

PYLE & ASSOCIATES, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS




# About Pyle & Associates, P.C.

- Pyle & Associates, P.C. provides a wide range of services to individuals and businesses in a variety of industries. At Pyle & Associates, P.C., we strive to meet each client's specific needs in planning for the future and achieving their goals in an ever-changing financial and regulatory environment.
- Our professional services include:
  - Tax Management Services
  - Estate and Trust Planning and Tax Preparation
  - Bookkeeping/Write-up
  - IRS Representation
  - Cash Flow and Budgeting Analysis
  - Business Valuation
  - Accounting Services
  - QuickBooks Accounting Help and Assistance
  - Entity Selection and Restructuring
  - Payroll Services
  - Financial Projections and Forecasts
  - Mergers, Acquisitions, and Sales

# Tax Cuts and Jobs Act

# Tax Cuts and Jobs Acts – Key Highlights

- Signed into law by President Donald Trump on December 22, 2017
- Most provisions of the law effective January 1, 2018
- Many of the individual income tax provisions expire after 2025
- Originally designed to simplify the tax code and enable taxpayers to complete their tax returns on a postcard. 
- Elimination of the personal exemption
- Increase in the standard deduction
- Reduction in the corporate tax rate structure
- 20% deduction for pass-through entities

## Tax Cuts and Jobs Acts – New Individual Tax Rates

- Pre-act law: Six tax rates: 10%, 15%, 28%, 33%, 35%, and 39.6%
- Tax Cuts and Jobs Act: Seven tax rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%

# Tax Cuts and Jobs Acts – New Individual Tax Rates

**2017 Tax Rates**  
**For Married Individuals Filing Joint Returns**

Rate	Taxable Income Bracket	The tax is
10%	\$0 to \$18,650	10% of taxable income
15%	\$18,650 to \$75,900	\$1,865 plus 15% of the excess over \$18,650
25%	\$75,900 to \$153,100	\$10,452.50 plus 25% of the excess over \$75,900
28%	\$153,100 to \$233,350	\$29,752.50 plus 28% of the excess over \$153,100
33%	\$233,350 to \$416,700	\$52,222.50 plus 33% of the excess over \$233,350
35%	\$416,700 to \$470,700	\$112,728 plus 35% of the excess over \$416,700
39.60%	\$470,700+	\$131,628 plus 39.6% of the excess over \$470,700

**2018 Tax Rates**  
**For Married Individuals Filing Joint Returns**

Rate	Taxable Income Bracket	The tax is
10%	\$0 to \$19,050	10% of taxable income
12%	\$19,050 to \$77,400	\$1,905 plus 12% of the excess over \$19,050
22%	\$77,400 to \$165,000	\$8,907 plus 22% of the excess over \$77,400
24%	\$165,000 to \$315,000	\$28,179 plus 24% of the excess over \$165,000
32%	\$315,000 to \$400,000	\$28,179 plus 24% of the excess over \$165,000
35%	\$400,000 to \$600,000	\$91,379 plus 35% of the excess over \$400,000
37%	Over \$600,000	\$161,379 plus 37% of the excess over \$600,000

# Tax Cuts and Jobs Acts – Personal Exemption Suspended

- Pre-act law: Taxpayers determined their taxable income by subtracting from their AGI any personal exemptions
  - Exemptions generally allowed for taxpayer, spouse, and dependents
  - 2017 Personal Exemption: \$4,050
    - Phased out for incomes over \$436,300 for MFJ and \$384,000 for single filers
- Tax Cut and Jobs Act: for tax years 2018-2025 the deduction for personal exemptions is effectively suspended

# Tax Cuts and Jobs Acts – Personal Exemption Suspended

<b>Exemptions</b>	6a <input type="checkbox"/> <b>Yourself.</b> If someone can claim you as a dependent, <b>do not</b> check box 6a . . . . .				Boxes checked on 6a and 6b <input type="text"/>
	b <input type="checkbox"/> <b>Spouse</b> . . . . .				
	<b>c Dependents:</b>				No. of children on 6c who: • lived with you <input type="text"/> • did not live with you due to divorce or separation (see instructions) <input type="text"/> Dependents on 6c not entered above <input type="text"/> Add numbers on lines above <input type="text"/>
	(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	
				(4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)	
			<input type="checkbox"/>		
If more than four dependents, see instructions and check here <input type="checkbox"/>	d Total number of exemptions claimed . . . . . <input type="text"/>				

