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On December 20th, both the house and Senate have voted to pass the Tax Cuts and Jobs Act. It has been sent to the President and signed by him. The law will be the largest major tax reform in over three decades. The following is a summary of the key changes for both businesses and individuals. Most of the changes would be effective for the 2018 tax year.

Individual Income Tax Reform

Tax Rate and other Key Changes

- Retains the current structure of seven tax brackets but temporarily modifies the rates to: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
- Capital gains rates are retained at 0%, 15%, and 20%
- Temporarily increases the standard deduction to $24,000 married filed jointly taxpayers, and to $12,000 for individuals. That means more taxpayers will be taking the standard deduction in the future years. If you are below the $24,000 threshold, you might consider accelerating itemized deductions for 2017. A few common examples would be mortgage interest, property taxes, state income taxes and charitable contributions.
- The personal exemption is suspended until tax years beginning after 2025.
- The taxable income for a child, the "kiddie tax", attributable to earned income is taxed under the rates for single individuals, and the taxable income related to earned income is taxed using the trust and estate brackets.

Income from Pass-through entities

- A non-corporate taxpayer may be allowed to deduct up to 20% of "qualified business income." The deduction is limited for service based companies and has a wage limitation. The deduction is subject to various limitations based on wages and taxable income.
- Limits the current deductibility of business losses to $250,000 ($500,000 for married filing jointly). Excess business losses over the limit are carried forward to future years as a net operating loss.

Tax Credits and Deductions

- Temporarily increases the child tax credit to $2,000, with $1,400 being the maximum refundable amount.
- Limits the aggregate deduction for nonbusiness state and local income tax, sales tax, and property tax deductions to $10,000 ($5,000 for married filing separately). Consideration should be made to accelerate your state estimate and pay in December 2017.
- For tax years 2018-2025, the deduction for interest on home equity debt is suspended. Home acquisition indebtedness is limited to $750,000 ($375,000 for married filing separately). The new limits only apply to acquisition indebtedness after December 16, 2017; debt incurred before is subject to the $1,000,000 limitation. The higher limits also apply to refinancing a loan that was incurred before December 31, 2017. The higher limits also apply if the taxpayer is under contract before December 15, 2017, if the sale closes by April 1, 2018.
- Eliminates the deduction for Alimony for any divorce agreement executed or modified after December 31, 2018. Payments will not be treated as income to the recipient spouse.
- Miscellaneous itemized deductions are suspended for 2018-2025.
- The 3% AGI limitation on itemized deductions is suspended.

- Moving expense deductions are suspended and moving expense reimbursements are included in an employee's income.
- Alternative Minimum Tax (AMT) is retained with higher exemption amounts and phase out thresholds for individuals

Health Care Provisions

- For tax years 2017 and 2018; the threshold on medical expense deductions is reduced to 7.5% for all taxpayers.
- For months beginning after December 31, 2018, the amount of the individual shared responsibility payment is reduced to zero.

Estate and Gift Tax

- The estate and gift tax exclusion is increased from $5 million to $10 million per person, indexed for inflation (base year 2011). The exclusion for 2018 was scheduled to be $5.6 million per person.

Education Provisions

- Liberalization of Section 529 plan distributions to allow their use for tuition at an elementary or secondary public, private or religious school, up to $10,000 per year. Consideration should be made to fund Colorado 529 accounts to obtain a Colorado state tax deduction. In order to receive the deduction, taxpayers should contribute the payment to a 529 plan and then use those funds to pay for the private school tuition.

Business Entities

C corporations

- C corporation tax rate was reduced to a flat 21% rate. No special rate for personal service corporations.
- The corporate alternative minimum tax is repealed.

Asset Expensing and Depreciation

- The maximum amount of Section 179 expensing is increased to $1 million. The phase out amount would be increased to $2.5 million.
- Code section 179 is expanded to include certain property used to furnish lodging and certain improvements for nonresidential real property including roofs, heating, air-conditioners, fire alarms, and security systems.
- A 100% asset expensing deduction is allowed for new and used property purchased after September 27, 2017, and before January 1, 2023.
- Luxury auto depreciation limitations have been increased to $10,000 for the first year, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and after years.
- Farming machinery and equipment now has a 5 year recovery life, and property with a recovery life of 10 years or less can use the 200% declining balance method.
- Qualified improvement property is depreciated over 15 years using a straight line method, without regard to a lease, when the building was placed in service, or if it is restaurant property.

Deductions and Exclusions

- Businesses with greater than $25 million in average gross receipts is subject to a disallowance of a deduction for net interest expense in excess of 30% of adjusted taxable income.
- Modification of Net Operating Losses (NOL) deductions limitations. For NOLs arising in tax years ending after December 31, 2017, the two year carryback rules are repealed and are only allowed for farming businesses. The NOL deduction will be limited to 80% of the taxpayer's taxable income and any excess will carryover indefinitely.

Tax Credits and Deductions

- The Domestic Productions Activities Deduction has been repealed.
- Deferral of gain under the like-kind exchange rules is only allowed for real property that is not held primarily for sale.
- Deductions for entertainment expenses will be disallowed and the current 50% limit is expanded to meals provided on the premises of the employer. Deductions for employee transportation fringe benefits (parking and mass transit) are no longer allowed. For tax years after December 31, 2025, the deduction for meals provided on the employer premises will be disallowed.

Accounting Methods

- In regards to the cash method of accounting, the threshold is increased from the $5 million average gross receipts to $25 million for Corporations and Partnerships. Producers and re-sellers that meets the $25 million gross receipts test is exempt from Section 23A.
- The exception for small construction contracts to use the Percentage of Completion Method is expanded to apply to contracts that will be completed within 2 years and the taxpayer satisfying the $25 million gross receipts test.
- Technical termination rules are repealed for the sale or exchange of more than 50% of ownership in the partnership.

While the above content is a quick summary, please stay tuned for future tax alerts and planning ideas in the coming weeks as our tax experts continue to examine and analyze the ramifications of the Tax Cuts and Jobs Act. If you have questions, please contact your CPA.