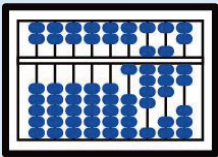


Proposed Tax Law Changes & Year-end Planning

Dustin S. Nelson, CPA



NELSON
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



Who am I?

- Denver native graduated East High School in 1997.
- Graduated from Middle Tennessee State University in 2002.
- Worked for Sprint in store management until coming on with Nelson & Company in 2007.
- Finished upper-division Accounting classes at Metro & got CPA license.
- Current president & owner of Nelson & Company.

Who is Nelson & Company?

- Family owned & operated CPA firm established in 1982.
- We focus on tax & accounting for individuals & small businesses.
- Strive to build lifetime relationships with our clients by providing great customer service through prompt communication, extensive tax & accounting knowledge spanning over 50 years, & offering a variety of tax, accounting & financial information solutions.
- Services include tax, accounting/bookkeeping, financial statement preparation, QuickBooks training, sales tax, accounting system design, IRS & State audit representation, & small business consulting.

Proposed Tax Law Changes

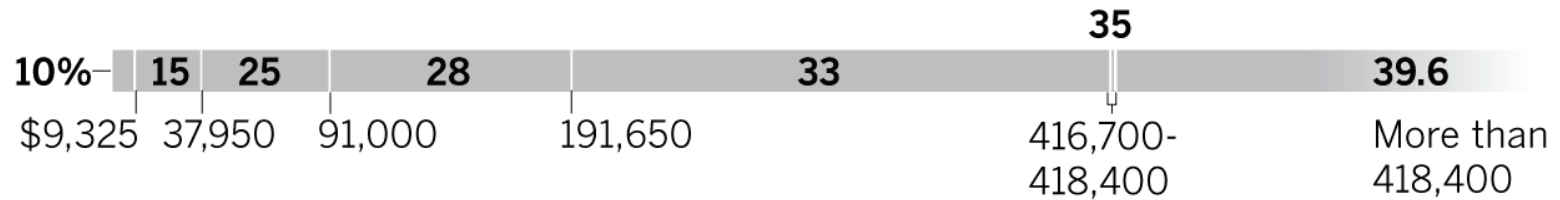


Proposed Tax Law Changes

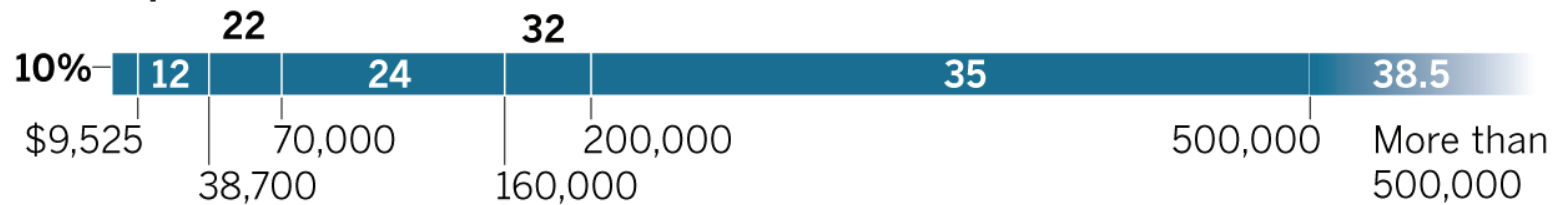
- The House of Representatives passed their version of the Tax Cuts & Jobs Act on November 16, 2017.
- The Senate passed a different version of the Tax Cut & Jobs Act on December 2, 2017.
- The two versions of the tax bill must be reconciled & then identical versions of the bill must pass both the House & Senate.
- President signs the tax bill into law.
- The changes in the House bill are permanent while many of the changes in the Senate bill sunsets (expires) in 2025 reverting to current law.