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<b>Tax and Credits</b>	38	Amount from line 37 (adjusted gross income) . . . . .	38	
	39a	Check <input type="checkbox"/> <b>You</b> were born before January 2, 1952, <input type="checkbox"/> <b>Blind.</b> } Total boxes checked <input type="text"/> <b>39a</b>		
		if: <input type="checkbox"/> <b>Spouse</b> was born before January 2, 1952, <input type="checkbox"/> <b>Blind.</b> }		
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here <input type="checkbox"/> <b>39b</b>		
<b>Standard Deduction for—</b> • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others:	40	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) . . . . .	40	
	41	Subtract line 40 from line 38 . . . . .	41	
	42	<b>Exemptions.</b> If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	42	
	43	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- . . . . .	43	
	44	<b>Tax</b> (see instructions). Check if any from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972 c <input type="checkbox"/> <input type="text"/>	44	
	45	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251 . . . . .	45	
	46	Excess advance premium tax credit repayment. Attach Form 8962 . . . . .	46	
	47	Add lines 44, 45, and 46 . . . . . <input type="text"/>	47	



# Tax Cuts and Jobs Acts – Standard Deduction

- Pre-act law: Taxpayers were able to reduce their adjusted gross income (AGI) by the standard deduction or itemized deductions

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	<b>38</b>	Amount from line 37 (adjusted gross income)	<b>38</b>	
<b>Tax and Credits</b>	<b>39a</b>	Check <input type="checkbox"/> You were born before January 2, 1953, <input type="checkbox"/> Blind. <input type="checkbox"/> Spouse was born before January 2, 1953, <input type="checkbox"/> Blind. Total boxes checked <b>▶ 39a</b> <input type="checkbox"/>		
	<b>b</b>	If your spouse itemizes on a separate return or you were a dual-status alien, check here <b>▶ 39b</b> <input type="checkbox"/>		
<b>Standard Deduction for—</b>	<b>40</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin)	<b>40</b>	12,700
• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.	<b>41</b>	Subtract line 40 from line 38	<b>41</b>	
• All others:	<b>42</b>	<b>Exemptions.</b> If line 38 is \$156,900 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions	<b>42</b>	
Single or Married filing separately, \$6,350	<b>43</b>	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	<b>43</b>	
Married filing jointly or Qualifying widow(er), \$12,700	<b>44</b>	<b>Tax</b> (see instructions). Check if any from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 <b>c</b> <input type="checkbox"/>	<b>44</b>	
Head of household, \$9,350	<b>45</b>	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251	<b>45</b>	
	<b>46</b>	Excess advance premium tax credit repayment. Attach Form 8962	<b>46</b>	
	<b>47</b>	Add lines 44, 45, and 46 <b>▶</b>	<b>47</b>	
	<b>48</b>	Foreign tax credit. Attach Form 1116 if required	<b>48</b>	
	<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441	<b>49</b>	
	<b>50</b>	Education credits from Form 8863, line 19	<b>50</b>	
	<b>51</b>	Retirement savings contributions credit. Attach Form 8880	<b>51</b>	
	<b>52</b>	Child tax credit. Attach Schedule 8812, if required	<b>52</b>	
	<b>53</b>	Residential energy credit. Attach Form 5695	<b>53</b>	
	<b>54</b>	Other credits from Form: <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/>	<b>54</b>	
	<b>55</b>	Add lines 48 through 54. These are your <b>total credits</b>	<b>55</b>	
	<b>56</b>	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- <b>▶</b>	<b>56</b>	

# Tax Cuts and Jobs Acts – Standard Deduction

- 2017 Standard Deduction Limits:
  - Single taxpayers and married filing separately: \$6,350
  - Married couples filing jointly: \$12,700
- Tax Cut and Jobs Act: Standard deduction is increased to \$24,000 for married individuals filing jointly, \$18,000 for head-of-households, and \$12,000 for all other taxpayers

