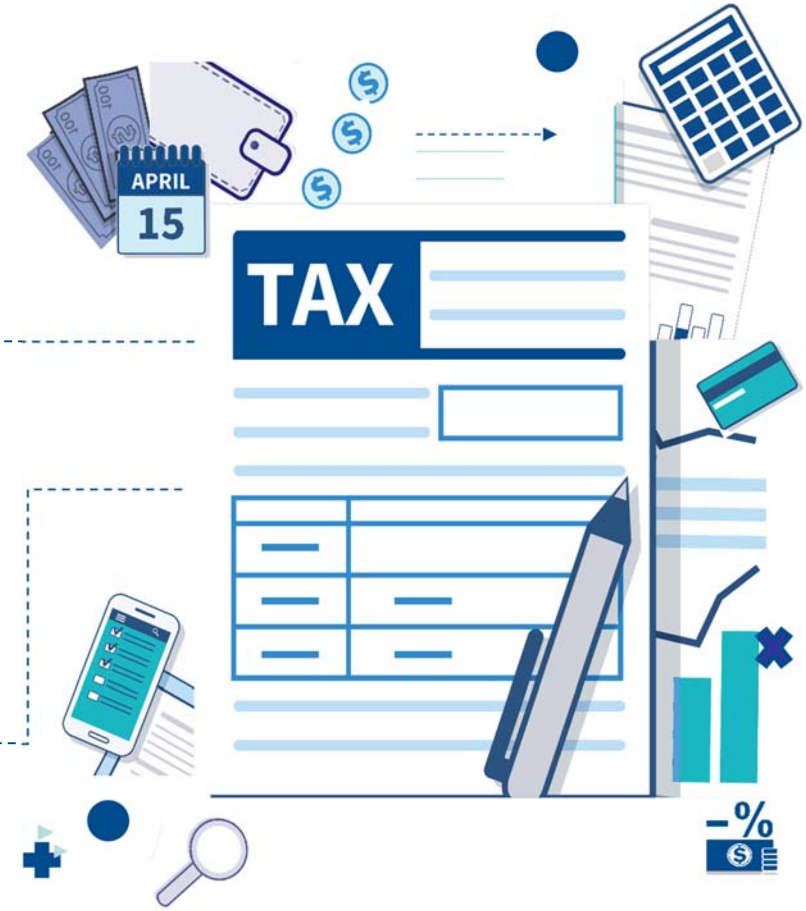
Tax Reform Impact on Small Businesses

Examining the Tax Cuts and Jobs Act



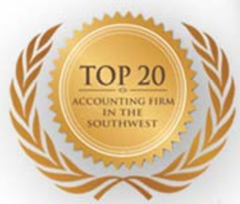
McConnell & Jones LLP
Certified Public Accountants

