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CPAs & ADVISORS

Recent Tax Reform and Its Impact on You

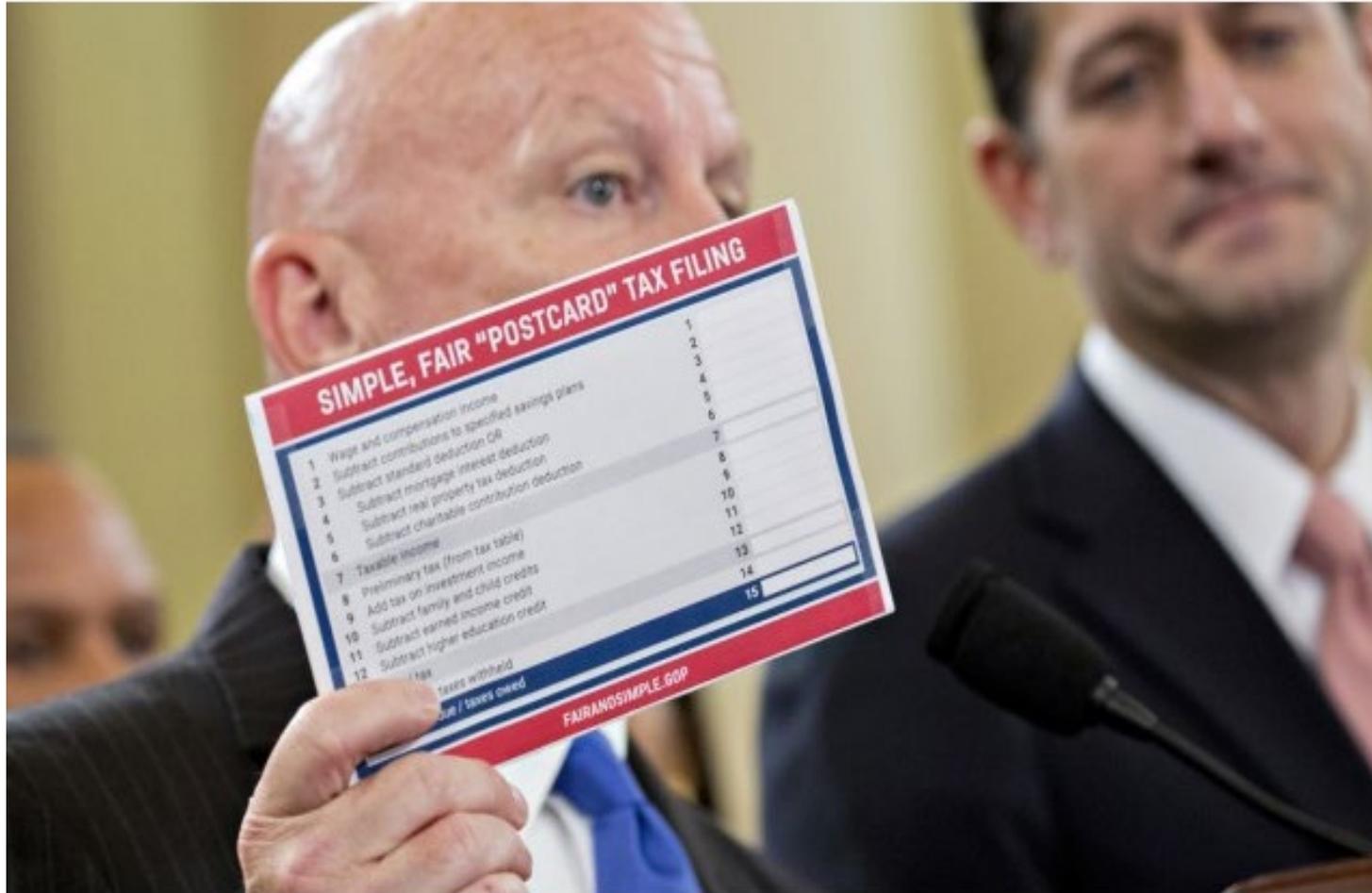
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Ways and Means Committee chairman Kevin Brady, R-Texas, holds a sample postcard showing a simplified tax form as House Speaker Paul Ryan, R-Wis., looks on. (AP Photo/Mark Wilson)