# Tax Cuts and Jobs Acts – Changes to Itemized Deductions

<b>SCHEDULE A</b> <b>(Form 1040)</b> <small>Department of the Treasury Internal Revenue Service (99)</small>		<b>Itemized Deductions</b> <small>► Information about Schedule A and its separate instructions is at <a href="http://www.irs.gov/schedules">www.irs.gov/schedules</a>. ► Attach to Form 1040.</small>		<small>OMB No. 1545-0074</small> <b>2016</b> <small>Attachment Sequence No. 07</small>
<small>Name(s) shown on Form 1040</small>			<small>Your social security number</small>	
<small>Caution: Do not include expenses reimbursed or paid by others.</small>				
<b>Medical and Dental Expenses</b>	1	Medical and dental expenses (see instructions) . . . . .	1	
	2	Enter amount from Form 1040, line 38 <input type="text" value="2"/>	2	
	3	Multiply line 2 by 10% (0.10). But if either you or your spouse was born before January 2, 1952, multiply line 2 by 7.5% (0.075) instead . . . . .	3	
	4	Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	
<b>Taxes You Paid</b>	5	State and local (check only one box): a <input type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes . . . . .	5	
	6	Real estate taxes (see instructions) . . . . .	6	
	7	Personal property taxes . . . . .	7	
	8	Other taxes. List type and amount ► .....	8	
	9	Add lines 5 through 8 . . . . .	9	
<b>Interest You Paid</b>	10	Home mortgage interest and points reported to you on Form 1098 . . . . .	10	
	11	Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ► .....	11	
	12	Points not reported to you on Form 1098. See instructions for special rules . . . . .	12	
	13	Mortgage insurance premiums (see instructions) . . . . .	13	
	14	Investment interest. Attach Form 4952 if required. (See instructions.) . . . . .	14	
	15	Add lines 10 through 14 . . . . .	15	
<b>Gifts to Charity</b>	16	Gifts by cash or check. If you made any gift of \$250 or more, see instructions . . . . .	16	
	17	Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500 . . . . .	17	
	18	Carryover from prior year . . . . .	18	
	19	Add lines 16 through 18 . . . . .	19	
<b>Casualty and Theft Losses</b>	20	Casualty or theft loss(es). Attach Form 4684. (See instructions.) . . . . .	20	
<b>Job Expenses and Certain Miscellaneous Deductions</b>	21	Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ► . . . . .	21	
	22	Tax preparation fees . . . . .	22	
	23	Other expenses—investment, safe deposit box, etc. List type and amount ► .....	23	
	24	Add lines 21 through 23 . . . . .	24	
	25	Enter amount from Form 1040, line 38 <input type="text" value="25"/>	25	
	26	Multiply line 25 by 2% (0.02) . . . . .	26	
	27	Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	
<b>Other Miscellaneous Deductions</b>	28	Other—from list in instructions. List type and amount ► .....	28	
<b>Total Itemized Deductions</b>	29	Is Form 1040, line 38, over \$155,650? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter. . . . .	29	

# Tax Cuts and Jobs Acts – Changes to Itemized Deductions

- State and local income tax deduction limited to \$10,000
  - Greater impact on taxpayers residing in high income tax states
- Home Equity Indebtedness Interest Deduction Eliminated
  - Pre-act law: Could deduct interest on home equity indebtedness of up to \$100,000
  - Tax Cuts and Jobs Act: Deduction for home equity indebtedness eliminated

# Tax Cuts and Jobs Acts – Changes to Itemized Deductions

- Pre-act law: Taxpayers who itemized their deductions were eligible to deduct eligible miscellaneous itemized deductions including unreimbursed employee business expenses, investment advisory fees, and tax prep fees.
- Tax Cuts and Jobs Act: Miscellaneous itemized deductions are disallowed for tax years beginning after December 31, 2017 and before January 1, 2026.

# Tax Cuts and Jobs Acts – Child Tax Credit Changes

- Pre-Tax Law: Taxpayer could claim a tax credit of \$1,000 per qualifying child under the age of 17.
  - Phased out by \$50 for each \$1,000 of AGI over \$75,000 for single filers and \$110,000 for married filers.
- Tax Cuts and Jobs Act: Child tax credit is increased to \$2,000 per child
  - Phase out begins at \$400,000 for married filing joint and \$200,000 for all other taxpayers