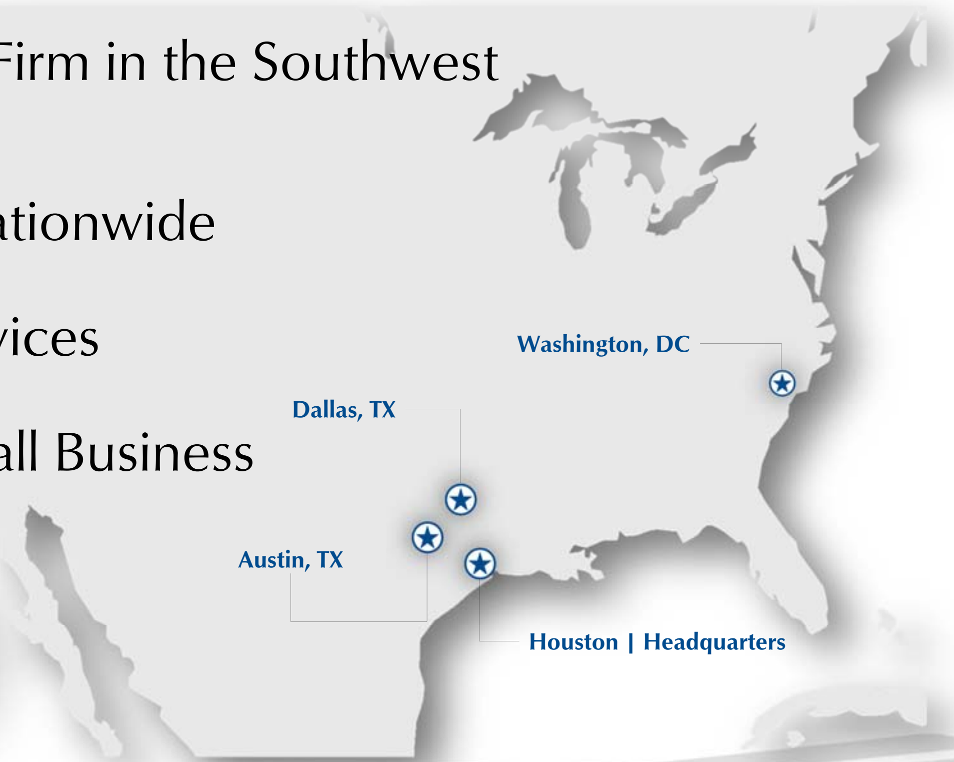
Before We Begin…

- Submitting Questions
  - Type your question(s) in the chat box.
  - All questions will be addressed at the end of the session.
- Obtaining CPE Credit
  - Complete the post-webinar survey.
  - Upon completion of the survey you will receive a second email with your CPE certificate.

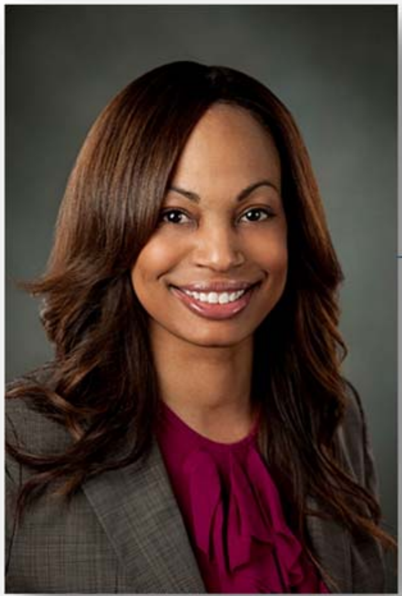
ABOUT MCCONNELL & JONES

- Top 20 Accounting Firm in the Southwest
  (Accounting Today)
- 100 + Employees Nationwide
- Comprehensive Services
- Veteran Owned Small Business





PRESENTER



TENE THOMAS, CPA

PARTNER, TAX SERVICES

TTHOMAS@MJLM.COM

Agenda and Topics for Today

- Key Provisions of the Tax Cuts and Jobs Act
  - Individual Provisions
  - Business Provisions
- Planning Considerations
- Q/A

TAX CUTS & JOBS ACT

KEY PROVISIONS OF THE TAX CUTS AND JOBS ACT

Highlights of the Law

- Lower marginal tax rates for individuals, estates, and businesses
- Significate changes to tax deductions while personal exemptions are repealed
- Individual mandate to purchase insurance effectively repealed
- Hefty price tag - Legislation will cost approximately $1.5 trillion over the next 10 years

TAX CUTS & JOBS ACT

Individual Provisions

NEW TAX BRACKETS

SINGLE TAXPAYER

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

HEAD OF HOUSEHOLD

Taxable income over	But not over	Is taxed at
$0	$13,600	10%
$13,600	$51,800	12%
$51,800	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

MARRIED FILING JOINTLY

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

MARRIED FILING SEPARATELY

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$300,000	35%
$300,000		37%

How Taxes May Differ Single Taxpayer

SINGLE TAXPAYER

Taxable income over	But not over	Previous tax rate	New tax rate	Change
$0	$9,525	10%	10%	Unchanged
$9,525	$38,700	15%	12%	-3.0%
$38,700	$82,500	25%	22%	-3.0%
$82,500	$93,700	25%	24%	-1.0%
$93,700	$157,500	28%	24%	-4.0%
$157,500	$195,450	28%	32%	+4.0%
195,450	$200,000	33%	32%	-1.0%
$200,000	$424,950	33%	35%	+2.0%
$424,950	$426,700	35%	35%	Unchanged
$426,700	$500,000	39.6%	37%	-4.6%
$500,000		39.6%	37%	-2.6%

How Taxes May Differ Married Filing Jointly

MARRIED/FILING JOINTLY

Taxable income over	But not over	Previous tax rate	New tax rate	Change
$0	$19,050	10%	10%	Unchanged
$19,050	$77,400	15%	12%	-3.0
$77,400	$156,150	25%	22%	-3.0
$156,150	$165,000	28%	22%	-6.0
$165,000	$237,950	28%	24%	-4.0
$237,950	$315,000	33%	24%	-9.0
$315,000	$400,000	33%	32%	-1.0
$400,000	$424,950	33%	35%	+2.0
$424,951	$480,050	35%	35%	Unchanged
$480,051	$600,000	39.6%	35%	-4.6
$600,000		39.6%	37%	-2.6