Who actually pays taxes

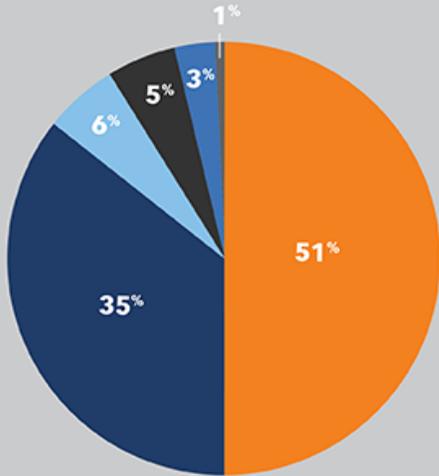
	Taxpayer Adjusted Gross Income	Share Of Total Taxes Paid	Number Of Returns
Top 1%	\$ 540,009	40.08%	1.4M
Top 5%	\$ 217,913	60.30%	7M
Top 10%	\$ 151,935	71.37%	14M
Bottom 50%	\$ 40,078	2.94%	70M

Who actually pays taxes

THE FEDERAL GOVERNMENT COLLECTS REVENUES FROM A VARIETY OF SOURCES

2018 Total Revenues:
\$3,330 Billion

- INDIVIDUAL INCOME TAXES
- PAYROLL TAXES
- CORPORATE INCOME TAXES
- EXCISE TAXES
- ESTATE & GIFT TAXES
- OTHER



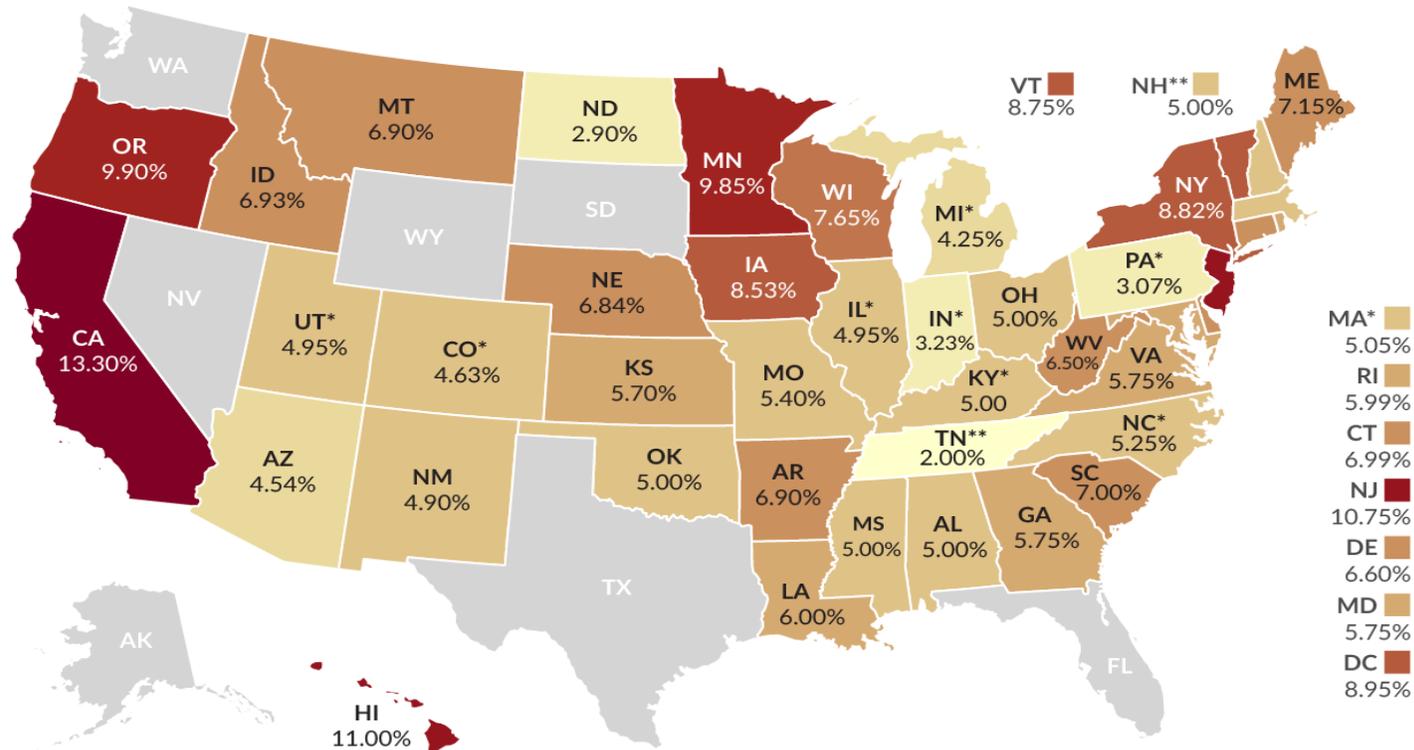
VISIT: [PGPF.ORG/TAXES](https://pgpf.org/taxes)



