MORRIS + D'ANGELO

1046 W. Taylor Street
Suite 200, San Jose, 95126

1.408.292.2892

We have a new tax law

The US House and Senate have both passed "The Tax Cuts and Jobs Act" (HR1).

(https://www.congress.gov/bill/115th-congress/house-bill/1)

At Morris + D'Angelo, we sell sleep. We know that the new Tax laws and policies are far more complicated than it would appear. We have the expertise to keep you in the center lane of traffic to avoid any head-on collisions (the pending updates to the new tax reform).

Regardless of the reasons why and the effects of historical tax policies, we will have a new "Tax" landscape. We have our finger on the pulse of the new pending outcomes so you won't have to.

Daniel Morris
Chief Dragon Slayer

This set out to be the "most sweeping tax reform since 1986" and in fact really does make some massive changes in how many American's will be taxed.

Many of the bill's provisions are temporary, and expire in ten years or less. The Act's intention sets out to "simplify" the average person's return. Naturally, as we are not a one size fits all economy, simplification is an overwhelming challenge. We anticipate "complications" to follow in the next couple of years as clarifying regulations are written, and the "needs" become tailored to the realities of our national economy, deficits realized versus projected, and unintended consequences of these changes.

We have highlighted what we believe are the key aspects that likely apply to our global and diverse customers. So as 2017 comes to a close we know that there will be questions about these changes and we look forward to serving you and helping you navigate our new tax order.

Here's What We Foresee:

- For businesses, corporate tax rates go to 21% flat rate. Taxable income from S-Corporations and Partnerships will be taxed at a dramatically lower rate as well (except for income from service trades which will be taxed generally at ordinary income rates).

  Most businesses will enjoy a 100% bonus depreciation on certain types of assets allowing immediate deductions in the year of purchase; an increase in section 179 depreciation; and an elimination of the corporate AMT.

  Some businesses will also be subject to a limit on interest deduction (30% of income) subject to carve outs for real estate and small businesses.

  In general, businesses will lose or see several credits modified such as the section 199 Domestic Production Activities Credit, a change in Meals Deductions Rules, and very significantly, the end of the ability to do a Tax-Deferred Exchange of personal property (real property is still allowed). There are new credits that were also created.

  Note the deduction by noncorporate taxpayers of excess business losses (i.e., business losses in excess of business income plus $500,000 for joint filers and $250,000 for all others).

  For most individuals, this is where we see the greatest "simplification".

- Income – Other than the income flow from through entities, and some capping of rates with capital gains, changes to income are relatively minor comparatively: (alimony will no longer be deductible to the payer, nor taxable to the recipient), the most meaningful changes happen below the line and in the rates of tax.

- The Per-Person Personal Exemption goes away, and each household will see a doubling of the standard deduction. For married filing joint taxpayers this increases the amount of deductions to $24,000 without itemizing; and $12,000 for individuals.

- Medical expenses are deductible to the extent they exceed 7.5% of income (effective in 2017);

- UP TO $10,000 of state and local taxes will be deductible, including property and state income taxes.

- The mortgage interest deduction will be limited to $750,000 of new mortgages (ie: originated after December 15, 2017). For debt incurred before the Act passed, the limit will be $1,000,000 of debt, but home equity financing is excluded.

  Interest on second homes will be deductible but at lower caps.

- What goes away are virtually all "2% miscellaneous itemized deductions including investment advisory, un-reimbursed employee expenses, etc.

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Please do not hesitate to reach out to any of us at Morris+D'Angelo to discuss how you may be impacted by the Tax Cuts and Jobs Act and consider specific planning opportunities for 2017.

Here's What We Foresee:

Tax credits for families increase to $2,000 per qualifying child and $500 per qualifying dependent with much higher phaseouts (starting at $400,000).

Alternative Minimum Tax does not go away, but increases significantly; plus when considering the deductions for state and local taxes and miscellaneous itemized deductions are removed; AMT becomes a moot point for many tax payers.

Tax rates: The new law resets tax rates and introduces a tax rate schedule with still seven rates starting at 10%, but capping out at 37% (vs 39.6%). The new table follows a similar structure to the old, just at lower rates. So where the 28% bracket began at 153K for married filing joint taxpayers, now the 24% bracket starts at $165K. The only rate bracket to increase is the 35% starting now at $400K (vs. 416K in 2017).

The top 37% bracket kicks in at $600K MFJ and $500K for single tax payers.

- Estate tax: The estate tax exemption is currently at $4.49 million per person will remain doubled for years 2018 through 2025 effectively a married couple's estate of up to $22 million (indexed each year), free from estate tax. This will sunset in 2026.

NOW WHAT?

- With the few days left in the year, for many of us, the value of deductions are greater in 2017 than 2018, so the old theory holds especially true now, accelerate deductions and defer income.

- Defer as much income as possible.

- Although the there is greater deductibility for new assets, with lower tax rates the value is lower; finish those planned purchases of new equipment before year end.

- **Make certain to make all pension contributions timely.**

  -- If you have medical expenses you're planning, do them now!

  -- If you've purchased real estate for investment or business, consider having a cost segregation study done to break out assets that can be deducted under section 179;

  -- Consider deferring the exercise of options under ISO plans as they are taxable only for AMT purposes;

  -- If you are considering a like kind exchange of personal property, make sure to at least have disposed of the relinquished property before year end (1031 exchanges of real property will still be allowed);

  -- Defer repatriating foreign earned income until 2018 when you can benefit from the reduced repatriation rate;

  -- Again, moving expenses, Alimony, miscellaneous itemized deductions, many credits and other items go away before year end so please keep this in mind when closing out the year.

  --If you wish to unwind a IRA to Roth conversion, the last point to do that will also be in 2017 as this goes away.

  -- NOL rules change and the ability to carry back business NOL's sunsets, carry forwards and the amount usable in a given year is limited to 80% of income. Consider carefully whether to elect to forego the carryback when filing your 2017 returns; and

  -- Finally, although you cannot prepay your 2018 taxes and deduct them in 2017, you can deduct your 2017 taxes paid in 2017. Note you can also prepay your 2018 property taxes. So to the extent that it doesn't throw you in AMT, consider paying these before 12/31.

Happy Holidays

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