Tax Cuts and Jobs Act:
Overview and Planning Opportunities

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The Tax Cuts and Jobs Act (TCJA) significantly overhauled many areas in the tax law, presenting both a challenge and an opportunity for tax professionals this upcoming tax season. While the TCJA can seem overwhelming just because of its sheer breadth, it's also an opportunity for tax professionals to better serve clients by providing tax planning and advisory services. Before heading into the busy season, take a step back and educate yourself, your staff and your clients on all the new changes.

Individual Taxpayers

	Changes	Tax Planning Opportunity
Income Tax Rates and Brackets	The Tax Cuts and Jobs Act lowered a number of the tax rates and changed the income thresholds at which the rates apply.	Be sure to review W-4 withholding allowances and quarterly tax estimates with your clients. Latest W-4 information from the IRS
Standard Deduction	The standard deduction nearly doubles for every filing status in an attempt to help more taxpayers bypass itemizing.	Higher standard deductions may provide an opportunity to help clients group certain deductions and itemize every other year to increase taxpayer deductions over a two-year period.
2% Miscellaneous Itemized Deductions	There are a number of changes in the rules for taxpayers who itemize deductions. The new law no longer allows write-offs of 2% miscellaneous itemized deductions, such as unreimbursed employee expenses and investment expenses.	Consider coaching individual clients to ask their employers to provide an accountable plan for mileage and unreimbursed expenses. This can be a no-cost or low-cost benefit for an employee, and it is a great way to add value to your relationship with your client.
State and Local Tax Deductions	For 2018, the TCJA places a $10,000 limit on itemized deductions for state and local income and property taxes.	For high-tax states, the $10,000 limit on itemized deductions for state and local income and property tax may make tax planning more complex for current clients and open the door for new clientele. For taxpayers with less than $10,000 in taxes, this may be a good opportunity to group itemized deductions into one year, and take the standard deduction the next, to maximize tax savings in both years.

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Individual Taxpayers (continued)

	Changes	Tax Planning Opportunity
Charitable Contributions	Starting in 2018, your clients can get a bigger deduction for their charitable contributions. In tax year 2017, taxpayers were subject to a 50% limit for cash contributions to public charities and certain private foundations. However, the new changes have increased this limit to 60%.	When it comes to your client's charitable contributions, consider timing them to offset high income years, or take advantage of stacking itemized deductions. Consider donating appreciated stock to avoid taxable income from the capital gain, while getting a full deduction on the fair market value. Also, your clients can consider using donor-advised funds or a private non-operating foundation.
Medical Expense Deductions	TCJA reduces the deduction floor to 7.5% of AGI for 2017 and 2018 only. After 2018, the deduction floor will reset to 10% for all taxpayers. Consequently, 2018 is the last year that your clients can take advantage of the lower deduction floor.	Clients whose medical expenses for 2018 are at or near 7.5% of AGI may be able to get a deduction by accelerating planned medical procedures or purchases into 2018. Clients whose expenses to date exceed the 7.5% deduction floor may want to shift medical expenses into 2018, especially if it's unclear whether expenses for 2019 will exceed 10% of AGI.
Kiddie Tax	Previously, children under the age of 19 and college students under the age of 24 were taxed (above a certain threshold) at their parents' top marginal tax rate on unearned income. Beginning in tax year 2018, the net unearned income of a child subject to these rules will be taxed at the rates that apply to trusts and estates. The child's tax rate will no longer be affected by the parents' tax rates. A child's earned income will be taxed at the child's own single filer rate.	Consider asking your clients about the income of their children under the age of 24 to find out if they are affected by the change in Kiddie Tax. Consider adding the question to your organizers and tax planning interviews as you prepare for next tax season.
Alimony	For divorce or separation agreements executed after Dec. 31, 2018 (note, not 2017), or executed before that date and modified after, alimony and separate maintenance payments are not deductible by the payer and are not included in the income of the recipient.	Alimony is a good planning opportunity since it represents a big change from prior law. Planning will depend on which spouse you represent. Meet with your client and their attorney well ahead of a divorce to help them plan for changes to their taxes accordingly.