State Tax Rates

How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2019



Note: (*) State has a flat income tax. (**) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.



SALT

What Is The QBI Deduction?

- In general, individual taxpayers are allowed a deduction equal to 20% of their qualified business income from pass-through entities.
- Intended to create some parity with the reduced corporate tax rates.
- Note that the deduction *is not* taken by the businesses that generate the qualified business income.

Taxable Income Threshold Table

Married Filing Joint Taxable Income	Qualified Trade or Business (QTB)	Specified Service Trade or Business (SSTB)
Above \$415,000	The QBI Deduction is fully subject to the limitations.	The QBI Deduction is phased out to \$0
Between \$315,000 and \$415,000	The QBI Deduction is partially subject to the limitations.	The QBI Deduction is partially phased out.
Below \$315,000	The QBI Deduction is not limited.	

C – Corporations - Changes to Tax Rates

Old	New (beginning 2018)
15% (taxable income of \$0-\$50,000)	21%
25% (\$50,001-\$75,000)	
34% (\$75,001-\$10,000,000)	
35% (over \$10,000,000 and for personal service corporations)	

Business Taxpayers - Changes to Capital Assets

Old	New (beginning 2018)
Section 179 Expensing	
Expense = \$500,000 of qualifying property, Phase-out \$2M	Expense = \$1,000,000 of qualifying property, Phase-out \$2.5M
The maximum expense for a vehicle over 6,000 lbs to 14,000 lbs = \$25,000.	← Now indexed for inflation

Business Taxpayers - Changes to Capital Assets

Old	New (beginning 2018)
Qualified 179 Property is Expanded	
Depreciable <u>tangible</u> personal property purchased for use in a trade or business.	Furnishing lodging is now allowed, And, <u>Improvements to nonresidential real property</u> (roofs, heating, ventilation, AC, alarm systems, fire protection, security systems)!!!



Business Taxpayers - Changes to Capital Assets

Old		New	
"100% Expensing" on qualified property – new and used!!			
1 st Year in Service	% Deduction of Adjusted Basis	1 st Year in Service	% Deduction of Adjusted Basis
2017	50%	2017*-2022	100%
2018	40%	2023	80%
2019	30%	2024	60%
		2025	40%
		2026	20%

* Qualified property placed in service after September 27, 2017!!!

Business Taxpayers - Changes to Capital Assets

Old		New (beginning 2018)	
Luxury Auto Depreciation Limits (excluding bonus depreciation)			
First Year	\$3,160	First Year	\$10,000
Second year	\$5,100	Second year	\$16,000
Third year	\$3,050	Third year	\$9,600
Fourth + year	\$1,875	Fourth + year	\$5,760

Business Taxpayers - Changes to Capital Assets

Old	New (beginning 2018)
Like-Kind Exchange Treatment	
Like-kind exchanges (no gain or loss) allowed for most business/investment property.	Like-kind exchanges (no gain or loss) allowed only for real estate. Vehicles & equipment are now disallowed.