Tax rates, filing single

Current



Senate plan

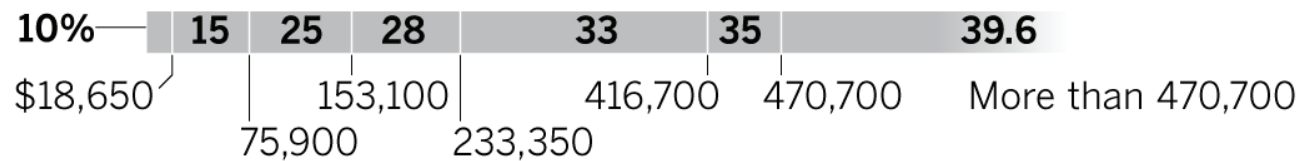


House plan

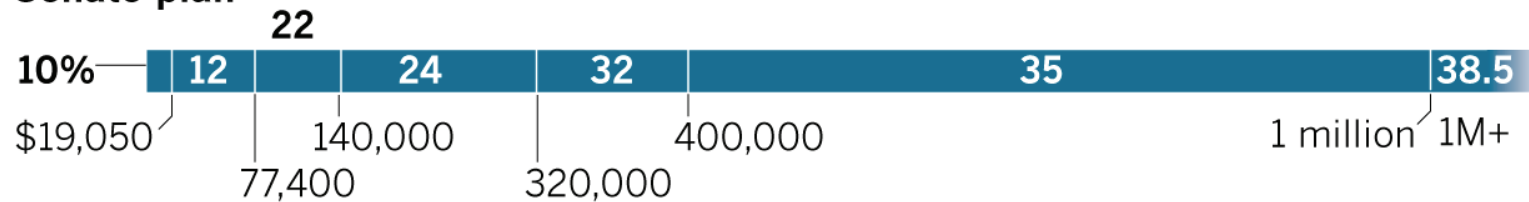


Tax rates, filing married

Current



Senate plan



House plan



Standard Deduction

- Current: \$6,350 for Individuals, \$12,700 if you are Married, & \$9,350 for Head of Household.
- The House bill: increase to \$12,200 for Individuals, \$24,400 if you are Married, & \$18,300 for Head of Household.
- The Senate bill: increase to \$12,000 for Individuals, \$24,000 if you are Married, & \$18,000 for Head of Household.

Personal Exemption

- Current: \$4,050.
- The House & Senate bills both eliminate the personal exemption altogether. However with the family tax credit it will help to offset this reduction.

Mortgage Interest Deduction

- Current: You can deduct mortgage interest on up to \$1 million of mortgage debt. The Senate leaves this rule unchanged.
- House version: Lowers the mortgage debt maximum to \$500,000 on new home purchases. The bill also eliminates the mortgage interest deductions for a 2nd home.

Home Equity Line Of Credit (HELOC)

- Current: You can deduct the interest of up to \$100,000 of HELOC debt used for any purpose.
- House & Senate: HELOC provision repealed.

Sale of Primary Residence

- Current: If you lived in your primary residence 2 out of the last 5 years, you can exclude from capital gains the 1st \$250,000 of gain if you are single & \$500,000 for married.
- Both the House & Senate bills would change the time frame to be 5 out of the last 8 years and only one time every 5 years. The House bill also establish a phase out of the credit for high income earners.

State, Local & Real Estate Taxes

- Current: Deduct all state, local taxes paid. Deduct real estate taxes paid on 1st & 2nd homes.
- House & Senate: Both bills eliminates all state & local tax deductions. Caps real estate tax deductions at \$10,000.

Medical Expense Deduction

- Current: Medical expense in excess of 10% of AGI are deductible. This is a slight change from 2016 for taxpayer's over 65 (7.5%).
- House: Repealed, no medical deduction.
- Senate: Reduces limitation to 7.5% of AGI for 2 years, then reverts back to 10% in 2019.

Overall Limit on Itemized Deductions

- Current: Itemized deduction phase-out starts at \$266,700 for individuals, \$320,000 if you are married.
- House & Senate: both repeal phase-out of itemized deductions.

Child Care Tax Credit & Family Credits

- Current: \$1,000 under 17 years old, phase-out start at \$75,000 single, \$110,000 if you are married.
- House: \$1,600 under 17 years old plus \$300 for other dependents, phase-outs start at \$115,000 single, \$230,000 if you are married.
- Senate: \$2,000 under 18 years old plus \$500 for other dependents, phase-out starts at \$500,000 for married.

Higher Education

- Current: Tuition & Fees deduction expired as of 12/31/16, all other programs continue. Senate leaves this unchanged.
- House: Repeals Lifetime Learning credit, Tuition & Fees deduction & Student Loan Interest deduction.

Capital Gains Tax

- Current: 15% tax if income is below \$200,000 single, \$250,000 married. Additional 3.8% tax if income is over those amounts. Additional 5% tax if in the top tax bracket. The total maximum capital gains tax is 23.8%.
- No changes in either the House or Senate bills.
- Senate changes to FIFO rather than specific identification for sales in taxable accounts.

ACA Individual Health Care Mandate Penalty

- Current: Penalty if you do not have qualified health insurance.
- House: Remains unchanged.
- Senate: Repealed health insurance mandate & penalty.

Alternative Minimum Tax

- Current: AMT is imposed on taxpayers whose tentative minimum tax is higher than regular tax.
- House: Repeals AMT altogether.
- Senate: Leaves AMT, but raises the income exemption amount.

Estate Tax

- Current: Tax rate is 40% on estates over \$5.6 million single, \$11.2 million if you are married.
- House: 40% tax on estate over \$11.2 single, \$22.4 million, repealed in 2024
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Top Corporate Income Tax Rate

- Current: Top tax rate is 35% it is a graduated tax currently.
- House: Flat tax rate of 20% (25% for PSC) effective 1/1/2018.
- Senate: Flat tax rate of 20% effective 1/1/2019.

