

TAX CUTS AND JOBS ACT FOR INDIVIDUALS

Presented by Michele Pino Milam & Associates, PLLC

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Introduction

- December 20, 2017 Congress passed the Tax Cut and Jobs Act (TCJA)
- December 22, 2017 President Trump signed it into law
- The tax changes are <u>permanent for businesses</u> but <u>temporary for individuals</u> expiring after 2025 and returning to where they were in 2017.



Introduction

Today!

- · Analysis of individual tax changes and planning going forward
 - Double the Standard Deduction
 - Changes to Itemized Deductions
 - Reduction of Income Tax Rates
 - · AMT Exemption and Phase-out Increased
 - 529 Plans after tax reform
 - · Other Provisions

Tomorrow!

- Overview of taxation of **business** entities
 - Corporate Tax reduced to 21%
 - AMT Repealed
 - 199A Deduction
 - · Other Provisions

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Overview

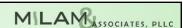
- 1. What are the changes to your individual return?
- 2. What do these changes mean for taxpayers across the board?
- 3. What will my 2018 return look like? DRAFT
- 4. What about my Oklahoma tax return?

Overview of Key Individual Tax Reforms

Individual Rates	Overall rates decreased; 7 brackets retained
Personal Exemptions	Suspended
Standard Deduction	Relatively doubled
SALT Deduction	Limited to \$10,000 in property and state/local income taxes (only applies to itemized deductions – Schedule A)
Mortgage Interest Deduction	Limited to interest on up to \$750,000 of acquisition indebtedness; Repeals deduction for home equity indebtedness
Pease Limitation	Suspended
AMT	Exemption increased; Exemption phaseout thresholds substantially increased
Child/Family Credit	Increased

Individual provisions sunset December 31, 2025

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Individual Income Tax Rates

2017 TOP OF EACH BRACKET

		Single	MFJ/QW	MFS	НОН	T&E	CAPITAL GAINS
	10%	\$ 9,325	\$ 18,650	\$ 9,325	\$ 13,350		0%
7	15%	\$ 37,950	\$ 75,900	\$ 37,950	\$ 50,800	\$ 2,550	070
201	25%	\$ 91,900	\$ 153,100	\$ 76,550	\$ 131,200	\$ 6,000	
7	28%	\$ 191,650	\$ 233,350	\$ 116,675	\$ 212,500	\$ 9,150	15%
	33%	\$ 416,700	\$ 416,700	\$ 208,350	\$ 416,700	\$ 12,500	1370
	35%	\$ 418,400	\$ 470,700	\$ 235,350	\$ 444,500		
	39.6%						20%

Individual Income Tax Rates

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2018 TOP OF EACH BRACKET

		Single	MFJ/QW	MFS	нон	T&E
	10%	\$ 9,525	\$ 19,050	\$ 9,525	\$ 13,600	\$ 2,550
	12%	\$ 38,700	\$ 77,400	\$ 38,700	\$ 51,800	-
2018	22%	\$ 82,500	\$ 165,000	\$ 82,500	\$ 82,500	-
70	24%	\$ 157,500	\$ 315,000	\$ 157,500	\$ 157,500	\$ 9,150
	32%	\$ 200,000	\$ 400,000	\$ 200,000	\$ 200,000	-
	35%	\$ 500,000	\$ 600,000	\$ 500,000	\$ 500,000	\$ 12,500
	37%					

2018 TOP OF EACH CAPITAL GAINS BRACKET

	Single	MFJ/QW	MFS	нон	T&E
0%	\$ 45,000	\$ 77,200	\$ 38,600	\$ 51,700	\$2,600
15%	\$425,800	\$479,000	\$239,500	\$452,400	\$12,700
20%					

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Personal <u>Exemptions</u> for Taxpayer, Spouse, and Dependents Suspended

Deduction for personal exemptions are <u>suspended</u> for tax years 2018 - 2025.

Exemptions are reduced to zero.



Standard Deduction is Almost Doubled, Inflation Adjustment is Modified

For tax years 2018 – 2025, the Standard Deduction is increased:

- For joint filers and surviving spouses from \$12,700 to \$24,000;
- For Head of Household from \$9,350 to \$18,000;
- For singles and married filing separately from \$6,350 to \$12,000.
- The additional standard deduction for the elderly & blind is unchanged at \$1,300.

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Itemized Deduction is Limited to \$10,000 for SALT-Combined State/Local Property

The deduction of state and local income, sales, and property taxes for any tax year is limited to \$10,000 MFJ (\$5,000 MFS).

