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Tax Reform is Here

After many months of negotiations, Congress is set to pass – and President Trump is expected to sign – a significant tax reform bill. Analysts are calling this the biggest set of changes to the tax code since the Tax Reform Act of 1986.

The changes will impact just about everyone in some way. The big question we are hearing is, "How will this affect me?" While it will be different for each person, and there will be much discussion of these changes in the coming weeks and months, here are a few major changes.

These changes will occur January 1, 2018, unless otherwise noted. This is not meant to be a complete list, but rather some highlights. Also, please note that many of these provisions will expire after December 31, 2025.

Tax Rates are Dropping

With the exception of the 10 percent rate, all other tax rates are dropping, anywhere from 1-4 percentage points. In addition, beginning with the new 22 percent rate (it previously was 25 percent), the brackets are generally expanding. The IRS indicates new withholding brackets will come out in January 2018. Most people should see an immediate "raise" in their paychecks because of decreased federal income tax withholding.

More People Will Take the Standard Deduction

The standard deduction amount is almost doubling. For joint filers, it will increase from $13,000 to $24,000. Single and Head of Household filers get a similar, proportional jump. Considering many joint filers report itemized deductions between $13,000 and $24,000, this means more people will now take the standard deduction. The value of "tax-deductible" items such as mortgage interest and charitable contributions will thus change. For certain taxpayers, the after-tax financial benefit for these items may be reduced.

For Those Who Will Still Itemize, Changes are Major

The deduction for property taxes and state income taxes will be a combined $10,000. The amount of debt that can be considered for the mortgage interest deduction is reduced, and **no deduction** will be available for home equity loans. All 2 percent miscellaneous itemized deductions, including unreimbursed employee expenses, are no longer deductible. Personal casualty and theft losses will only be deductible if a Presidential Disaster is declared. There are other limits as well. If you are still claiming the itemized deduction, at least the overall limitation for itemized deductions is being removed!

Major Changes in Store for Child Tax Credit and Dependency Exemptions

Personal exemptions – for taxpayers and their dependents – are no more. To somewhat offset this provision for families, the child tax credit is doubling, to $2,000 per child. It will also be available for many more families, as the phaseout level is increasing to $400,000 for joint filers and $200,000 for all others. Further, certain non-child dependents can get a credit of $500.

Taxation of Business Profits Will Change

With the exception of personal service businesses, corporate tax rates are going to a flat 21 percent. Pass-through business owners (including Schedule C) will pay individual rates on, in most cases, 80 percent of their business income. Personal service businesses are subject to a complex scheme that is outside the context of this article.

Tax Depreciation Becomes (Almost) a Thing of the Past

A 100 percent bonus depreciation rate will be in effect from September 27, 2017, until December 31, 2022. After that, 20 percent stepdowns will occur. However, the biggest news might be that "used" property now qualifies. The Section 179 dollar limitation moves to $1 million. These two provisions mean, for shorter-term assets, the ability to deduct a higher amount in the year of purchase. Longer-term assets such as real property are still subject to the regular tax depreciation rules.

New Limits on the Use of Net Operating Losses

NOLs can no longer be carried back. They also no longer expire. However, they will no longer be able to offset 100 percent of income. In any given year, starting in 2018, NOLs can only be used to offset 80 percent of current year taxable income.

The Estate Tax Lives On – Barely

Despite discussions to completely abolish the estate tax, it will continue. However, the exemption amount (which also applies to gifts while alive) doubles to $11.2 million per person.

Other Somewhat Significant Changes

The penalty for not having qualified health insurance (aka the individual mandate) remains, albeit at 0 percent. Alimony, starting in 2019, is no longer deductible by the payor or taxable income to the payee. Up to $10,000 per year, per child can be distributed from a Section 529 plan to pay for K-12 education. Individual Alternative Minimum Tax will continue but with a higher exemption level. Moving expenses for most individual taxpayers are no longer deductible.

What About Louisiana Taxes?

While this is a federal tax bill, Louisiana taxation starts with federal income. So, at this time, these changes will impact Louisiana income tax in much the same way it affects federal income tax. There is always the chance Louisiana may pass laws that allow for different tax treatment, especially in light of budget issues in the state. For other states, this issue becomes more direct – the change of the tax treatment of an item for federal tax purposes may or may not change that treatment for state tax purposes.

We will share more information as it becomes available in the coming days and weeks. **Please contact us at 504-486-7275 or communications@ericksenkrentel.com if you have any questions or concerns**.

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