Combating Cybersecurity Attacks and Taxes

November 6, 2018

TAX CUT & JOBS ACT

Individual Provisions

Individual Tax Rates

Rate	Single	Married
10%	0-$9,525	0-$19,050
12%	$9,526-$38,700	$19,051-$77,400
22%	$38,701-$82,500	$77,401-$165,000
24%	$82,501-$157,500	$165,001-$315,000
32%	$157,501-$200,000	$315,001-$400,000
35%	$200,001-$500,000	$400,001-$600,000
37%	Over $500,000	Over $600,000
Previous Maximum rate through 2017 was 39.6%		

Planning Opportunities?

Individual Provisions

Standard Deduction: For tax years beginning after 2017 and before 2026, the standard deduction is increased to $12,000 for individuals and $24,000 for joint filers.

Personal Exemptions: For tax years beginning after 2017 and before 2026, the deduction for personal and dependency exemptions is effectively suspended by reducing the exemption amount to zero.

Planning Opportunities?

Individual Provisions

State/Foreign Tax Deduction: For tax years beginning after 2017 and before 2026, the Act eliminates the deduction for state, local and foreign taxes, except for a limited $10,000 aggregate deduction for state, local and foreign income taxes, sales taxes, and state and local property taxes.

Planning Opportunities?

Individual Provisions

Mortgage Interest Deduction: For tax years beginning after 2017 and before 2026, the deduction for interest on **home equity indebtedness is suspended**, and the deduction for mortgage interest is limited to underlying **indebtedness of up to $750,000** ($375,000 for married tax taxpayers filing separately).

The new lower limit does not apply to any acquisition indebtedness incurred before December 15, 2017.

Planning Opportunities?

Individual Provisions

Miscellaneous Itemized Deductions. For tax years beginning after 2017 and before 2026, the deduction for miscellaneous itemized deductions that are subject to the 2% floor is suspended.

Planning Opportunities?

Individual Provisions AMT

For tax years beginning after 2017 and before 2026, the Act increases the AMT exemption amounts for individuals as follows:

- $109,400 for joint returns.
- $70,300 for single taxpayers.
- $54,700 for married individuals filing separately.

These exemptions are phased out at a rate of 25% of the amount by which AMTI exceeds the following phase-out amounts:

- $1 million for joint returns.
- $500,000 for all other taxpayers.

Planning Opportunities?

Individual Provisions Child Tax Credit

For tax years beginning after 2017 and before 2026, the child tax credit is increased from $1,000 to $2,000 per child under age 17.

- The Act also provides for a $500 nonrefundable credit for qualifying dependents other than qualifying children.
- The maximum amount refundable may not exceed $1,400 per qualifying child.

Planning Opportunities?

Estate and Gift Exemption

For estates of decedents dying and gifts made after 2017 and before 2026, the Act doubles the estate and gift, as well as generation-skipping tax exemption amounts, and from $5 million to $10 million.

The $10 million amount is indexed for inflation occurring after 2011 and will be $11.2 million in 2018 ($22.4 million per married couple).

Planning Opportunities?

TAX CUT & JOBS ACT

Business Provisions

Business Provisions Corporate Tax Rate

The Act reduces the C corporation tax rate from a graduated rate schedule maxing out at 35% to a flat 21%, effective for tax years beginning after 2017.

In some cases, this will be a tax increase. Others, a tax decrease.

The rate is available to fiscal years that straddle January 1, 2018. A blended rate is used.

Planning Opportunities?

Business Provisions Corporate AMT

repeals the corporate AMT, effective for tax years beginning after 2017

This follows the House bill, but rejects the Senate bill, which would have retained the corporate AMT

For tax years beginning after 2017, the Conference Agreement allows the AMT credit to offset the regular tax liability for any taxable year.

In addition, the **AMT credit is refundable** in an amount equal to 50% (100% for tax years beginning in 2021) of the excess of:

- The minimum tax credit for the tax year over
- The amount of the credit allowable for the year against regular tax liability.

Planning Opportunities?

Business Provisions Net Operating Losses

The Act limits the NOL deduction to 80% of taxable income, effective for losses in taxable years beginning after December 31, 2017.

The Act also repeals the two-year carryback for losses tax years ending after December 31, 2017. Carryforward is indefinite.

Planning Opportunities?