The \$10,000 rule does not apply to such taxes if these taxes are paid or accrued in carrying on a trade or business. <u>So if these taxes are paid on a individual's Schedules C, E or F, they are deductible.</u>



Mortgage Interest Deduction on Acquisition Debt is Lowered and Deduction for Home Equity Interest is Suspended

For tax years 2018 – 2025, the TCJA modifies the mortgage interest deduction rules:

- Maximum acquisition debt is limited to \$750,000 from the previous amount of \$1,000,000. However, debt incurred before December 15, 2017 is not subject to the new rules and the debt limit will remain at \$1,000,000.
- After 2025, \$1,000,000 acquisition debt limit applies regardless of when debt is incurred.
- <u>Home equity interest is suspended except</u> for loans used to <u>buy, build, or substantially improve the taxpayer's home</u> that secures the loan *regardless of when the debt is incurred*.

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Limit on an Individual Contribution of Cash to a Charitable Organization Increased

For years 2018-2025, the deductions of cash contributions by individuals to <u>charities increase</u> from 50% to 60% AGI.



Charitable Deduction is Denied for Athletic Event Seating Rights

OLD RULE: If a taxpayer made a payment to or for the benefit of a college that would have been allowable as a charitable deduction but for the fact that the taxpayer received the right to buy tickets for seating at an athletic event in the institution's athletic stadium, 80% of the payment was treated as a charitable contribution.

NEW RULE: Under new TCJA, <u>no charitable deduction is allowed</u> for a payment to a college or university in exchange for which the contributor receives the right to purchase tickets or seating at an athletic event.

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Miscellaneous Itemized Deductions are <u>Disallowed</u>

Those Miscellaneous Itemized Deductions to which the 2%-of-AGI floor applied included the following:

- Unreimbursed employee business expenses.
- Investment expenses and expenses for the production or collection of income.
- Tax preparation expenses.



Miscellaneous Itemized Deductions Allowed

Certain other miscellaneous deductions are not subject to the 2%-of-AGI floor and are reported on line 28 of Schedule A (Form 1040) including:

- amortizable bond premiums
- gambling losses

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Gambling Loss Limitation is Broadened

The TCJA provides that for tax years 2018 – 2025 for the purposes of the limit on wagering losses, the term "losses from wagering transactions" includes <u>all deductions</u> for expenses incurred in carrying out wagering transactions, and <u>not just gambling losses</u>, are limited to the extent of gambling winnings.

This includes <u>travel expenses or fees</u>, to the extent those expenses do not exceed gambling winnings.



Moving Expense Deduction Eliminated, Except for Certain Armed Forces Members

The TCJA suspends the moving expense deduction for years 2018-2025.

- Except for members of the <u>Armed Forces on active duty</u>.

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Alternative Minimum Tax (<u>AMT</u>) Exemption Amounts For Individuals Increased

For tax years 2018 - 2025, the TCJA increases the statutory <u>AMT exemption</u> amounts:

- For married filing jointly/surviving spouses increases to \$109,400 from \$78,750
- For married filing separately increases to \$54,700 from \$39,375
- For other unmarrieds increases to \$70,300 from \$50,600



AMT Amounts Continued

The statutory <u>AMTI threshold</u> amounts for <u>phase-out</u> of the exemption amounts are:

- For marrieds filing jointly/surviving spouses increases to \$1,000,000 from \$150,000
- For marrieds filing separately increases to \$500,000 from \$75,000
- For other unmarrieds increases to \$500,000 from \$112,500

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Child Tax Credit is Increased and Expanded

For Tax Years 2018 – 2025:

- TCJA increases the <u>child tax credit</u> from \$1,000 to <u>\$2,000</u> (\$1,400 of which is refundable).
- The phase-out for the applicable years begins with \$400,000 for a joint return and \$200,000 for all other returns.



New Credit for Other Dependents Not Eligible for the Child Tax Credit

Expanded:

• A \$500 nonrefundable credit is available for each dependent who cannot be claimed for the child tax credit.

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Kiddie Tax Modifications

- The kiddie tax applies to investment income of children under age 19 or, if a full time student, age 24.
- Under the new law, the child's tax will no longer be affected by the tax situation of the child's parent or the unearned income of any siblings.
- The kiddie tax effectively applies trust and estate (T&E) ordinary and capital gains tax rates to the net "UNEARNED income" of a child.
- The child's taxable income attributable to EARNED income is taxed according to an unmarried taxpayer's (Single) tax brackets and rates.
- Investment earnings in excess of \$2,100 will be taxed at the rates that apply to trusts and estates (old rule: taxed at the parents' rate).