Business Taxpayers - Changes to Business Deductions

Old	New (beginning 2018)
Fringe Benefit Expenses Deduction	
Meals = 50% Entertainment = 50% Meals on employer premises = 100%	Meals = 50% Entertainment = 0% Meals on employer premises = 50% (After 2026, meals on employer's premises = 0%)

Business Taxpayers - Changes to Business Deductions

Old	New (beginning 2018)
Fringe Benefit Expenses Deduction	
Employer: Housing was deductible Qualified transportation was deductible	Employer: Housing is still deductible Qualified transportation is not deductible
Employee: Housing was non-taxable Qualified transportation was non-taxable	Employee: Housing is still non-taxable Qualified transportation is still non-taxable



Business Taxpayers - Changes to Tax Credits

Old	New (beginning 2018)
'Employer-Paid' Family Medical Leave Act (FMLA)	
A business deduction was provided, <u>but no credit</u> was allowed to employers for compensation paid to employees while on leave.	For <u>2018 and 2019</u> , employers may qualify for a general business credit ranging from <u>12.5%</u> to <u>25%</u> of the wages paid for FMLA, if the employer pays at least 50% of the employee's normal wages.

Business Taxpayers - Changes to Business Deductions

Old	New (beginning 2018)
<h2>Business Interest Deduction</h2>	
<p>Business interest paid or accrued was generally deductible</p>	<p>If the business has average gross receipts for the previous 3 years that does not exceed \$25 million, the 30% limit does not apply.</p> <p>For all other businesses, the deduction for business interest is limited to 30% of the business' "adjusted" taxable income.</p>



Business Taxpayers - Changes to Business Deductions

New
(beginning 2018)

Business Interest Deduction (continued)

Electing out of the business interest deduction:

- Entities engaged in real property or farming businesses can elect out of the limitation, if
- They use ADS to depreciate real property rather than MACRS, and ADS is used for assets with a recovery period of 10 years or more.
- An exception is also provided for businesses with flooring debt (autos, boats and farm machinery financing businesses, etc.).

Business Taxpayers - Changes to Business Deductions

Old	New (beginning 2018)
Domestic Production Activities Deduction (DPAD)	
The deduction was equal to 9% of the <u>lesser of the taxpayer's qualified production activities income or the taxpayer's taxable income for the tax year</u>	DPAD is repealed for <u>non-corporate taxpayers</u> beginning 2018 And, DPAD is repealed for <u>C corporations</u> beginning 2019.

Business Taxpayers - Changes to Capital Assets

Old	New (beginning 2018)
<h2>Classification of Real Property</h2>	
<p>Qualified leasehold property, qualified restaurant, and qualified retail improvement property were <u>separate</u> types of property and could be depreciated over <u>15 years</u> using straight-line depreciation</p>	<p>The previously <u>separate distinctions</u> of property types (see left) are <u>eliminated</u> and all combined to be known as <u>qualified improvement property</u>. The 15 year depreciation life still applies.</p> <p>This new classification provides the opportunity to Section 179 expense this property type.</p>



C – Corporations - Changes to Alternative Minimum Tax

Old	New (beginning 2018)
Corporate Alternative Minimum Tax (AMT)	
The corporate AMT was 20%, with an exemption amount of up to \$40,000	2018, corporate AMT is repealed (but, Individual AMT still exists)

Business Taxpayers - 1099-NEC

Old (pre December 31, 2020)	New (beginning January 1, 2021)
1099-MISC and 1099-NEC	
Nonemployee compensation included in box 7 of Form 1099-MISC.	Nonemployee compensation included in box 1 of Form 1099-NEC.

Business Taxpayers - Covid Relief

Old (ending December 27, 2020)	New (beginning December 28, 2020)
Employee Retention Credit or PPP Loan	
These two relief methods were mutually exclusive. Either receive PPP Loan <i>or</i> receive Employee Retention Credit.	Retroactively allows for both ERC and PPP Loans. Re-funded PPP Loans for a first or second draw for those who qualify.