How Taxes May Differ
Capital Gain and Dividends

TAX RATES ON CAPITAL GAINS AND DIVIDENDS REMAIN THE SAME

Single Filer	Married/Filing Jointly	Tax Rate
$0 – $38,600	$0 – $77,200	0%
$38,600 – $425,800	$77,200 – $479,000	15%
Over $425,800	Over $479,000	20%

Alternative Minimum Tax (AMT)

AMT REMAINS BUT WILL APPLY TO FEWER TAXPAYERS

- The AMT Exemption is increased to $70,300 for single filers (from $55,400) and $109,400 for married/filing jointly (from $86,200)
- According to the Tax Policy Center, only 200,000 taxpayers will be subject to AMT going forward, down from roughly 5 million before the law

Significant Changes to Deductions

Deduction type	Change
Standard deduction	Nearly doubled to $12,000 (single) and $24,000 (married/ filing jointly)
Mortgage interest	Limited to $750,000 of indebtedness after 12/15/17, no deduction on home equity lines of credit
State and local taxes	Capped at $10,000
Medical expenses	Expanded for 2017 and 2018 with a 7.5% AGI threshold (10% thereafter)
Charitable contributions	Deduction for cash gifted to public charities increased to 60% of AGI (from 50%)
Itemized deductions subject to 2% AGI	Suspends itemized deduction Jan. 1, 2018 through Dec. 31, 2025

Miscellaneous Itemized Deductions

ALL MISCELLANEOUS ITEMIZED SUBJECT TO 2% AGI LIMITATION ARE SUSPENDED:

- Tax Prep Fees
- Investment Fees
- Miscellaneous Itemized Deductions
- Legal Fees
- Unreimbursed Employee Expenses

CHILD TAX CREDIT (CTC)

- Increased from $1,000 to $2,000 for qualifying children under 17 years old at the end of the year
  - *Additional $500 tax credit applies to other qualified dependents who are not qualifying children (i.e. dependent children over the age of 17)*
- Tax credit is phased out as income exceeds $200,000 (single) or $400,000 (married/filing jointly)
  - *Previous phase-out amounts were $75,000 (single/MFS) or $110,000 (married/filing jointly)*

CASE EXAMPLE

Taxes for a Family of Four | Non Itemized

- Family of four with two children under 17
- 28% tax bracket in 2017; 25% tax bracket 2018 forward
- Claiming standard deduction

	2017 Taxes	2018 Taxes
Adjusted gross income	$200,000	$200,000
Standard deduction	-$12,700	-$24,000
Personal exemptions	-$16,200	$0
Taxable income	$171,100	$176,000
TAXES OWED (effective tax rate)	20.3% / $34,793	17.5% / $30,819
Child tax credit	$0	$4,000
NET TAXES (effective tax rate)	20.3% / $34,793	15.2% / $26,819

CASE EXAMPLE

Taxes for a Family of Four | Itemized

- Family of four with two children under 17

	2017 Taxes	2018 Taxes
Adjusted gross income	$200,000	$200,000
Interest	$500	$500
Total Income	$200,500	$200,500
Itemized Deductions:		
Sales Tax	$2,000	$0
Real Estate Tax	$20,000	$10,000
Home Mortgage Interest	$0	$0
Charity	$10,000	$10,000
Increased Standard Deduction	$0	$4,000
Personal exemptions	-$16,200	$0
Taxable income	$152,300	$176,500
TAXABLE INCOME	$152,300	$176,500
Child tax credit	$0	$4000
NET TAXES (effective tax rate)	19.4% / $29,553	15.3% / $26,939

ADDITIONAL ITEMS TO NOTE

- As of January 1, 2018, personal casualty losses no longer allowed unless it's federally declared disaster.
- No more income phase-out on itemized deductions.
- No more alimony deductions or moving cost deductions (above the line deductions).
- 529 college savings plans are expanded – account owners can utilize up to $10,000 annually to cover K-12 tuition expenses.

