

Tax Update 2018



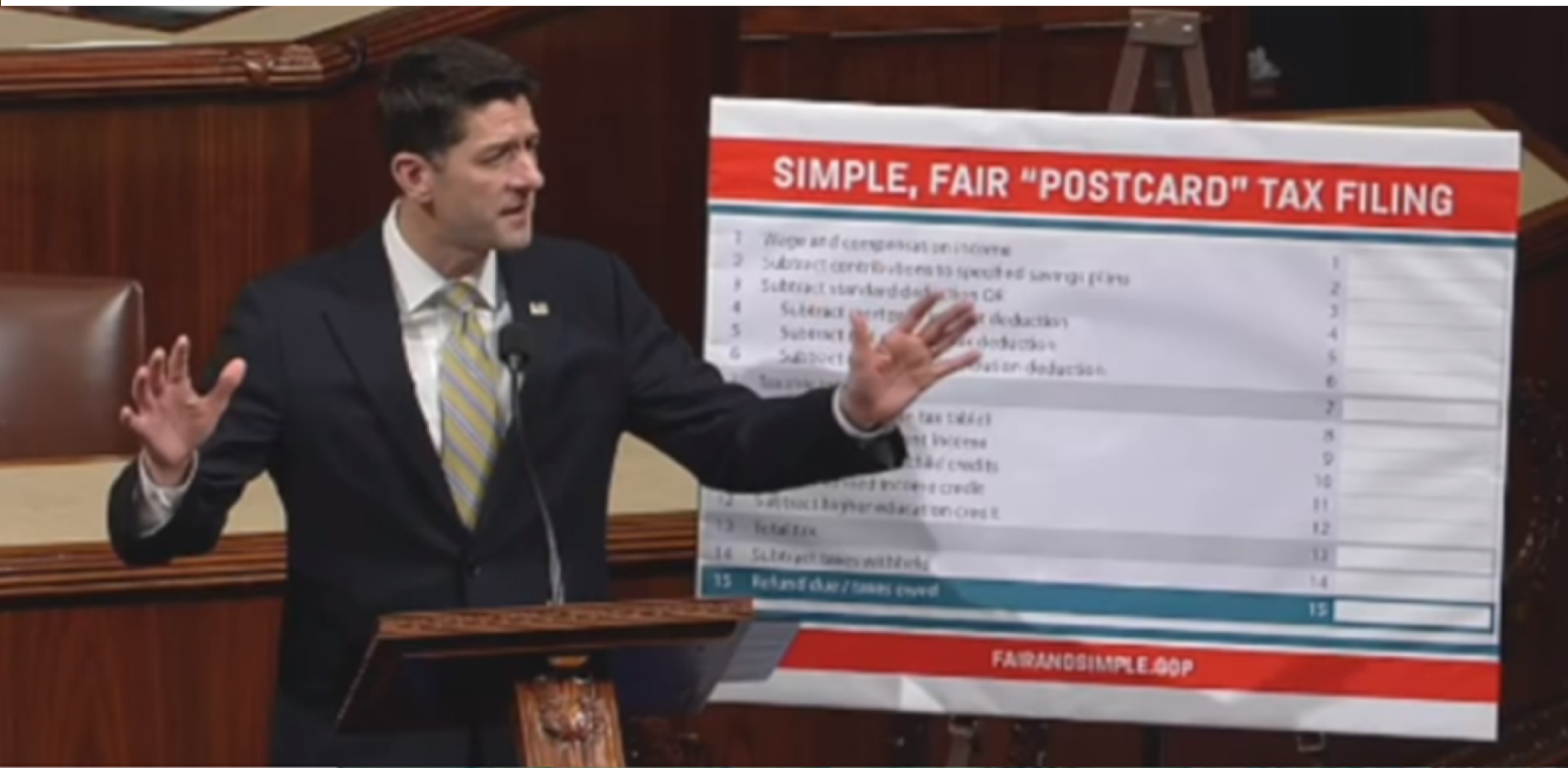
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President's Goal – Postcard ??