Business Taxpayers - Covid Relief

Old (ending December 27, 2020)	New (beginning December 28, 2020)
PPP Loan Tax Impact	
Expenses paid using PPP Loan money were disallowed expenses for tax purposes.	Expenses paid using PPP Loan funds <i>are</i> allowed. Loan forgiveness process was also simplified.



Individuals - Changes to Tax Rates

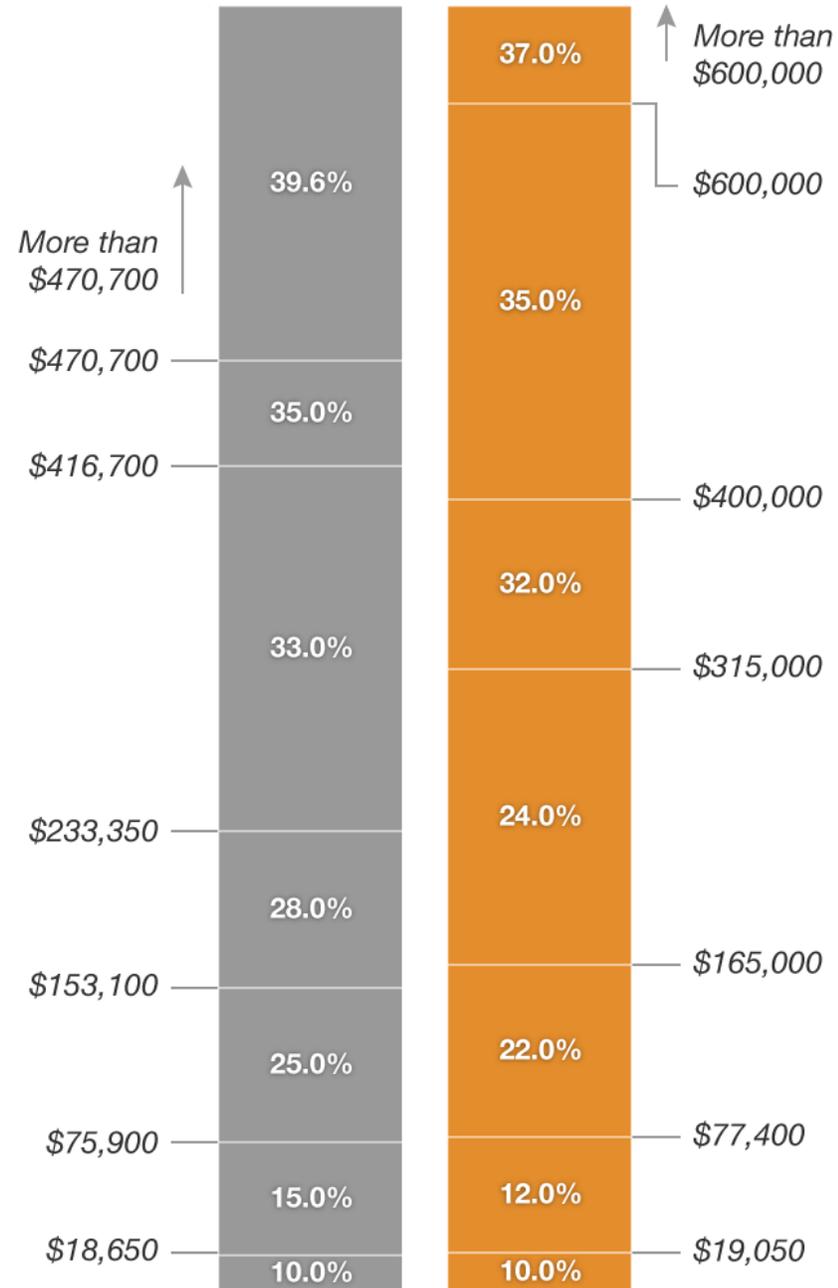
Old	New (beginning 2018)
10%	10%
15%	12%
25%	22%
28%	24%
33%	32%
35%	35%
39.6%	37%