Business Provisions 20% Deduction

Small Business 20% Deduction. Generally, under new Section 199A, for tax years beginning after 2017 and before 2026, a non-corporate taxpayer with qualified business income (QBI) from a partnership, S corporation, or sole proprietorship, is allowed a 20% deduction.

- Must be “trade or business.”
- Service income does not qualify.

Planning Opportunities?

Business Provisions 20% Deduction Limitations

The deduction is *generally* equal to the lesser of:

- 20% of qualified business income (QBI), as limited by the W-2 limitation or
- 20% of the excess of the taxable income over net capital gains for the year.

The W-2 limitation is equal to the greater of:

- 50% of the W-2 wages paid by the business, or
- 25% of the W-2 wages paid by the business plus 2.5% of the unadjusted basis of its qualified property.

The W-2 and service limitations do not apply to everyone

Planning Opportunities?

Business Provisions Section 199 A(b)(3)(A)

Section 199A(b)(3)(A) provides that if taxable income for the year is less than the "threshold amount" for the year, then the W-2 limitation does not apply.

The "threshold amounts" for 2018 are $315,000 for joint filers and $157,500 for all other taxpayers.

Planning Opportunities?

Business Provisions FMLA

Credit for Employer-Paid Family and Medical Leave. Wages paid in tax years beginning after 2017 through tax years beginning in 2019, businesses to claim a general business credit up to 25% of wages paid to qualifying employees during any period of FMLA leave.

- The rate of payment must be at least 50% of the wages normally paid to an employee.
- The credit actually starts at 12.5%, then is increased by 0.25 percentage points (but not above 25%) for each percentage point by which the rate of payment exceeds 50%.

Planning Opportunities?

Business Provisions Business Interest Expense

For tax years beginning after 2018, the business deduction for interest expense cannot exceed 30% of the applicable income limitation with any disallowed portion carrying forward indefinitely.

Businesses with average annual gross receipts of less than $25M in the prior three years are exempt and there is currently no indication that aggregation is required.

Planning Opportunities?

Business Provisions

Bonus depreciation. Permitted for all qualified fixed assets acquired and placed in service between 9/28/17 and 12/31/22, with lower percentages over the following four years (2023 – 80%, 2024 – 60%, 2025 – 40%, 2026 – 20%).

Used property now qualifies. No income or dollar limitation unlike Section 179.

Section 179. For tax years beginning after 2017, the Section 179 expensing election for qualified fixed assets increases to $1,000,000 per year with a phase-out level beginning at $2,500,000.

Nonresidential real estate continues to be depreciated as 39-year property, while "qualified improvement property" is should be depreciated over 15 years, effective for property placed in service after 2017. Technical correction needed for this.

Qualified improvement property is generally defined as any improvement to an interior portion of a building that is nonresidential real property. Qualifying costs are eligible for 100% bonus depreciation.

Planning Opportunities?

Business Provisions

Like-Kind Exchanges. Limited to Section 1031 to exchanges of real property, generally effective for transfers after December 31, 2017.

R&D Credit. For years beginning after 2021, R&D expenditures will be required to be capitalized and amortized over 5 years (vs. currently deducted).

Business entertainment expenses (e.g. sports tickets, golf outings) are no longer deductible for amounts paid/incurred after 12/31/17 even if business-related.

Meals continue to be 50% deductible, and this rule now applies to meals provided through an in-house cafeteria or otherwise on the premises of the employer.

Planning Opportunities?

IRS RECOMMENDATIONS

Security Protections

Always use security software with firewall and anti-virus protections. Make sure the security software is always turned on and can automatically update. Encrypt sensitive files such as tax records you store on your computer. Use strong, unique passwords for each account.

Phishing

Learn to recognize and avoid phishing emails, threatening calls and texts from thieves posing as legitimate organizations such as your bank, credit card company and even the IRS. Do not click on links or download attachments from unknown or suspicious emails.

Personal Data

Protect your personal data. Don’t routinely carry your Social Security card, and make sure your tax records are secure. Shop at reputable online retailers. Treat your personal information like you do your cash; don’t leave it lying around.

TOP 3 IDEAS & STRATEGIES

Top 3 Ideas and Strategies

- Positive Pay & ACH Protection
- Using Cryptocurrencies
- Internal Controls & Separations of Duties

Thank You!

Please contact our office for more information or a personal consultation.

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