Top Tax Rates for Pass-through Business

- Current: 39.6% (top individual tax bracket).
- House: 25% for passive business income, 35.22% for active, 39.6% for personal service corporations. Active owners could have more money subject to SE tax.
- Senate: Created a new deduction of 23% to those who qualify (small business).
- These rule changes are very complicated and beyond the scope of this presentation.

Cash Accounting

- Current: 5 million or less is allowed.
- House: Increases small business eligibility to 25 million.
- Senate: Increases small business eligibility to 15 million.

Net Operating Loss (NOL)

- Current: Carry loss back 2 years or carry forward 20 years.
- House: Eliminates NOL carryback. Carry forward indefinite however limits deduction in future years to 90% of current taxable income.
- Senate: Eliminates NOL carryback. Carry forward limits deduction in future years to 80% of current taxable income

Depreciation

- Current: Bonus depreciation reduces incrementally each year, 40% in 2018, 30% in 2019, 20% in 2020. Section 179 deduction allowed up to \$500,000.
- House: 100% bonus depreciation expires in 2023. Section 179 deduction increased to \$5 million.
- Senate: 100% bonus depreciation decreasing 20% per year starting in 2023. Section 179 deduction is increased to \$1 million.
- If passed, both versions would affect 2017 tax filings. Also would change rules of what asset classes qualify for bonus & Section 179 immediate deductions.

Business Interest Deduction

- Current: Fully deductible, generally.
- House: Disallowed for interest in excess of 30% of business income (including depreciation). Exemption for businesses with less than \$25 million in sales.
- Senate: Disallowed for interest in excess of 30% of business income (excluding depreciation). Exemption for businesses with less than \$15 million in sales.

Tax Bill Impact on Households & the Economy



Household Impact

- On average, households can expect to save \$1,200 in tax under both the House & Senate tax bills.
- On average, the top 1% of households, those with income over \$750,000, could save up to \$28,000 in tax under the Senate bill.
- The standard deduction doubles under both the House & Senate bills helping lower income individuals who don't itemize their taxes to get more deductions.
- Personal exemption elimination hurts large families which under current law, allows an exemption for each taxpayer & each child. This negative effect can be offset somewhat by the increased child tax credit and more favorable tax brackets.

Household Impact

- Residents in those states with high state & local taxes will owe more tax because of the loss of this deduction. This negative effect will be offset somewhat by the lower tax brackets.
- Homeowners will no longer be allowed to deduct interest on HELOC loans under the proposed bills resulting in lower itemized deductions.
- Currently only the wealthiest 0.2% of estates owe any estate tax according to IRS data so this change really only effects the top 1%. Expect the estate tax to come back.

Overall Impact

- The House bill adds approximately \$1.7 Trillion to the national debt according to the congressional budget office.
- The Senate bill adds approximately \$1 Trillion to the national debt according to the congressional budget office.
- The House bill will add 3.5% higher GDP over the long-term, 2.7% higher wages, and 890,000 new jobs according to the Tax Foundation special report Number 239.
- The House bill would lead to 0.9% higher after-tax income for all taxpayers & 3.4% higher after-tax income for the top 1% of taxpayers according to the Tax Foundation special report Number 239.

Year-end Tax Planning Opportunities



Items to do before 2017 year-end

- Consider paying any state income tax due before 2018. This ensures all state taxes are paid & can be deducted.
- Take care of all medical procedures, prescriptions & pay all medical bills before year-end. Prepay medical services for 2018. Charging medical expenses on a credit card is still considered paid in 2017.
- Consider prepaying nursing home expenses.
- Consider making all 2018 property tax payments by 12/31/17.
- Give money to charity while itemized deductions is still advantageous for you given the increased in standard deductions.

Items to do before 2017 year-end

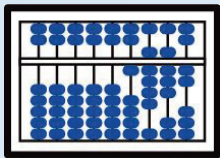
- If selling your home, consider delaying your decision to ensure you meet the new proposed time limits for exclusion of capital gains tax (5 of the last 8 years).
- Consider paying off your home equity loan balances since interest will not be deductible in the future.
- Maximize the 0% capital gains rates if your income is below \$37,950 Single & \$75,900 Married.
- Donate straight to Charity from IRA as your required RMD.
- Donate Collectable Assets to Charity.

Items to do before 2017 year-end

- For business owners & self-employed persons, consider deferring income to 2018 & speeding up expenses in 2017 before year end. Tax rates will be lower in 2018 if the tax bill passes.
- Consider purchasing of business assets in 2017 to reduce business profits.
- With the FIFO stock change from the Senate bill one could donate LTCG stock to charity to change the FIFO order. You could also harvest losses or retain low basis stock for step-up upon death.

**Thank you
for your
time.**

**Any
Questions?**



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