Change in tax brackets and thresholds for Married Filing Joint

Old

New



Individuals - Standard Deduction and Personal Exemption

Old (2017 amounts)	New (beginning 2018)
Standard Deduction	
\$6,350 – Single and Married Filing Separate	\$12,000 – Single and Married Filing Separate
\$9,350 – Head of Household	\$18,000 – Head of Household
\$12,700 – Married Filing Joint	\$24,000 – Married Filing Joint
Personal Exemption	
\$4,050 per person	Eliminated

Individuals - Changes to Moving Expenses and Alimony

Old	New (beginning 2018/2019)
Moving Expenses	
Moving expenses were deductible	Moving expenses are disallowed, except for Armed Forces personnel on active duty
Alimony	
Alimony was deductible by the payer and included in income by the recipient	Alimony for any divorce or separation agreement executed or modified <u>after Dec. 31, 2018</u> , is no longer deductible or taxable; treated like child support payments



Individuals - Changes to Itemized Deductions

Old	New (beginning 2018)
State and Local Tax Deduction	
Taxes paid at the state and local level (as well as real and personal property taxes) could be deducted	The deduction for state and local income, and property taxes paid is limited to \$10,000
Medical Expenses Deduction	
Medical expenses that exceeded 10% (7.5% if 65 or older) of AGI can be deducted	Medical expenses that exceed 7.5% of AGI (for all taxpayers) can be deducted for 2017 and 2018 only



Individuals - Changes to Itemized Deductions

Old	New (beginning 2018)
<h2>Mortgage and Home Equity Indebtedness Interest Deduction</h2>	
<p>The deduction for mortgage interest is limited if principal exceeds \$1 million.</p> <p>Home equity interest, limited if principal exceeds \$100,000.</p>	<p>For mortgages after 12/15/17, the deduction for mortgage interest is limited if principal exceeds \$750,000.</p> <p>No deduction for home equity loan interest.</p> <p>Mortgages prior to 12/15/17 are grandfathered.</p>



Individuals - Changes to Itemized Deductions

Old	New (beginning 2018)
Miscellaneous Itemized Deductions	
A deduction was allowed for miscellaneous expenses (unreimbursed employee expenses, investment advisory expenses, etc.), that exceeded 2% of AGI	The deduction for miscellaneous expenses is suspended
Charitable Contribution Deduction	
Charitable contributions were limited to 50% of AGI	Charitable contributions are limited to 60% of AGI



Individuals - Changes to Itemized Deductions

Old	New (beginning 2018)
Deduction for Personal Casualty and Theft Losses	
Unreimbursed personal casualty losses (fire, storm, etc.) or from theft were previously allowed	Theft and casualty loss deduction is disallowed (exception for federally-declared disaster area)
Limitation of Itemized Deductions	
Higher-income taxpayers were subject to a limit on itemized deductions by 2% of AGI	No phase-out for itemized deductions for High-income taxpayers



Individuals - Changes to Tax Credits

Old	New (beginning 2018)		
<h2 data-bbox="952 576 1564 648">Child Tax Credit</h2> <table><tr><td data-bbox="366 682 1256 1116">Qualifying child tax credit = \$1,000 (under age 17)</td><td data-bbox="1256 682 2147 1116">Qualifying child tax credit = \$2,000 (under age 17) Additional \$500 credit for certain non-child dependents.</td></tr></table>		Qualifying child tax credit = \$1,000 (under age 17)	Qualifying child tax credit = \$2,000 (under age 17) Additional \$500 credit for certain non-child dependents.
Qualifying child tax credit = \$1,000 (under age 17)	Qualifying child tax credit = \$2,000 (under age 17) Additional \$500 credit for certain non-child dependents.		

