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AAFMAA Wealth Management & Trust LLC

What the Tax Reforms Mean for Your Military Family

The Tax Cuts and Jobs Act of 2017 had a dramatic effect on the US income tax system. Do you know how these reforms will affect you? Join Brittany Benassi, CFP®, from AAFMAA Wealth Management & Trust and Taylor Stephenson, CPA, for an overview of the major changes servicemembers and veterans can expect. Then, discover the steps you can take today to get ready for your 2018 tax return.

Our Panelists

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AAFMAA Wealth Management & Trust

OUR MISSION: To be the premier provider of Financial Planning, Investment Management, & Trust Services to the American Armed Forces community.

Financial Planning

Investment Management

Trust Services

AAFMAA Wealth Management & Trust

We focus exclusively on the needs of military families and provide innovative, personalized, and lifestyle-appropriate financial services.

We are bound by a fiduciary standard– any advice or service we offer must always be in the best interest of our clients.

TRP CPAs, PLLC

ABOUT US: TRP CPAs, PLLC has been providing quality service since 1972. We have office locations in Fayetteville, Dunn and Sanford, North Carolina, but we serve clients in all areas of the country.

OUR MISSION: To help our clients achieve success by providing personalized attention with a commitment to service. We will strive to be where business is going, rather than where it has been, and to develop the technology and the people to do it.

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Services We Offer: We provide a wide array of services to closely-held businesses, non-profits and individuals to include:

- Accounting and bookkeeping services
- Financial statement preparation services
- Auditing
- Tax preparation, planning and consulting
- General business consulting and advisory services

Personal Income Tax

New Brackets and Rates for 2018

Tax Rate	Single Filers	Married Filing Jointly	Married, filing separately	Head of Household
10%	Up to $9,525	Up to $19,050	Up to $9,525	Up to $13,600
12%	$9,526 to $38,700	$19,051 to $77,400	$9,526 to $38,700	$13,601 to $51,800
22%	$38,701 to $82,500	$77,401 to $165,000	$38,701 to $$82,500	$51,801 to $82,500
24%	$82,501 to $157,500	$165,001 to $315,000	$82,501 to $157,500	$82,501 to $157,500
32%	$157,501 to $200,000	$315,001 to $400,000	$157,501 to $200,000	$157,501 to $200,000
35%	$200,001 to $500,000	$400,001 to $600,000	$200,001 to $300,000	$200,001 to $500,000
37%	$500,000+	$600,000+	$300,000+	$500,000+

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Standard Deduction and Personal Exemption

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- Increase in the Standard Deduction -
Beginning in 2018,
the standard deduction increases significantly

	2017 & prior	TCJA 2018
Single	6,500	12,000
Head of Household	9,550	18,000
Joint/Surviving Spouse	13,000	24,000
Dependent	1,050	1,050
Addition for elderly or Blind		
Single	1,600	1,600
Married Each	1,300	1,300
Personal Exemption	4,150	None

Child Tax Credit

- Child Credit increased to $2,000 per qualifying child (child under 17)
- Begins phasing out at $400,000 AGI (MFJ) and $200,000 (all others)
- $500 nonrefundable credit for dependents other than qualifying children
- $1,400 of child credit is refundable
- Qualifying child must have social security number
- Effective for tax years 2018 through 2025

Modification of the Alternative Minimum Tax (AMT)

- The legislation retains the AMT for individuals but increases the exemption amount and phase out thresholds so fewer people will pay it.
- From 2018 through 2025, a higher AMT exemption will apply to income, beginning with $109,400 for joint filers and $70,300 for other taxpayers in 2018.
- The exemption will phase out at $1 million for joint filers and $500,000 for other taxpayers. The thresholds will be adjusted for inflation.

Changes to Itemized Deductions – Schedule A

- State and Local Tax Deduction
  - $10,000 Cap on State and Local Tax Deduction. In a significant departure from prior law, the legislation will allow individuals to deduct no more than $10,000 of any combination of the following taxes:
    - state and local income taxes
    - state and local property taxes
    - sales taxes.
  - This overall limitation may result in the enhanced standard deduction yielding a larger deduction against your adjusted gross income and thus a lower tax bill.

