

Top 10 Tax Provisions You May Not Have Heard in the News

PROFESSIONALS

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1. Even though described as “Simplification,” the Ways and Means proposal is 82+ pages long and will likely expand during the markup. Even if passed in 2017, the vast majority of changes will not be effective until 2018.
2. While the tax rate brackets will be simplified from seven to four, higher income taxpayers will occasionally find them in a higher bracket under the proposal than they would under current law. For example, an individual taxpayer with \$200,001 to \$424,950 in 2018 will jump to a 35% rate vs. 33% under current law. Likewise, a married couple with \$260,001 to \$424,950 will jump to 35% vs. 33%.
3. The proposed elimination of the Alternative Minimum Tax (AMT) will increase the benefits of many deductions for taxpayers previously subject to AMT. For example, most itemized deductions and retirement funding only yield a maximum 28% federal benefit for those subject to AMT. Most of these taxpayers will receive a 35% or higher benefit under the proposal.
4. Along with the proposed limit of home mortgage interest loans of \$500,000 on Primary residence purchases, Congress may also phase-out the residential \$250,000/\$500,000 gain exemption for higher-income taxpayers – beginning with joint AGIs > \$500,000. **It is worth noting, that if you purchased your home before November 2, 2017, you would be allowed to take the interest deduction under the current \$1,000,000 loan limit. Interest expense on vacation homes will likely be disallowed going forward.**
5. Another potential real estate limit relates to a proposed property tax deduction cap of \$10,000 per tax year. Unlike the mortgage interest change, the property tax deduction is not only limited to primary residences. Even though itemized deductions will be limited to mortgage interest, property tax, charitable contributions, and taxes related to business operations, the

current “Pease Limitations” which haircut itemized deductions based a percentage of Adjusted Gross Income may be eliminated. Note that state income tax, DMV, medical and miscellaneous deductions, including tax preparation fees, may not be deductible in 2018, so prepayment in 2017 may make sense for taxpayers who are not in an AMT position in 2017.

6. The lower 25% tax on “flow-thru” income from S Corps and LLCs will likely NOT apply to personal service corporations such as Accounting, Engineering, and Law firms. The proposal provides complex “anti-abuse” provisions which will tax 70% of the flow-thru income at regular tax rates and 30% at the proposed 25% rate. Exceptions may apply in certain fact patterns.
7. S Corps may have self-employment/Social Security tax applied to the entire S Corp earnings, rather than just the W-2 amounts paid to owners. This loophole has been discussed for a couple of decades and may very well be limited or eliminated as part of the bill.
8. While the Estate Tax exemption currently at \$5.6M per individual may double to \$11.2M per individual, the proposal retains the “step-up” provisions for taxpayers who are not subject to estate tax. Also, the gift tax is soon to be reduced from 40% to 35%.
9. IRC 1031 “Like-Kind Exchanges” are proposed to be limited to only real estate transactions. Currently, the provisions apply to both real and personal property such as artwork, cars, inventory, etc.
10. As a revenue raiser, the proposal would impose a 1.4% excise tax on larger private university foundations, which currently seldom pay tax.

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About Blake Christian:

Blake brings over 35 years of experience providing tax consulting and compliance services to clients that include multinational, publicly traded corporations, as well as closely held owner-managed businesses. His industry experience is broad and includes manufacturing and distribution, service companies, restaurant, shipping and transportation, energy and healthcare. In addition to corporate, partnership and individual tax compliance and planning, Blake specializes in federal, state and local tax incentive, tax credits, grants and other benefits associated with hiring and investing. Contact Blake at blakec@hcvt.com