Individuals - Changes to Tax Credits

New
(CARES Act)

Recovery Rebate Credit

The first Economic Impact Payment was \$1,200 (\$2,400 for MFJ)

The second Economic Impact Payment was \$600 (\$1,200 for MJF)

Taxpayers will reconcile their Economic Impact Payments received with their allowable recovery rebate credit on their 2020 tax returns

Taxpayers who qualify for the Recovery Rebate Credit, but have not received their Economic Impact Payments, will be able to claim those payments as a refundable credit upon filing their 2020 tax returns

Individuals - Changes to Taxes

Old	New (beginning 2018)
<h2 data-bbox="1065 582 1472 654">Kiddie Tax</h2>	
<p data-bbox="435 704 1207 965">A child's net unearned income was taxed at the parents' tax rate if the parents' rate was higher than the child's rate.</p>	<p data-bbox="1302 704 2104 893">Net unearned income of a child is taxed using the tax brackets for trusts and estates.</p>
<p data-bbox="665 1051 975 1108">(No change)</p> <p data-bbox="443 1122 1200 1236">Income earned by a child was taxed at the child's tax rate.</p>	<p data-bbox="1549 1051 1860 1108">(No change)</p> <p data-bbox="1309 1122 2104 1236">Income earned by a child is still taxed at the child's tax rate.</p>

Individuals - Changes to Penalties

Old	New
Obamacare Individual Mandate (ACA)	
Individuals not covered by a health care plan were required to pay a shared responsibility penalty	Penalty will still be imposed for 2017 & 2018, No individual responsibility penalty thereafter

Individuals - Changes to IRA Rules

Old

New
(beginning 2018)

Re-characterization of IRA Contributions

Contributions that were made to one type of IRA could be re-characterized to the other type before the due date of the individual's income tax return for that year.

Converting IRA → Roth, re-characterized allowed
Converting Roth → IRA, re-characterized allowed

Option for re-characterization no longer applies to conversion contributions to a Roth IRA, i.e., re-characterization cannot be used to reverse a conversion to a Roth IRA.

Converting IRA → Roth, okay, but once done, no going back



Individuals - Net Operating Losses (NOLs)

Old (TCJA)	New (CARES Act)
Carryback/Carryover Rules	
The TCJA generally limited NOLs arising after 2017 to 80% of taxable income and generally eliminated the ability to carry NOLs back to prior tax years	The CARES Act allows for losses arising in a tax year beginning in 2018, 2019, and 2020 to be carried back to the prior five tax years and carried forward indefinitely

Individuals - Net Operating Losses (NOLs), continued

Old (TCJA)	New (CARES Act)
Carryback/Carryover Rules	
<p>The TCJA generally limited NOLs arising after 2017 to 80% of taxable income and generally eliminated the ability to carry NOLs back to prior tax years</p>	<p>The CARES Act temporarily removes the taxable income limitation to allow any NOL carryforward to fully offset taxable income. (100% deduction instead of 80% deduction)</p>



Individuals - Estate & Gift: Changes to the Lifetime Exemption

Old	New (beginning 2018)
Lifetime Exemption Amount	
For 2018, the Lifetime Exemption amount was scheduled to be \$5.6 million.	The exemption is doubled, and expected to be \$11.2 million per individual for 2018. These provisions sunset in 2025.

Individuals - Retirement Planning

Old	New (for 2020)
<h2>Required Minimum Distributions</h2>	
50% tax on amounts that should have been distributed but were not. These distributions must be taken after reaching age 70 ½ .	RMDs were suspended for 2020. The age has also been increased to 72 (continues past 2020)

Individuals - Retirement Planning

Old	New (for 2020)
Retirement Account Withdrawals	
10% penalty on withdrawals prior to age 59 ½ for 401(k) and traditional IRAs.	No 10% penalty on withdrawals made in 2020, up to \$100,000



Individuals - Retirement Planning

Old	New (for 2020)
<h2>Payback of Retirement Accounts</h2>	
<p>Federal rules typically limit borrowings from a 401(k) to a maximum of \$50,000 or 50% of the vested balance.</p>	<p>Borrowings limit increased to \$100,000 and allows for repayment to be made over a 3 year period.</p>





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