

TAX CUT AND JOBS ACT

ITS IMPACT ON YOU

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“You want a tax cut?
Write a check to the IRS and drag it across your
finger really fast”

NOT SO FAST...



“You want a tax cut? Write a check to
the government and drag it across
your finger really fast.”

QUICK DEFINITIONS

- ▶ ADJUSTED GROSS INCOME - “AGI” YOUR INCOME BEFORE YOU ITEMIZE OR DEDUCT TAX CREDITS. BASICALLY ALL SOURCES OF INCOME, AND CERTAIN ALLOWED DEDUCTIONS AGAINST THAT INCOME. FIRST PAGE OF THE 1040.
- ▶ TAXABLE INCOME - YOUR INCOME AFTER YOU ITEMIZE (OR TAKE THE STANDARD DEDUCTION, AND YOUR ALLOWED TAX CREDITS - THE AMOUNT YOU ACTUALLY PAY TAX ON. SECOND PAGE OF THE 1040
- ▶ MARRIED FILING JOINT - “MFJ”
- ▶ SINGLE - “S”
- ▶ HEAD OF HOUSEHOLD - “HOH”
- ▶ QUALIFIED BUSINESS INCOME - “QBI”

CHANGES AFFECTING ALL INDIVIDUALS

▶ EXEMPTIONS

- ▶ Old Law - Each adult and child was worth one exemption (\$4050 in 2017)
- ▶ New Law - no exemption
- ▶ Effect: In a 20% bracket, for a family of 4, you saved \$3,264 in taxes under the old law

CHILD TAX CREDIT

- ▶ Old law \$1,000 per child under the age of 17, but phased out when the AGI exceeded \$110,000
- ▶ New law - \$2,000 per child, and the phaseout begins when AGI exceeds \$400,000; \$500 for other dependents
- ▶ Effect on a MFJ couple making \$350,000 with 2 children in 2018, this couple would save \$4,000 in taxes compared to zero in 2017

THE RATES - THE EFFECT

	TAXABLE INCOME	2017	2018
▶ MFJ -	\$ 75,000	\$10,317	\$8,619
▶ MFJ -	\$125,000	\$22,727	\$19,379
▶ MFJ -	\$225,000	\$49,884	\$42,579
▶ S -	\$ 75,000	\$14,489	\$12,440
▶ S -	\$125,000	\$27,982	\$24,290
▶ S -	\$225,000	\$57,649	\$54,440
▶ HOH-	\$ 75,000	\$13,002	\$11,048
▶ HOH-	\$125,000	\$25,502	\$22,898
▶ HOH-	\$225,000	\$53,941	\$53,048

“CAN I WRITE OFF LAST YEAR’S TAXES AS A BAD INVESTMENT?”

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“Can I write off last year’s taxes as a bad investment?”

STANDARD DEDUCTION VERSES ITEMIZED DEDUCTIONS

	2017	2018	Better Deduction
Medical	>10% AGI	>7.5 AGI	2018
Taxes	No Limit	\$10,000	2017
Donations	No Limit	No Limit	Same
Misc Deds	>2% AGI	Gone	2017
Stan. Ded.	\$12,700	\$24,000	2018
IF OVER AGE 65,	\$1600	FOR s & HOH, \$1300 MFJ	

THE EFFECT OF NEW LAW SCHEDULE A

MFJ- LOOK AT YOUR DEDUCTION FOR TAXES - CAP IT AT \$10,000. ADD THE \$10,000, MORTGAGE INTEREST AND CHARITABLE. TAKE THE HIGHER OF THIS AMOUNT OR \$24,000.

SO ASSUME MEDICAL EXPENSES WERE \$10,000, TAXES \$11,000, INTEREST \$7000, AND CHARITBLE \$2,000, YOU WOULD GET \$24,500, INSTEAD OF \$23,200

NC ITEMIZED DEDUCTIONS

- ▶ GOOD NEWS - BECAUSE THE STANDARD DEDUCTION FOR NC IS < THE FEDERAL AMOUNT, NCDR IS ALLOWING YOU TO ITEMIZE EVEN IF YOU TAKE THE STANDARD FOR FEDERAL. HERE ARE THE DIFFERENCES:

	▶ FEDERAL	STATE
▶ MFJ	\$24,000	\$17,500
▶ S	12,000	8,750
▶ HOH	18,000	14,000

I ALSO NICKNAMED IT THE BOOMER CPA RETIREMENT ACT

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FOR THE SELF EMPLOYED - QUALIFIED BUSINESS DEDUCTIONS - CODE SECTION 199A