Changes to Itemized Deductions – Schedule A

- Mortgage Interest Deduction
  - Limits on Mortgage Interest Deduction. The tax reform act reduces the amount of mortgage indebtedness on which taxpayers may deduct interest to $750,000 for mortgages incurred after December 15, 2017. (The $1 million limitation remains for older debt).
  - Interest on your principal residence and a second home are deductible.
  - Importantly, however, beginning in 2018, interest on home equity indebtedness no longer is deductible, regardless of when it was incurred. The Act eliminates a deduction for home equity interest after 2017. That is for debt used for something other than to buy, build, or improve your home.

Charitable Contributions

- The 50% limitation for cash contributions to public charities and certain private foundations increased to 60%.
  - The 5-year carryover period retained to the extent that the contribution amount exceeds 60% of the donor's AGI.
- Eliminates deduction for contributions to educational institutions when donor receives the right to purchase tickets for seating at athletic events
- Effective for tax years 2018 through 2025

Changes to Itemized Deductions – Schedule A

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- All miscellaneous deductions subject to 2% of AGI have been eliminated through 2025
  - Thus deductions (subject to the 2% floor of adjusted gross income) for costs related to the production or collection of income, such as:
    - appraisal fees,
    - investment fees,
    - and safety deposit box rent are no longer deductible,
    - and, importantly, expenses related to employment, such as uniforms, professional society dues, computer used for work, and job-hunting expenses also are non-deductible.
  - Tax preparation fees suspended
    - Presumably a reasonable allocation to Schedule C, E or F will still be allowed

Changes to Itemized Deductions – Schedule A

- All miscellaneous deductions subject to 2% of AGI have been eliminated through 2025
  - With the elimination of Deduction for Unreimbursed Employee Business Expenses
    - Employees who incur significant unreimbursed business expenses may want to ask their employer about adjusting their compensation or establish an accountable expense reimbursement plan that would allow the employer to reimburse the employee tax-free while also entitling them to a deduction against their business income

Other Changes

- Alimony Deduction
  - The tax legislation repeals the above-the-line deduction for alimony paid for divorces or separations executed after December 31, 2018.
  - After that date, alimony payments will not be included in the recipient's income and the payments no longer will be deductible by the payer.
  - If you are currently contemplating divorce or separation, a careful review of the effects of the new law should be undertaken to determine the economic affects on your tax situation and timing of any agreements.

Kiddie Tax

- Investment income of a child will be taxed at trust income tax rates rather than individual income tax rates:

Prior Law	2017	TCJA	2018
Unearned Income	Rate	Unearned Income	Rate
0 – 2,100	Child's rate	0 – 2,550	10%
Over 2,100	Parents rate	2,550 -9,150	24%
		9,150 – 12,500	35%
		Over 12,500	37%

  - No longer will it be allowed to include child's income on parents return
  - Planning to avoid Kiddie tax has become more important

Business Tax Changes

- 21 percent corporate tax rate for C Corporations (does not sunset)
- Bonus depreciation allowance increased to 100% (from 50%) until 2023
- Section 179 Expensing limit set at $1,000,000
- Deduction for net interest expenses capped at 30% of taxable income, but businesses with average gross receipts that exceed $25 million are exempt
  - Any disallowed interest expense can be carried forward indefinitely

Business Tax Changes

- Net Operating Losses now generally limited to 80% of taxable income for years after 2017.
- The new Section 199A deduction, a/k/a the pass-through deduction:
  - Owners of pass-through entities may enjoy up to a 20% deduction of domestic qualified business income from an LLC, partnership, S corporation, or a sole proprietorship.
  - Not an itemized deduction.

New Deduction for Qualified Business Income for Individuals

- Generally a deduction of 20% of qualified domestic business income from a sole proprietorship, partnership or S corporation
- The deduction reduces taxable income but not AGI
- The deduction is limited by the greater of:
  - 50% of W2 wages paid by the qualifying business or
  - 25% of W2 wages paid plus 2.5% of unadjusted basis of all qualified property

New Deduction for Qualified Business Income for Individuals

- The limitation does not apply if taxable income on the 1040 is less than $157,500 ($315,000 on a joint return)
- The limitation phases in as taxable income increases by $50,000 ($100,000 joint) over the above thresholds as follows:

	Joint Return	Others
Deduct 20% of income - No W2 limitation	0-$315,000	0-$157,500
W-2 limitation phased in	$315,000-415,000	$157,500 – $207,500
Deduction limited to 50% of W2	Over $415,000	Over$207,500