# Tax Cuts and Jobs Acts – Child Tax Credit Changes

Form 1040 (2016) Page **2**

	<b>38</b>	Amount from line 37 (adjusted gross income) . . . . .	<b>38</b>	
<b>Tax and Credits</b>	<b>39a</b>	Check <input type="checkbox"/> <b>You</b> were born before January 2, 1952, <input type="checkbox"/> <b>Blind.</b> } <b>Total boxes</b>		
		if: <input type="checkbox"/> <b>Spouse</b> was born before January 2, 1952, <input type="checkbox"/> <b>Blind.</b> } <b>checked ▶ 39a</b>		
	<b>b</b>	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ <b>39b</b> <input type="checkbox"/>		
<b>Standard Deduction for—</b> <ul style="list-style-type: none"> <li>• People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions.</li> <li>• All others:</li> <li>Single or Married filing separately, \$6,300</li> <li>Married filing jointly or Qualifying widow(er), \$12,600</li> <li>Head of household, \$9,300</li> </ul>	<b>40</b>	<b>Itemized deductions</b> (from Schedule A) or your <b>standard deduction</b> (see left margin) . . . . .	<b>40</b>	
	<b>41</b>	Subtract line 40 from line 38 . . . . .	<b>41</b>	
	<b>42</b>	<b>Exemptions.</b> If line 38 is \$155,650 or less, multiply \$4,050 by the number on line 6d. Otherwise, see instructions . . . . .	<b>42</b>	
	<b>43</b>	<b>Taxable income.</b> Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- . . . . .	<b>43</b>	
	<b>44</b>	<b>Tax</b> (see instructions). Check if any from: <b>a</b> <input type="checkbox"/> Form(s) 8814 <b>b</b> <input type="checkbox"/> Form 4972 <b>c</b> <input type="checkbox"/> . . . . .	<b>44</b>	
	<b>45</b>	<b>Alternative minimum tax</b> (see instructions). Attach Form 6251 . . . . .	<b>45</b>	
	<b>46</b>	Excess advance premium tax credit repayment. Attach Form 8962 . . . . .	<b>46</b>	
	<b>47</b>	Add lines 44, 45, and 46 . . . . . ▶	<b>47</b>	
	<b>48</b>	Foreign tax credit. Attach Form 1116 if required . . . . .	<b>48</b>	
	<b>49</b>	Credit for child and dependent care expenses. Attach Form 2441 . . . . .	<b>49</b>	
<b>50</b>	Education credits from Form 8863, line 19 . . . . .	<b>50</b>		
<b>51</b>	Retirement savings contributions credit. Attach Form 8880 . . . . .	<b>51</b>		
<b>52</b>	Child tax credit. Attach Schedule 8812, if required . . . . .	<b>52</b>	2,000	
<b>53</b>	Residential energy credits. Attach Form 5695 . . . . .	<b>53</b>		
<b>54</b>	Other credits from Form: <b>a</b> <input type="checkbox"/> 3800 <b>b</b> <input type="checkbox"/> 8801 <b>c</b> <input type="checkbox"/> . . . . .	<b>54</b>		
<b>55</b>	Add lines 48 through 54. These are your <b>total credits</b> . . . . .	<b>55</b>		
<b>56</b>	Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- . . . . . ▶	<b>56</b>		

# Tax Cuts and Jobs Acts – Charitable Deduction Changes

- Pre-Tax Law: Generally the 80% of charitable contributions to institutions of higher education for the right to purchase preferential seating were deductible
  - Examples: Donations made to Iowa State University Athletics
- Tax Cut and Jobs Act: No charitable deductions is allowed for any payments to an institution of higher education in exchange for the right to purchase tickets or seating.



# Tax Cuts & Jobs Act Changes to the Meals & Entertainment Deduction

## Tax Cuts and Jobs Acts – Entertainment Expenses

- Pre-Tax Law: Entertainment expenses directly related to the active conduct of a taxpayer's trade or business were 50% deductible
  - Examples: Sporting events, clubs, theatres
- Tax Cut and Jobs Act: No deduction is allowed for any entertainment expenses incurred by the taxpayer

## Tax Cuts and Jobs Acts – Business Meals

- Pre-Tax Law: Business meals with the client in which the taxpayer was present were 50% deductible. Note the meal must be related to the taxpayer's trade or business (documentation needed to substantiate business purpose).
  - Examples: Lunch with client
- Tax Cut and Jobs Act: Consistent with prior law, the Tax Cuts & Jobs Act allows for 50% of business meals to be deducted.

## Tax Cuts and Jobs Acts – Business Meals - Employees

- Tax Cut and Jobs Act: Taxpayer's are still allowed a 50% deduction for business meals incurred by employees
  - Examples: Meals incurred by employees while traveling on business.

## Tax Cuts and Jobs Acts – De Minimis Fringe Benefits

- **Pre-Tax Law:** De minimis fringe benefits including refreshments and food provided to employees were 100% deductible.
  - Examples: Items provided for employees in the company breakroom including food, coffee, pop, etc.
- **Tax Cut and Jobs Act:** For tax years beginning after December 31, 2017, de minimis fringe benefits are only 50% deductible.