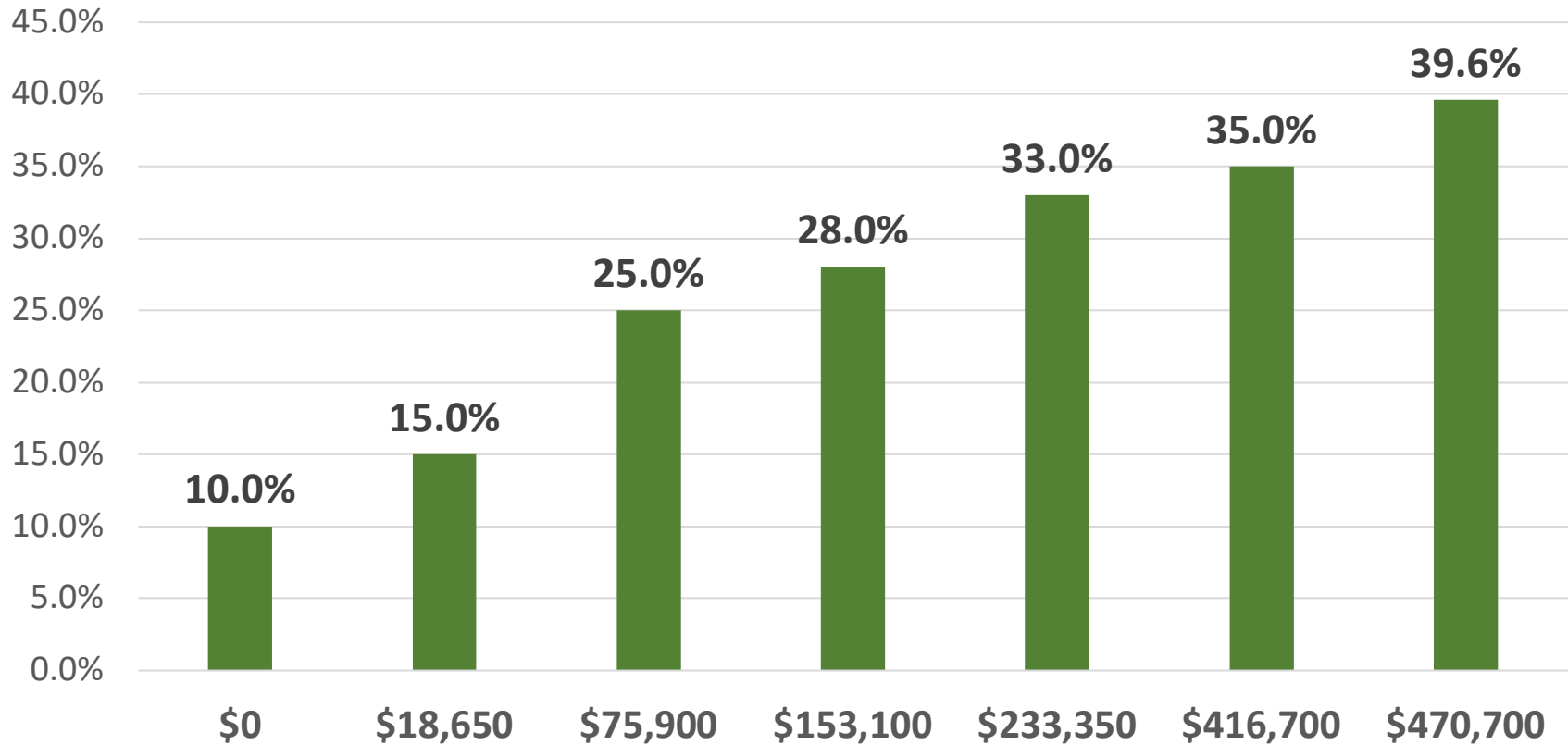
Individual Tax Changes

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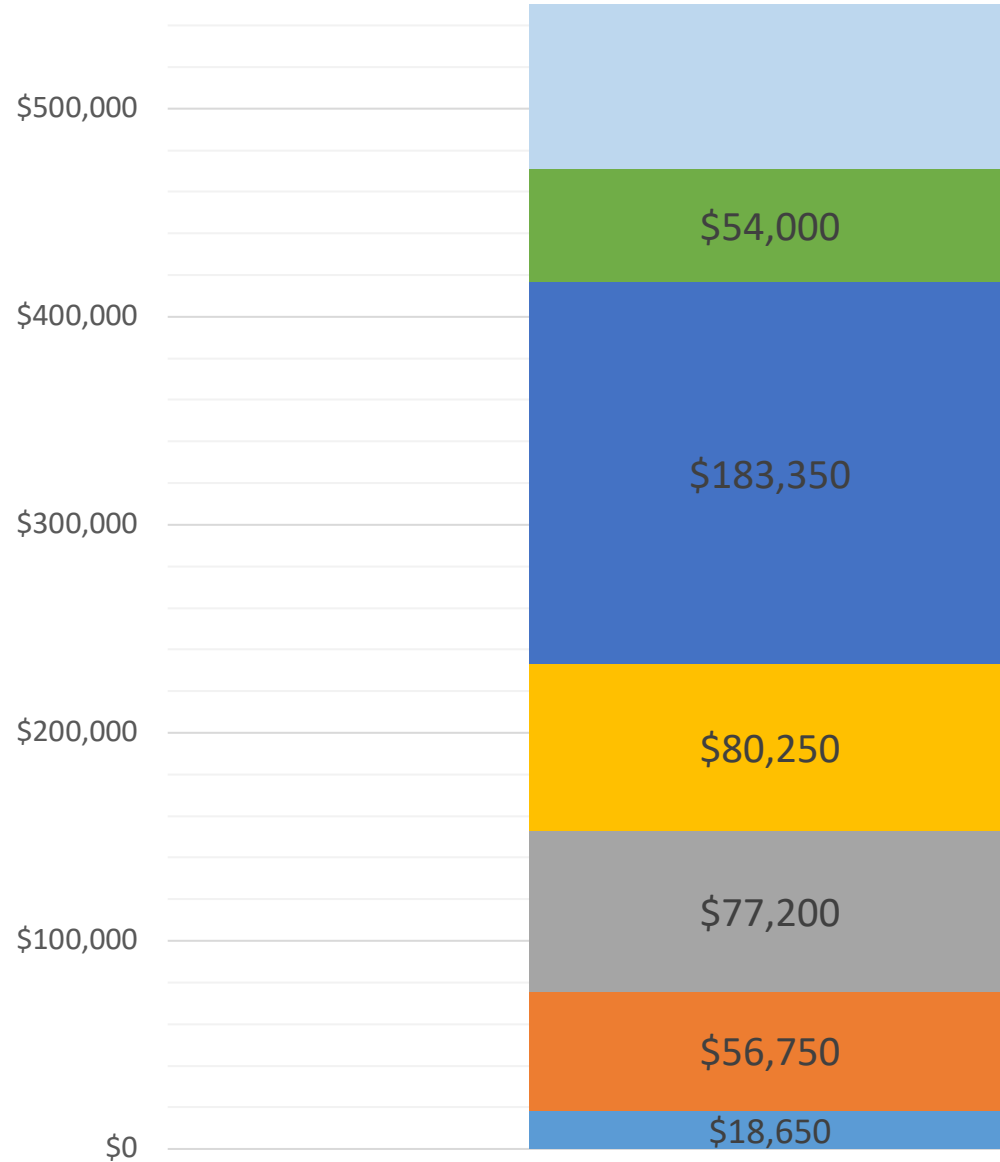


CURRENT Tax Rates

2017 MFJ Tax Rates



2017 MFJ Tax Rates



**Pay at the
Lowest Tax
Rate**

Tax Rates (MFJ):

Income range	2017	2018
\$1 to \$19,050	10%	10%
\$19,051 to \$77,400	15%	12%
\$77,401 to \$156,150	25%	22%
\$156,150 to \$165,000	28%	22%
\$165,001 to \$237,950	28%	24%
\$237,951 to \$315,000	33%	24%
\$315,001 to \$400,000	33%	32%
\$400,001 to \$424,950	33%	35%
\$424,950 to \$480,050	35%	35%
\$480,051 to \$600,000	39.6%	35%
Over \$600,000	39.6%	37%



Capital Gains Rates: No Change

	MFJ	H of H	Single	Estate, Trust
0%	\$ 77,200	\$ 51,700	\$ 38,600	\$ 2,600
15%	\$ 479,000	\$ 452,400	\$ 425,800	\$ 12,700
20%	In excess			

**Plus Net Investment Income Tax of 3.8% if AGI
over \$250,000/200,000 **no change from 2017****



Standard Deduction:

	<u>Current Law</u>	<u>2018 Law</u>
• MFJ =	\$12,700	\$24,000
• Single =	\$6,350	\$12,000
• H of H =	\$9,350	\$18,000
• Personal Exemptions (\$4,050 in 2017) -	GONE	



Child Tax Credit

Current Law

- **\$1,000 per Child**
 - **Phase out starts at AGI of \$110,000(MFJ)**

2018 Law

- **\$2,000 per Child**
- **\$500 per non-child dependent**
 - **Phase out starts at AGI of \$400,000(MFJ)**



Individual Deductions

Personal State income (or Sales Tax) and Property Tax:

Current Law:

- Allowable as an Itemized Deduction

2018 Law:

- Limited to \$10,000



Individual Deductions

Mortgage Interest:

Current Law:

- **Deductible on up to \$1.1 million of debt
(including 2nd home and home equity line)**