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Individual Taxpayers (continued)

	Changes	Tax Planning Opportunity
Estate Tax Exemption	The federal estate gift and generation-skipping transfer (GST) exemption has doubled – from $5,490,000 in 2017 to $11,180,000 in 2018 for individuals, and from $10,980,000 to $22,360,000 for married couples, subject to increases for inflation each year.	You can help your clients with estate planning by reviewing the following: • Wills: Ensure clients have one and that it is current. • Guardians: For clients with children, it's critical clients have a current guardianship document to name guardian(s). Otherwise the state may decide who the children live with. • Living Trusts: Consider these as an alternative to outright ownership of assets. • Beneficiaries: Ensure the proper beneficiaries are named to each account including life insurance, bank accounts and investments. • Life insurance policies: Ensure policies for the right amount are in place. • Retirement plan rollovers: Organize and consolidate old plans as needed.

Small Businesses

	Changes	Tax Planning Opportunity
Qualified Business Income Deduction (Sec. 199A)	The new law creates a new deduction starting in 2018 and expiring after December 31, 2025, for qualified business income from pass-through entities. In the simplest terms, the new deduction will shelter up to 20% of an eligible taxpayer's qualified business income from tax. However, the law is not that simple. The new deduction is subject to numerous qualification requirements, limitations and special rules. If you're looking for more information on the topic, check out the Top 10 Details Every Accountant Needs to Know.	The Qualified Business Income Deduction gives you an opportunity to proactively plan with your small business clients, including: • Review income limitations, owner's salary and total wages. • Review capital asset basis, if applicable. • Estimate QBI deduction conservatively for 2018. • Use QuickBooks Online Accountant to engage regularly and monitor net income, salaries, assets, etc.

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Small Businesses (continued)

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Corporate/ Business Taxes	Your corporate clients may see a significant decrease in their income tax as we move to a flat tax rate of 21%. This flat tax also applies to personal service corporations. In addition, the Corporate AMT has been repealed. AMT credit carryovers are refundable and can offset regular tax liability at 50% starting in tax year 2018, and 100% for tax years beginning in 2021.	Changes to corporate rates and the AMT open the door for tax professionals to perform entity analyses to determine if their clients should organize as a pass-through entity, a C corporation, or a combination.
Bonus Depreciation	For all businesses, the new law significantly enhances bonus depreciation, which impacts the cost of new computer systems, software, vehicles, machinery, office furniture and more. Congress passed a 100% first-year deduction for property placed in service after Sept. 27 2017, and before Jan. 1, 2023, compared to 50% in prior year. The law expands this deduction to be allowed for used qualifying property (in addition to new property). Additionally, the new laws doubled the Section 179 limit from $500,000 in prior years to $1 million for qualified property in 2018, with a $2.5 million phase-out threshold. Qualified real property is expanded to include personal property used predominantly to furnish lodging, roofs, HVAC property, fire protection, alarm systems and security systems.	You have an opportunity to help your clients decide whether choosing bonus depreciation or Section 179 is right for them. Section 179 may be preferable because you can pick and choose the assets and amounts versus the all-or-nothing approach required of bonus depreciation. However, it may be less beneficial than bonus depreciation depending on the circumstances of the taxpayer, the state of residence, and a number of additional factors.
Deductions for Meals and Entertainment	Entertainment, amusement or recreation expenses that are not directly related to the business (e.g. dues at a country club) are no longer deductible after Dec. 30, 2017. In addition, the current 50% limit on deductibility of business meals is expanding to include meals provided through an in-house cafeteria or on the premises of the employer through 2025.	Consider splitting your clients' general ledger accounts for 100% meals, 50% meals and non-deductible entertainment to optimize expenses. Also consider recommending apps that track receipts to your clients to help them manage meals and entertainment expenses. For example, Expensify is such an app that integrates with QuickBooks.

For more information check out the Intuit Tax Reform Resource Center as a single source for information and tools that will help you and your clients prepare for the changes resulting from the TCJA.

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