# Tax Cuts & Jobs Act Depreciation

## Tax Cuts and Jobs Acts – Section 179

- Pre-act law: Annual Sec. 179 expense couldn't exceed \$500,000, adjusted for inflation. Dollar limit was reduced by the amount by which sec 179 property placed in service during the year exceeded \$2,000,000
- Tax Cuts & Jobs Act: Sec 179 annual dollar limit was increased to \$1,000,000 and the threshold for Sec 179 property placed in service increased to \$2,500,000

# Tax Cuts and Jobs Acts – Bonus Depreciation (168K)

- Pre-act law: Qualified property was allowed additional depreciation at a rate of 50% in the year the property was placed in service. Note property must be new.
- Tax Cuts & Jobs Act: Bonus depreciation rate increases to 100% for all qualified property. Allows for bonus depreciation on new and used property. Extends the bonus depreciation phase down schedule to 2027.



# Tax Cuts & Jobs Act Qualified Business Income Deduction & Changes in Corporate Tax Rates

# Tax Cuts and Jobs Acts – Change in Corporate Tax Rates

If taxable income is.....	Tax rate
\$0-\$50,000	15%
\$50,001-\$75,000	25%
\$75,001-\$100,000	34%
\$100,001-\$335,000	39%
\$335,001-\$10,000,000	34%
\$10,000,000-\$15,000,000	35%
\$15,000,001-\$18,333,333	38%
Over \$18,333,333	35%

- Pre-act law:
  - Tax Cuts and Jobs Acts: The corporate tax rate is a flat 21%
    - Can negatively affect small corporations including small farm corporations
  - Corporations still subject to double taxation
  - Top corporate owners pay 39.8% (21%+ (79% x 23.8%))
    - Compared to 50.47% (35%+ (65% x 23.8%)) under pre-act law

## Tax Cuts and Jobs Acts – QBI Deduction

- Contrary to popular belief some of the largest companies in America are partnerships and s-corporations
- Under pre-act law pass-through entity income was subject to a maximum tax rate of 40.8% (39.6% top rate + 1.2% phase out of itemized deductions)
  - Reduction of corporate tax rates to 21% made the TCJA corporate tax structure more advantageous than pass-through entities taxed at individual ordinary income tax rates
- As a result of this, congress added Section 199A (Qualified Business Income Deduction) to the Tax Cuts & Jobs Act

## Tax Cuts and Jobs Acts – QBI Deduction

- The Qualified Business Income Deduction is available to non-corporate taxpayers and is typically equal to 20% of a taxpayer's qualified business income from a sole proprietorship, S-Corporation, or partnership. Note this deduction is taken on the Form 1040 as a reduction to taxable income.
- Qualified business income is the net amount of items of income, gain, deduction, and loss incurred in a trade or business.
  - Does not include interest income, capital gains or losses, or dividends.

# Tax Cuts and Jobs Acts – QBI Wage & Capital Limitation

- Generally, the QBI deduction is equal to the lesser of
  - 20% of Qualified Business Income, or
  - The greater of:
    - 50% of W-2 wages, or
    - 25% of W-2 wages, plus 2.5% of the unadjusted basis of the entity's assets
  
- Why was this limitation put in place?

# Tax Cuts and Jobs Acts – QBI Wage & Capital Limitation

- Section 199A(b)(3)(A) provides an exception to the wage and capital limitation for taxpayers with taxable income less than the threshold amount.
- The threshold amount is:
  - Married Filing Joint - \$315,000
  - All Others - \$157,500
- Phase-out of \$100,000 for married filing joint taxpayers and \$50,000 for all other taxpayers.
  - How does this work?