2018 Law:

- **Deductible on up to \$750,000 of debt
NO home equity deduction (2nd home
interest deduction remains)**

(Pre December 15, 2017 loans “grandfathered” at \$1.1 million)



Individual Deductions

Charitable Contributions:

Current Law:

- **Deductible up to 50% of AGI**

2018 Law:

- **Deductible up to 60% of AGI**
- **May want to contribute every other year to maximize deduction due to standard deduction increase**



Individual Deductions

Alimony:

Current Law:

- **Deductible by payer-Taxable to recipient**

2018 Law:

- **NOT Deductible to payer – NOT Taxable to recipient
(Decreases executed or modified AFTER 2018)**



Affordable Care Act – Individual Mandate

Current Law:

- Individuals penalized for no minimum essential health care coverage

2018 Law:

- Repealed After December 31, 2018



Business Tax Changes

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Equipment Deduction

Retroactive Provision:

- Deduction of 100% acquired and placed in service After 9-27-17 and Before 2023
 - Includes new and used equipment
 - Available on Financed Equipment
 - Drops bonus to 80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026, then zero



Equipment Deduction

Current Law:

- Section 179 Deduction Limit \$510,000
 - Phase-out beginning point is \$2.03 million

2018 Law:

- Section 179 Deduction Limit to \$1 million
 - Phase-out beginning point is \$2.5 million
 - Eligible purchases to include: roofs, **HVAC, fire protection** and alarm systems, security systems



Equipment Deduction

Maximum depreciation for passenger autos

	<u>Current Law</u>	<u>2018 Law</u>
1 st year	\$3,160	\$10,000
2 nd year	5,100	16,000
3 rd year	3,050	9,600
Remaining	1,875	5,760



Other Changes:

- **“Luxury” auto depreciation from \$8K in first 2 years to maximum of \$34K**
- **Section 1031 exchanges for only real property**
 - **No longer available for equipment**
 - **Trade in value of personal property now considered income**
 - (Asset expensing can offset the gain)



Deduction for Business Income

Current Law:

- **9% deduction for Net Income from Construction Activity (NOT Service)**
- **Domestic Production Activities Deduction (DPAD)**

2018 Law:

- **DPAD repealed**
- **20% deduction for ALL Pass-Through Income**
- **With restrictions**



Deduction for Business Income

- **20% deduction not applicable to personal service businesses:**
 - Personal service does not include architects, engineers
 - Results: Health, law, **accounting**, actuarial science, performing arts, **consulting**, athletics, financial services, brokerage services, “any other trade or business where the principal asset ... is the reputation or skill of one or more of its employees”
- **20% deduction available if taxpayer taxable income**
 - < **\$315,000** MFJ/**\$157,500** single
 - Phase-out 20% over next \$100K/\$50K of taxable income



Deduction for Business Income - Limitation

- Sole proprietor, partner or S-Corp shareholder limit on deduction, greater of:
 - 50% of wage expense from pass-throughs, **or**
 - Sum of 25% of wages plus 2.5% of unadjusted basis of qualified property
- Qualified property
 - Depreciable tangible property on hand at end of year
 - Included in computation if held at least 10 years or cost recovery period has not expired, whichever is longer



Meals & Entertainment

- **ZERO Deduction Allowed for Entertainment Expenses**
- **Business Meals still only 50% deductible**
 - **Includes employee per diem meals**
 - **Meals for convenience of employer fully deductible**



Interest Deduction Limitation:

- **Does NOT apply to businesses with gross receipts < \$25 million**
- **Limited to sum of:**
 - **Business Interest Income**
 - **30% of Business Adjusted Gross Income**
 - **Business Floor Plan Financing Income**
- **Disallowed business interest can be carried forward**



Expansion of Cash Method of Accounting:

- **All businesses with average gross receipts < \$25 million permitted to use cash method**
 - **But account for inventories as non-incidentals supplies (hold cost until sold)**



C-Corporation Tax Rates:

- Flat **21%** rate effective years beginning after 2017
 - Corporate AMT repealed after 2017
 - Should Businesses Convert to a C-Corporation?
 - C-Corporation Tax Rate **21%**
 - Dividend Rate **15% (23.8%)**
 - Combined Rate **36%**

 - Top Individual Rate WITHOUT 20% deduction **37%**
 - Top Individual Rate NET OF 20% deduction **29.6%**
- (C-corps could make sense for the right set of facts)**



Gift and Estate Tax

Current Law:

- **40% tax on Gifts or Estates in excess of \$5.49 million**

2018 Law:

- **40% tax on Gifts or Estates in excess of \$11 million**





QUESTIONS

??????????

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