- ▶ FOR MOST SELF EMPLOYED PEOPLE, YOU GET A 20% DEDUCTION OFF YOUR TAXABLE INCOME
- ▶ BASED ON THE LESSER OF YOUR QUALIFIED BUSINESS INCOME BEFORE THE DEDUCTION OR 20% OF YOUR TAXABLE INCOME - CAPITAL GAINS
- ▶ RENTAL INCOME COUNTS!
- ▶ IF YOU HAVE A LOSS, IT IS CARRIED FORWARD UNTIL YOU HAVE INCOME (CAN BE ACTIVE) TO GO AGAINST IT.
- ▶ IF THE MJF INCOME > \$315,000, WAGES FROM THE BUSINESS ARE CONSIDERED AS WELL - LESSER OF 20% OF QBI, OR THE GREATER OF 50% OF WAGES, OR 25% OF WAGES PLUS 2.5 % OF QUALIFIED PROPERTY
- ▶

SECTION 199 A CONTINUED

- ▶ IF THE OWNER IS IN A SPECIALIZED SERVICE TRADE, NO DEDUCTION FOR TAXABLE INCOME > \$415,000.
- ▶ THOSE SERVICES FOR HEALTH, LAW, ACCOUNTING, ACTUARIAL SCIENCE, PERFORMING ARTS, CONSULTING, ATHLETICS, FINANCIAL SERVICES, BROKERAGE SERVICES, OR ANY BUSINESS INCOME BASED ON THE REPUTATION OR SKILL OF ONE OR MORE OF ITS EMPLOYEES. ARCHITUECTURE AND ENGINEERING ARE EXEMPT.
- ▶ FOR LANDLORDS, THE GAIN FROM THE SALE OF RENTAL PROPERTY IS QBI TO THE EXTENT OF DEPRECIATION TAKEN (BUT NOT APPRECIATION)
- ▶ DEDUCTION ALSO DEPENDS ON THE TYPE OF ENTITY YOU ARE IN
- ▶ EXAMPLES TO FOLLOW

THE EASY STUFF AND REMINDERS



1. GET YOUR DIVORCE AGREEMENT IN PLACE THIS YEAR-ALIMONY IS NOT DEDUCTABLE FOR AGREEMENTS AFTER 2018

2. OFFICE IN THE HOME - \$5 X THE SQUARE FOOTAGE OF THE OFFICE - ELIMINATES KEEPING UP WITH UTILITIES, INSURANCE, ETC. THIS IS IN LIEU OF DEPRECIATION, TAXES, INSURANCE, INTEREST EXPENSE ETC

3. PENALTY FOR NOT HAVING INSURANCE IS GONE EFFECTIVE AFTER 2018

4. BUSINESS MEALS - STILL DEDUCTIBLE, BUT NOT IF IN CONNECTION WITH ENTERTAINMENT

5. NEED RECEIPTS FOR ALL YOUR DONATIONS NOW, NOT JUST THOSE > \$250

▶ UPDATE ON DEPRECIATION

- ▶ Bonus depreciation is now 100% and only has to be new to you
- ▶ It is still an addback for NC purposes and then deducted over the next 5 years
- ▶ No Section 179 for residential rentals - Clarified.
- ▶ Componentized depreciation is alive and well.

VEHICLE DEPRECIATION FOR YOUR BUSINESS

- ▶ PASSEGER VEHICLES (WEIGH < 6,000 LBS) - NOW DEDUCT UP TO \$18000 THE FIRST YEAR - DOES NOT HAVE TO BE NEW TO YOU
- ▶ VEHICLES > 6,000 LBS - \$25,000 SECTION 179, AND THEN BONUS DEPRECIATION FOR THE BALANCE (SO YOU DON'T HAVE TO ADD BACK SO MUCH).
- ▶ REMEMBER, YOU MUST HAVE TAXABLE INCOME TO TAKE SECTION 179. SO IF NO INCOME, AND YOU WANT THE DEDUCTION, USE BONUS DEPRECIATION

WHAT WILL BE THE IMPACT ON NC LANDLORDS...

- ▶ 1. THE VALUE OF OUR PROPERTIES SHOULD GO UP
- ▶ 2. EXPECT AN INFLUX OF PEOPLE MOVING FROM STATES WITH HIGH PROPERTY TAXES AND STATE TAXES
- ▶ 3. MORE CASH DEALS FOR SECOND HOMES
- ▶ 4. PAYOFF OF LOCS
- ▶ 5. HIGHER END FLIPS SHOULD PAY WELL

OVERALL, PEOPLE MAY RENT LONGER BEFORE DECIDING ON BUYING A HOME

OTHER ITEMS OF INTEREST

NOLS - CARRYBACKS DISALLOWED AND ONLY 80% OF TAXABLE INCOME CAN BE USED

PASSIVE INCOME INSIDE AN S CORPORATION.

WHO PAYS TAXES?

QUESTIONS?