## Tax Cuts and Jobs Acts – QBI Wage and Capital Limitation Example

- Cy and Clone have a combined taxable income of \$350,000. Cy has QBI of \$200,000 from his partnership and pays \$50,000 in wages. Clone has W-2 wages of \$150,000
  - Without any limitation the QBI deduction would be equal to  $\$200,000 \times 20\%$  or \$40,000
    - 50% of W2 wages is \$25,000
  - Before the wage limitation phase-in there is a total difference of \$15,000 ( $\$40,000 - \$25,000$ )

## Tax Cuts and Jobs Acts – QBI Wage and Capital Limitation Example

- Phase out is phased in over \$100,000 of taxable income over \$315,000
  - \$35,000 ( $\$350,000 - \$315,000$ ) of taxable income is over the threshold
  - 35% or \$5,250 ( $\$35,000 / 100,000$ ) of the \$15,000 benefit is eliminated
  - Total qualified business income deduction is limited to \$34,750 ( $\$40,000 - \$5,250$ )



## Tax Cuts and Jobs Acts – QBI Wage and Capital Limitation Example 2

- Cy and Clone have a combined taxable income of \$450,000. Cy has QBI of \$300,000 from his partnership (not in a service trade or business) and pays \$50,000 in wages and an unadjusted basis of \$50,000 in partnership assets. Clone has W-2 wages of \$150,000
  - QBI deduction is equal to the lesser of:
    - 20% of QBI or \$60,000 ( $\$300,000 \times 20\%$ ), or
    - The greater of:
      - 50% of W-2 wages of \$50,000 or \$25,000, or
      - 25% of W-2 wages or \$12,500 plus 2.5% of \$50,000 or \$1,250, for a total of \$13,750
- QBI income deduction is equal to \$25,000

## Tax Cuts and Jobs Acts – QBI Deduction for Specified Service Trades or Businesses

- Section 199A(d)(1) defines a qualified trade or business as any trade or business other than:
  - (A) a specified service trade or business, or
  - (B) the trade or business of performing services as an employee.
- Service trades or business are businesses where the principal asset of the business is the reputation or skill of one or more employees
- For example – healthcare professionals, lawyers, accountants

## Tax Cuts and Jobs Acts – QBI Deduction for Specified Service Trades or Businesses

- Specified service business can still claim the qualified business income deduction provided the taxpayer's taxable income is less than \$315,000 (MFJ) or 157,500 for other taxpayers.
- Deduction is phased out over the next \$100,000 of taxable income (\$415,000) for MFJ filers and \$50,000 of taxable income (\$207,500) for all other taxpayers.

## Tax Cuts and Jobs Acts – QBI Deduction for Real Estate Activities

- Real estate business must be considered a “qualified trade or business” to be eligible for the QBI deduction.
- Potentially eligible for owners of residential real estate and multiple rental properties.
- Commercial buildings with a triple net lease?

# Tax Cuts and Jobs Acts – QBI Deduction for Real Estate Activities

- Let's go back to the definition of qualified business income
- Qualified business income deduction:
  - The lesser of
    - 20% of the taxpayer's qualified business income, or
  - The greater of
    - 50% of the W-2 wages with respect to the business, or
    - 25% of the W-2 wages with respect to the business plus **2.5% of the unadjusted basis of all qualified property**
      - **Without this clause many real estate entities would not qualify for the QBI deduction**

# Tax Cuts & Jobs Act Examples

# Tax Cuts and Jobs Acts – Example 1

Example One: Single taxpayer who uses the standard deduction in 2017 with \$50,000 of AGI.

	<u>2017</u>	<u>2018</u>
AGI	50,000	50,000
Standard Deduction	(6,350)	(12,000)
Exemptions	(4,050)	-
Taxable Income	39,600	38,000
Tax	<u>5,639</u>	<u>4,370</u>

## Tax Cuts and Jobs Acts – Example 2

Example Two: Married filing joint with AGI of \$161,000 with 27,000 in itemized deductions , including \$17,000 in SALT, with 3 children

	<u>2017</u>	<u>2018</u>
AGI	161,000	161,000
Itemized Deductions	(27,000)	
Standard Deduction		(24,000)
Exemptions	(20,250)	-
Taxable Income	<u>113,750</u>	<u>137,000</u>
Tax	<u>19,915</u>	<u>22,019</u>
Child Tax Credits	-	(6,000)
Ending Tax	19,915	16,019



## Tax Cuts and Jobs Acts – Example 3

Example Three: Married filing joint with AGI of \$161,000 with 27,000 in itemized deductions , including \$17,000 in SALT, no children

	<u>2017</u>	<u>2018</u>
AGI	161,000	161,000
Itemized Deductions	(27,000)	
Standard Deduction		(24,000)
Exemptions	(8,100)	-
Taxable Income	<u>125,900</u>	<u>137,000</u>
Tax	<u>22,953</u>	<u>22,019</u>
Child Tax Credits	-	-
Ending Tax	22,953	22,019