TAX CUTS & JOBS ACT

Business Provisions

Overview of Business Changes

Corporate tax rate	Reduced from 35% to 21%. Repeal of Corporate AMT
Interest expense limitations	Deductible interest is limited to 30% of taxable income
Enhanced expensing for assets	For the next five years, corporations can immediately expense capital investments
NOL changes	Deduction limited to 80% taxable income for losses beginning after 12.31.17 No Carryback on losses arising in tax years ending after 12.31.17 Carried forward indefinitely for losses ending after 12.31.17
New deduction for pass-thru owners	20% deduction on "Qualified Business Income" (QBI), subject to limitations
Accounting methods expanded	Expanded cash basis method for small businesses with average gross receipts less than $25 Million
Limitations on certain fringe benefits and meals and entertainment	Significant changes to business entertainment and meals deductions

Restrictions of Interest Deductions

- Deductible interest limited to
  - Interest income for year plus
  - 30% of taxable income plus
  - Floorplan financing interest for the year
- Limitation at the taxpayer level
- Interest not deductible carries forward indefinitely
- Doesn't apply to taxpayers that meet $25M gross receipts last year

Enhanced Expensing and Depreciation

- **Additional first year / bonus depreciation** – 100% for property acquired after 9/27/17; phase-out schedule after 2022

80%	2023
60%	2024
40%	2025
20%	2026

- Now allowed for new and used property
- Qualified improvement property – new definition and recovery life
- **Luxury auto limits** – additional $8k depreciation has been extended for 2017
- Increases to Sec 179 ($1M and threshold $2.5M)
- SUV limitation remains at $25k
- Limits are indexed for inflation
- Expansion for certain real property (roofs, HVAC)
- Allows residential rental property

Net Operating Loss Provisions

- Limited use of NOL deduction
  - 80 percent of taxable income
  - Applies to losses arising in tax year beginning after 12.31.17
- Limited use of carryback of NOL
  - No Carryback of losses arising in tax years ending after 12.31.17 (except certain farm loss, insurance companies)
  - Carried forward indefinitely on losses arising in tax year ending after 12.31.17

New Deductions for Small Business Owners

- Applies to businesses that are structured as pass-through entities for taxation purposes (sole proprietorship, LLC, partnership, S Corp)
- 20% on qualified business income (QBI) cannot include compensation or investment income (such as gains, dividends, interest income, and annuities)
- Does not include reasonable compensation paid from S corporation or guaranteed payments paid to a partner
- At higher income levels ($315K MFJ or $157,500), specified service businesses are not allowed to take the deduction

20% Pass-Through Deduction

- 20% of qualified business income (QBI)
- Qualified business income definitions – Any qualified trade or business other than a specified service trade or business or the trade of business of performing services as an employee
  - Examples of specified service trade or business are: health, law, accounting, financial services, consulting, performing arts, athletics, trading in securities/ commodities, investment management
  - Phase-out limitation

Partnership Change

- Repeal of technical termination provisions
  - Greater than 50% ownership change (12 mos.)
    - No longer an automatic termination
    - No need to “close the books”
    - No short year returns
    - Effective for years after 12/31/17

Accounting Methods for Small Taxpayers

- Expanded availability of cash method
- Sec 263A threshold raised

Changes to Fringe Benefits / Entertainment Expenses

- Business Entertainment and Meals:
  - Repeal 100% of business entertainment, amusement, recreation, and membership dues
  - 50% of Meals are still deductible if business requirement met
- Repeal of deduction for qualified transportation fringe benefits, including reimbursements
- Repeal of exclusion for employee reimbursed moving expenses

TAX CUTS & JOBS ACT

PLANNING CONSIDERATIONS AND STRATEGIES

Planning for 2018 and Forward

- Guidance needed on Sec 199A (pass-through deduction)
  - Definitions: qualified business income; qualified trade/ business; small business
- Effect of corporate rate reduction to 21% on choice of entity
- Debt structure due to interest limitations
- Entertainment expenses
- Changes to fringe benefits and effect on employees

Planning for cont'd 2018 and Forward

- Individual income tax provisions expire (sunset) after 2025
- Seven years to put extra tax savings aside
- Use tax savings to fund vehicles now that can receive favorable income tax treatment when rates have gone back up

Closing Thoughts

- The Tax Cuts and Jobs Act represents the most sweeping changes to the tax code in decades.
- We are eagerly awaiting guidance and proposed regulations on many of the changes.

Complexity = Possible Savings Opportunities

Consider Evaluating Your Tax Structure

A CPA Can Provide Financial Planning Services

Q&A

Keep Up with What's Next...

McConnell & Jones' Resource Center

www.mcconnelljones.com

Follow Us Online

https://twitter.com/mj_cpa

https://www.linkedin.com/company/1222367/

https://www.facebook.com/mcconnellandjonesllp/