Pass-through Deduction: Key Distinctions

- Service Businesses
  - Generally defined as "any trade of business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade of business where the principal asset of such trade of business is the reputation or skill of 1 or more of its employees." [Exception: Architecture and/or Engineering Firms]

	Non-Service	Service
Taxable income less than $315,000 (MFJ)	20% deduction	20% deduction
Taxable income greater than $315,000 but less than $415,000	Limitation phased-in	Deduction phased-out
Taxable income greater than $415,000	W-2/Capital limit applies	No deduction

Business Deductions and Credits

- Bonus depreciation
  - Expense 100% of cost of property for assets acquired and placed in service after Sept 27,2017 and before Jan 1, 2023
  - Assets no longer have to be “Original use” (i.e. “new” - can now include “used” assets), but must be taxpayer’s first use of the property
  - Bonus depreciation for autos remains at $8,000
  - Rules for electing out of bonus depreciation still apply
  - Taxpayers can still elect out of bonus depreciation, but must do so for all assets within that class
  - Taxpayers can elect 50% for first tax year ending after Sept 27, 2017
  - Bonus depreciation can generate a net operating loss
  - Special rules apply to property acquired before Sept 28, 2017 and placed in service after Sep 27, 2017

Business Deductions and Credits

- Section 179 Expensing:
  - The expense limitation is increased to $1 million and the phase out amount to $2.5 million. The new limitations will be adjusted for inflation.
  - The act further expands the definition of §179 property and the definition of qualified real property for improvements made to nonresidential real property.
    - Any qualified leasehold improvement property
      - Improvement made pursuant to lease
      - Occupied exclusively by lessee
      - Improvement placed in service more than 3 years after building first placed in service
    - Any of the following improvements to nonresidential real property:
      - Roofs / HVAC / Fire protection and alarm systems; security systems

Business Deductions and Credits

- Entertainment Expense Deductions:
  - Beginning in 2018, no deduction will be allowed generally for entertainment, amusement, or recreation; membership dues for a club organized for business, pleasure, recreation, or other social purposes; or a facility used in connection with any of the above.
- Meals Deductions:
  - 50% limitation still applies only to qualified business meals and beverages (e.g. meals away from home, and business meals) with no deduction for other entertainment expenses

Corporations

- Corporate Tax Rate:
  - Beginning in 2018, there is a 21% flat corporate tax rate; there is no special tax rate for personal service corporations.
- Alternative Minimum Tax:
  - Beginning in 2018, the alternative minimum tax is repealed. In 2018, 2019 and 2020, if taxpayer has AMT credit carryforward, taxpayer is able to claim a refund of 50% of remaining credits (to extent credits exceed regular tax for year). For 2021, taxpayer is able to claim a refund of all remaining credits.

Impact on Estate, Gift, and Generation-Skipping Taxes

- These changes “sunset” in 2026.
  - If Congress does not change the law again before 2026, the exclusions revert back to 2017 law (e.g., $5,600,000 per person in 2018, adjusted for inflation).

- “Step up in basis” remains unchanged
  - Upon death, assets that are left to beneficiaries will continue to enjoy a basis adjustment for capital gains tax purposes, up to fair market value on the date of the decedent’s death.

- Use It or Lose It!

Gifts to Individuals / Estate Tax Updates

- The Lifetime Exclusion for estate and gift taxes is now doubled.
  - In 2018, as adjusted for inflation, each individual now has an exclusion worth $11,200,000 (up from $5,600,000 per person)

- Note that the gift tax annual exclusion is adjusted up to $15,000 for 2018.

Gifts to Individuals / Estate Tax Updates

- Educational Planning
  - Maximize 529 Plans (5 Years of Annual Exclusion, at one time)
  - Single Filer - $75,000/beneficiary
  - Married - $150,000/beneficiary
    - This would use up your annual exclusion for the next five years so please coordinate this with all other planning currently in place

- Medical and education expenses are still excluded from using the lifetime exclusion or annual exclusion as long as they are facilitated appropriately

Is Estate Planning Still Relevant?

- Asset Protection (Lawsuits, divorce, malpractice, etc.)
- Make sure assets transfer as you wish
- Charitable giving during lifetime or through testamentary planning
  - Trusts, outright, combination, etc.
- Privacy of distributions

Is Estate Planning Still Relevant?

- Special Needs; protecting any government benefits available
- Many options that were available to us to handle the above planning are still in play and still viable options given our current rate environment and the laws available to us

Questions?

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