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Update on Tax Reform & Planning Tips

With Tax Reform in the news and all over our social media we wanted to pass along a special newsletter. Remember that tax reform has not been signed into law, the final plan will need to be reviewed by the President once approved by the House and Senate. While the changes don't take effect until 2018 (with one minor exception), we want to alert you to some steps you might take before year-end to preserve the best possible tax results. As you explore these ideas, mostly you will find they contain a common and time-tested theme: where possible, defer income and accelerate the payment of deductible expenses. The reason for relying on this oldest of strategies is because ordinary income tax rates should be lower next year and many expenses will either no longer be deductible or will be less valuable in light of higher standard deductions in 2018.

Should you want to review some of these options with us, give us a call we are here to help you.

Should you want to keep up with the changes be sure to follow us on social media. We are on Facebook, Linked-In, and Twitter so be sure to check us out and stay connected.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

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Accelerate Your Itemized Deductions

In both the House and the Senate tax plans the standard deduction jumps up to nearly double it's current threshold. With this in mind, accelerate any itemized deductions you may have while the standard deduction is still lower.

- **Prepay State Income Tax**- The deduction for state income tax paid is more likely going to be eliminated in 2018. Paying your fourth estimate at the end of December instead of January could reduce your tax.
- **Bunch Strategies**- With the standard deduction rising it will be more difficult to reach the threshold and itemize. Therefore, consider contributing to charities in bunches and contribute every other year instead of every year.

Remember that federal tax reform is still in debate and Kentucky has not started any reform. The Kentucky standard deduction remains low so even if you will take the standard deduction on the federal return we can still review to see if itemizing on Kentucky will provide you a benefit.

Defer Compensation Where Possible

When possible you want to defer or delay income towards the end of the year into 2018. With the expected lower rates deferring income can possibly save you tax dollars.

- **Delay Year-End Bonuses**- While many employees cannot control the timing of their compensation, it never hurts to ask. Check with your employer if you can defer the income to 2018.
- **Cash Business Owners Should Delay Billing**- While it is not proper to delay depositing checks received before ear end, delaying billing could help save money. With lower business tax rates (and individual rates for pass-through businesses) expected delaying income is a good idea.

Again please contact us with any questions you have on deferring income.

Business Asset Acquisitions

Year end is always a good time for businesses to evaluate their needs with fixed assets. With changes in bonus depreciation it may be a good idea to delay purchasing assets.

- **Bonus Depreciation** will jump to 100% for brand new assets placed in service in 2018. The additional first year depreciation is only 50% for assets placed in service in 2017. However, if you will still qualify for Section 179 then either year can provide a benefit to your company.

- **Complete trade-ins of equipment**. Section 1031 like-kind exchanges will only be available on real property in 2018 should the current proposals pass. This means that if you have other business assets with low or no basis that you are considering trading in for new assets, complete these transactions now and place the new assets in service before year-end.

Update on Tax Reform

Since his election last November President Trump and the Republicans have been working on tax reform. The tax plans from the House and the Senate have been reconciled to give us the final version of the "Tax Cuts and Jobs Act." Here are some of the main points from the plan.

Business Tax changes:

- **A 21% corporate tax rate**. While both plans originally had a 20% tax rate they settled on a 21% corporate tax rate for years beginning after December 31, 2017. The current statutory federal rate is 35%.

- **A 20% deduction for pass-through businesses**. Individuals with qualified business income from a partnership, S corporation, or sole proprietorship are allowed a new deduction of 20% of the business income. The deduction is maxed at 50% of the W-2 wages (if present)f the business.

- **Elimination of some business deductions.** The deduction for entertainment expenses is disappearing along with deduction for domestic production activity.

- **A one-time repatriation tax**. All overseas assets from US-owned companies would be considered repatriated and taxed at a one-time lower rate - this is designed to bring corporate profits back from overseas. Non-liquid assets like real estate would be taxed at a lower rate than cash or cash equivalents, and the payments would be spread out over time. The current numbers in both plans are 14% for cash and cash equilivants and 7% for non-liquid assets.

Personal tax changes:

- **Realigned Tax Brackets.** The final plan keeps the seven brackets that we have in current law, the ranges for the brackets has changed. See below for the new brackets. The two plans have different setups for the tax brackets. The new rates rang from 10%-37% while the old brackets ranged from 10%-39.6%.

- **A larger standard deduction**. The final plan raises the standard deductions from the current $6,500 for single and $13,000 for married to $12,000 for single and $24,000 for married individuals.

- **Suspends the personal exemptions**. In current tax law all individuals earn a personal exemption of $4,150. This is subtracted from your adjusted gross income. The new law reduces this amount to zero.

- **Eliminates most itemized deductions**. The final plan saved some more itemized deductions from the original proposals. The state and local tax deduction is adjusted to a max of $10,000 in a combination of state and local property taxes, and state and local income taxes. The mortgage interest deduction is also adjusted, no longer can you deduct the interest on a home equity. The mortgage interest is also capped at $750,000 of debt (down from $1 million) unless grandfathered in. For 2017 and 2018, the medical expenses must exceed 7.5% of the taxpayers AGI before being included in the itemized deductions.

- **Alternative minimum tax (AMT).** The tax, which forces people who qualify due to an outsized number of deductions, will have increased exemptions amounts. For married individuals the exemptions jumps to $109,400 (from $86,200), for single individuals the exemptions increases from $55,400 to $70,300.

- **Increases the size of the child tax credit**. The child tax credit increases from $1,000 to $2,000 in the final plan. The refundable portio of the $2,000 will be $1,400. In addition there is a $500 refundable credit for other non-child dependends.

- **Increase of the estate tax exemption**. Called the "death tax" in the plan, this applies only to inherited assets totaling $5.49 million or more in 2017. Very few households pay the estate tax, but it has long been a target for Republicans. In the final plan the exemption is raised from $5 million to $10 million. The exclusion falls back to $5 million in 2026.

Follow our social media to stay up to date with this ever changing topic.

Income Tax Brackets

Below are comparisons of the tax brackets for single and married filed jointly taxpayers.

Single Filer

Current Law		Tax Cuts and Jobs Act	
10%	$0-$9,525	10%	$0-$9,525
15%	$9,525-$38,700	12%	$9,525-$38,700
25%	$38,700-$93,700	22%	$38,700-$82,500
28%	$93,700-$195,450	24%	$82,500-$157,500
33%	$195,450-$424,950	32%	$157,500-$200,000
35%	$424,950-$426,700	35%	$200,000-$500,000
39.6%	$426,700+	37%	$500,000+

Married Filing Jointly

Current Law		Tax Cuts and Jobs Act	
10%	$0-$19,050	10%	$0-$19,050
15%	$19,050-$77,400	12%	$19,050-$77,400
25%	$77,400-$156,150	22%	$77,400-$165,000
28%	$156,150-$237,950	24%	$165,000-$315,000
33%	$237,950-$424,950	32%	$315,000-$400,000
35%	$424,950-$480,050	35%	$400,000-$600,000
39.60%	$480,050+	37%	$600,000+

Note: The Head of Household filing status is retained, with a separate bracket schedule.

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