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Kiddie Tax Modifications - continued

• Here the rates for 2018:

\$1 to \$2,550	10%
\$2,551-\$9,150	24%
\$9,151-\$12,500	35%
Over \$12,500	37%

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Alimony Won't be Deductible by the Payor or Includible by the Recipient for Post-2018 Divorce or Separation Instruments

For <u>divorce or separation</u> instruments <u>executed after Dec. 31</u>, <u>2018</u>, the TCJA will not allow the deduction for the payments of alimony or the inclusion in gross income for receipt of <u>alimony</u> payments.



Shared Responsibility Payment Requirement Eliminated after 2018

Under the Affordable Care Act, non-exempt individuals had to either see that they and any of their dependents had <u>minimum essential</u> <u>health coverage</u> for the month or pay a monthly shared responsibility payment.

The TCJA eliminates the shared responsibility payment by reducing the calculation to zero <u>beginning in 2019</u>.

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529 Plan Account Funds May be Used for Elementary or Secondary School Tuition

- Under the TCJA, the amount of cash distributions from all <u>529 plans</u> with respect of a beneficiary during any tax year are capped at \$10,000.
- The limitation applies on a <u>per-student</u> basis, rather than a peraccount basis. An individual may receive a maximum of \$10,000 in tax free distributions for <u>elementary or secondary school tuition</u>, regardless of whether the funds are distributed from multiple accounts. Any excess distributions received would be treated as a distribution subject to tax under the general rules of Code Sec 529.



What does this mean?

Table 5.-Estimated Distribution of Taxpayers Who Elect to Itemize Deductions

Innoma Catagony [41]	Returns (Thousands) [2]				
Income Category [1]	2017	2018	2024	2026	
Less than \$10,000	178	65	80	264	
\$10,000 to \$20,000	517	154	149	611	
\$20,000 to \$30,000	933	237	255	1,038	
\$30,000 to \$40,000	1,595	410	460	1,765	
\$40,000 to \$50,000	2,222	635	698	2,330	
\$50,000 to \$75,000	6,683	2,136	2,495	7,354	
\$75,000 to \$100,000	6,622	2,442	2,850	7,567	
\$100,000 to \$200,000	17,959	6,513	7,732	21,467	
\$200,000 to \$500,000	8,207	4,185	4,940	9,937	
\$500,000 to \$1,000,000	1,089	791	878	1,296	
\$1,000,000 and over	509	444	472	592	
Total, All Taxpayers	46,514	18,012	21,009	54,221	

^[1] The income concept used to place tax returns into income categories is adjusted gross income (AGI) plus:

Source: Joint Committee on Taxation staff estimates.

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Individual Example - simple

	<u> </u>		MFJ	
				TCJA
		<u>2017</u>		<u>2018</u>
AGI	\$	185,000		\$ 185,000
Itemized Deduction		(17,339)		0
Standard Deduction		0		(24,000)
Taxable lincome		167,661		161,000
Tax		30,428		27,299
Child Care Credit		(600)		(600)
Child Tax Credit		0		(2,000)
Withholding		(28,961)		(28,961)
Tax Due/(Refund)	\$	867	14	\$ (4,262)

⁽¹⁾ tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) employer of FICA tax, (4) worker's compensation, (5) nontaxable Social Security benefits, (6) insurance value of Medicare benefits, (7) alternative minimum tax preference items, (8) individual share of business taxes, and (9) excluded income of U.S. citizens living abroad. Categories are measured at 2018 levels.

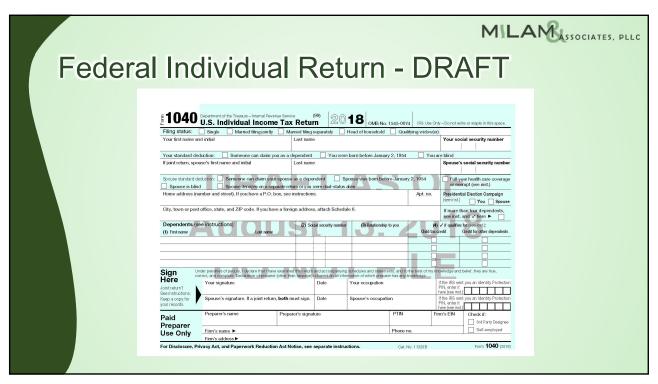
^[2] Includes nonfilers, excludes dependent filers and returns with negative income.

199A – 20% Qualified Business Income Deduction

Starting in 2018, taxpayers are allowed a deduction equal to 20 percent of "qualified business income," otherwise known as "pass-through" income, i.e., income from partnerships, S corporations, LLCs, and sole proprietorships.

