

# How Will The Tax Cuts & Jobs Act Of 2017 Affect Your Income Taxes?

Smoker & Company Client Newsletter

Fall / Winter 2018

**The Tax Cuts & Jobs Act** was passed by Congress on December 20, 2017. This tax law offers many favorable changes to business, as well as individual taxpayers. While generally favorable to taxpayers, the new tax law will increase costs of compliance for the many new aspects of the law.

## Changes In Taxes & Rates

Tax rates in general have fallen. The highest corporate tax rate, 35%, fell to a flat 21% rate. Individual tax brackets are reduced slightly to 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

Alternative Minimum Tax (AMT) rates are the same, but the exemption amount was increased. Phaseout thresholds for the exemption also increased and are indexed for inflation.

Owners of pass-through entities and sole proprietorships are also able to utilize the new 20% deduction for qualified business income - subject to restrictions and limitations if income is above \$157,500 (or \$315,000 for joint filers) or the business is a specified service business.

Deductions for business related entertainment expenses are no longer allowed for expenses paid after December 31, 2017.

The Section 179 deduction was increased and bonus depreciation deductions were increased and expanded.

The alimony deduction has been eliminated for payments under agreements entered into (or substantially changed) after 2018. Moving expenses are also no longer deductible, except for members of the military.

## Deductions

The standard deduction has increased to \$24,000 for joint returns, \$18,000 for head of household, and \$12,000 for single or married filing separate returns. The additional standard deduction amounts for age and blindness remain unchanged. However, with the change in the standard deduction also comes the elimination of the exemption deduction.

Itemized deductions have many rule changes. Medical expenses are still deductible, subject to a 7.5% of AGI floor in 2018. After 2018, this returns to 10%. Deductible mortgage interest for buying or building a home is capped at a maximum interest on mortgage debt of \$750,000 - any interest related to debt above that amount is not deductible. State and local income taxes are capped at a maximum deduction of \$10,000. Charitable givers are able to claim a deduction up to 60% of AGI from the previous 50% limit. Miscellaneous itemized deductions subject to the 2% AGI floor are no longer deductible, such as unreimbursed employee business expenses, tax preparation fees, and safe deposit box fees. However, the phaseout of itemized deductions for higher income taxpayers was also removed.



## Credits

The child tax credit has been doubled to \$2,000 per qualifying child. An additional credit of \$500 was established for a qualifying dependent other than a qualifying child. The phaseout limits for the child tax credit was also significantly increased.

## Other Items

Estate and gift taxes remain, but the exemption amount is more than doubled to \$11,200,000 for 2018. Estates can be transferred federal tax-free up to \$22,400,000 for a couple in 2018. There are elections and filings that need to be made in order to qualify, so please do not hesitate to contact our office for assistance.

## Tax Planning Is More Beneficial Than Ever

Tax planning has always been important for businesses and individuals. With the Tax Cuts and Jobs Act of 2017, the value of tax planning services has never been higher. Though April 16, 2019 is 6 months away, plans implemented before 12/31/2018 could have a large effect on your income tax bills.

The new 20% deduction for qualified business income could be increased with minor business changes. Increased Section 179 deduction and bonus depreciation deduction limits and qualifying assets allow businesses to expense more of their assets in the year of acquisition. Even individual taxpayers could benefit from tax planning by utilizing strategies such as stacking charitable donations.



Tax planning meetings are scheduled during the months of September, October, November, and December. The earlier your meeting, the earlier you can implement plans to reduce your income taxes. Your accountant will review your year-to-date 2018 business activity and will work with you to forecast the remaining activity of the year. A projection of your income tax obligations will then be presented and reviewed with you. Strategies to lower your income tax liabilities will also be reviewed.

For more information or to schedule your 2018 Tax Planning Meeting, please contact (717) 656-7544 or your Smoker & Company accountant at your earliest opportunity.



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS DEVELOPMENT ADVISORS

## 5 Convenient Locations To Serve You:

### Leola Office

49 E Main Street  
Leola, PA 17540  
717-656-7544

### Lititz Office

662 Furnace Hills Pike  
Lititz, PA 17543  
717-626-3434

### Ephrata Office

431 West Main Street  
Ephrata, PA 17522  
717-721-3299

### Manheim Office

24 South Main Street  
Manheim, PA 17545  
717-665-5979

### Mt. Penn Office

3506 Perkiomen Avenue  
Mt. Penn, PA 19606  
610-779-0811