC (American Opportunity Tax Credit).

Now Head of Household (HOH) has been added to the list of due diligence items.

The Act directs the Secretary of the Treasury to issue due diligence requirements for paid preparers in determining eligibility for a taxpayer to file as head of household. A penalty of $500 will be imposed for each failure to meet these requirements. This provision is effective after December 31, 2017 and expires after December 31, 2025.

INDIVIDUAL MANDATE

The Individual Shared Responsibility Payment is reduced to zero (Also referred to as Individual Healthcare Mandate). Effective for tax years beginning after December 31, 2018

WHAT ELSE IS CHANGING?

There are other items that have changes in them, mostly on the business side. As the Treasury comes out with more Rulings and Regulations regarding the new tax act many of these items will be clarified. Right now the best thing you can do for your clients is be ready to answer their questions. They most likely will have many of them, especially on the business side. For example they may need to restructure their business slightly to deal with the fact that entertainment expenses are gone, or the fact that the listed property has changed.

- Real estate depreciation tax life – dropping to 25 years
- Larger tangible personal property first year write-offs
- Section 179 increases from $500,000 to $1,000,000
- Entertainment expenses are gone.
- Estate tax exemption doubles: $5,490,000 to $10,980,000

HELPFUL TAX BRACKET CHARTS FOR 2018

INDIVIDUAL TAX RATES

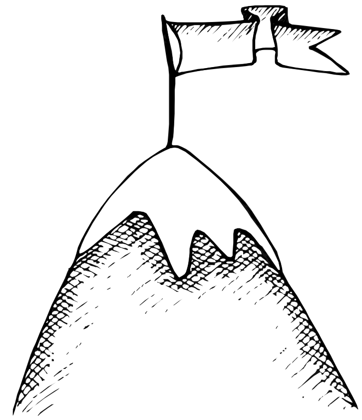
Range	Tax Rate on Taxable Income
$9,525 or less	10%
Over $9,525 and up to $38,700	$952.50 plus 12% of amounts over $9,525
Over $38,700 and up to $82,500	$4,453.50 plus 22% of amounts over $38,700
Over $82,500 and up to $157,500	$14,089.50 plus 24% of amounts over $82,500
Over $157,500 and up to $200,000	$32,089.50 plus 32% of amounts over $157,500
Over $200,000 and up to $500,000	$45,689.50 plus 35% of amounts over $200,000
Over $500,000	$150,689.50 plus 37% of amounts over $500,000

MARRIED TAX RATES

Range	Tax Rate on Taxable Income
$19,050 or less	10%
Over $19,050 and up to $77,400	$1,905 plus 12% of amounts over $19,050
Over $77,400 and up to $165,000	$8,907 plus 22% of amounts over $77,400
Over $165,000 and up to $315,000	$28,179 plus 24% of amounts over $165,000
Over $315,000 and up to $400,000	$64,179 plus 32% of amounts over $315,000
Over $400,000 and up to $600,000	$91,379 plus 35% of amounts over $400,000
Over $600,000	$161,379 plus 37% of amounts over $600,000

BENEFITS OF BECOMING CERTIFIED WITH THE IRS

Whether you're just starting to think about a career in tax or already have some tax return preparation experience and want to take it to the next level, you may want to consider completing the AFSP or Enrolled Agent (EA) program with the Internal Revenue Service. Being able to hold yourself out to the public has a number of benefits, most notably, an increase in the type of tax services you can provide for a fee.



The passing of this new tax act is a perfect opportunity to become certified and be an expert on the new tax laws. Reach the pinnacle of your tax preparation career by getting certified this year.

REPRESENTATION OPPORTUNITY

Federal law only allows licensed attorneys, CPAs and enrolled agents to represent a taxpayer before the IRS without any limitation. This unrestricted access presents opportunities to increase your income since it allows you to offer a wider range of tax services to the general public. Tax professionals who have successfully completed the IRS AFSP program can represent a client for whom they have prepared a tax return. This allows for increased revenue due to the ability to offer additional services to clients.

JOB MARKET COMPETITIVENESS

If your goal is to obtain employment rather than form your own tax practice, the AFSP program will make your job applications more competitive. A successful AFSP or EA candidate is recognized by the IRS and sets one apart from other unenrolled tax professionals. When an employer sees AFSP on your resume, they'll already know that you possess a high level of competency in tax issues.

OTHER BENEFITS OF BECOMING CERTIFIED

Upon obtaining the certificate of record from the IRS you will be included in the IRS directory which identifies the preparer as completing the program, offers proof to inquiring clients, and further distinguishes them from preparers who do not participate. Completing the AFSP or EA continuing education on an annual basis is a sure way to stay up-to-date on new tax laws, avoid costly penalties from not knowing the current tax laws, and be totally prepared if the IRS does indeed make certification mandatory at some point in time.

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