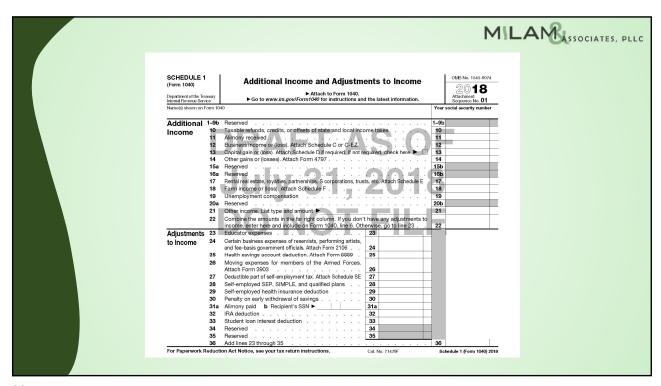
Steve will elaborate on this tomorrow.

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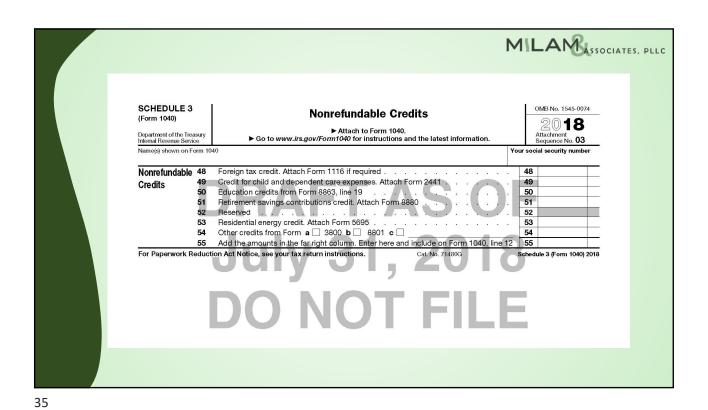


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SCHEDULE 2 (Form 1040) Department of the Treasury Internal Service Name(s) shown on Form 1040 Tax OMB No. 1545-0074 2 0 18 Attachment Sequence No. 02 Your social security number
Tax 38-44 Reserved 38-44 45 Alternative minimum tax. Attach Form 6251 45 46 Excess advance premium tax credit repayment. Attach Form 8962 46 47 Add the amounts in the far right column. Enter here and include on Form 1040, line 11
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71476U Schedule 2 (Form 1040) 2018 Cat. No. 71476U Schedule 2 (Form 1040) 2018
DO NOT FILE



MLAM ASSOCIATES, PLLC SCHEDULE 4 OMB No. 1545-0074 **Other Taxes** (Form 1040) 2018 ► Attach to Form 1040. Department of the Treasury Internal Revenue Service tachment equence No. 04 ► Go to www.irs.gov/Form1040 for instructions and the latest information. Name(s) shown on Form 1040 Your social security number Other 57 Self-employment tax. Attach Schedule SE 57 Unreported social security and Medicare tax from: Form a 4137 b 8919 58 **Taxes** Additional tax on IRAs, other qualified retirement plans, and other tax-favored accounts. Attach Form 5329 if required 60a Household employment taxes. Attach Schedule H **b** Repayment of first-time homebuyer credit from Form 5405. Attach Form 5405 if required . Health care: individual responsibility (see instructions) . 61 Taxes from: a Form 8959 b Form 8960 c ☐ Instructions; enter code(s) 62 Section 965 net tax liability installment from Form 63 63 Add the amounts in the far right column. These are your total other taxes. Enter here and on Form 1040, line 14 For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71481R Schedule 4 (Form 1040) 2018



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Oklahoma State Income Tax Changes Relative to TCJA Changes

- Oklahoma maintains a \$1,000 exemption per individual.
- Oklahoma standard deduction is still \$12,700 MFJ (\$6,350 Single).
- Oklahoma caps certain itemized deductions at \$17,000. Charitable contributions and medical expenses deductible for federal income tax purposes will not be subject to the Oklahoma \$17,000 cap.



Oklahoma continued

- NEW Form OK-W-4
- The Oklahoma Tax Commission has an Oklahoma-specific withholding certificate in response to changes in federal tax law.
- Historically, the OTC used the IRS form W-4; however, with the implementation of the Federal Tax Cuts and Jobs Act, a state-specific form will best suit the needs of taxpayers. This new form, the OK-W-4, will allow employees to make changes to their Oklahoma withholding for 2018.
- Any employees who wish to make changes to their Oklahoma withholding should complete the OK-W-4 and file it with their employer.

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THANK YOU!

www.milamcpa.tax

Michele Pino mpino@milamcpa.tax (918) 493-2002