CONGRESS CUT TAXES

17 Ways You Can Take Advantage of the New Tax Law And Save Money!

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ABOUT THE AUTHOR

Diane Gardner, Your Tax Coach, is a best-selling author and a Quilly Award recipient. She is also a Certified Tax Coach and an Enrolled Agent.

Diane's expertise lies in the area of tax planning. Her goal is to make sure successful entrepreneurs across the United States are paying the least amount of income tax they can legally pay. As a tax coach, she offers a FREE tax analysis for those interested in finding out if they are overpaying their income taxes. Her goal is to save taxes one business at a time through the use of pro-active tax planning.

Diane is also a believer in the mastermind and coaching concepts. She leads the Get Off the Wheel program and offers coaching services to other entrepreneurs.
In her "spare time", Diane enjoys writing books. **She has just finished her 11th book titled "Journeys to Success: Volume 7" which was released in October 2017.**

Family is vitally important to Diane and she is proud to be happily married to her husband, Mike. She also has a daughter and a grandson whom she adores. Diane's love of the outdoors often leads her outside for family camping, dutch oven cooking, walks in the woods, bonfires, and picnics.

2018 Tax Outlook: Big Changes in Place!

If you blinked, you might have missed it! Late last year, Washington passed the Tax Cuts and Jobs Act of 2017 -- the biggest tax overhaul in 31 years. It was so long ago that Ronald Reagan was still in the White House. *Matlock*, *Alf*, and *L.A. Law* were television hits. And Madonna was still a doe-eyed ingenue.

The new law's main focus is on cutting corporate tax rates. Our old maximum corporate rate of 35% really was one of the highest in the world, and Congress thought it made us less competitive abroad. Their obvious answer was to lower rates to attract business and investment here.

Of course, not all businesses operate as taxable corporations -- over 90% of American businesses are "pass-throughs," meaning their owners report their business income on their personal returns. So Congress wanted to cut taxes on those businesses as well.

Finally, they wanted to cut rates for individual taxpayers. They understood it would be politically unpalatable to cut rates for the Fortune 500 without doing something for the people who work for them.

Here's the challenge, though -- cutting all those taxes costs money. So Congress had to come up with "payfors" to make up for most (but not all) of that lost revenue. (The 2018 budget resolution let them grow the deficit by $1.5 trillion over the next 10 years.) They did it in two ways. First, they tightened or eliminated many of the deductions we've come to take for granted over the years: personal exemptions, state and local taxes, mortgage interest, and the like. And second, they scheduled most of the new benefits for individuals to expire at the end of 2025.

Here is a summary of some of the changes you should understand for 2018 and beyond, with some ideas for making the most of these opportunities,

and suggestions where we need to sit down for more in-depth planning. We look forward to discussing these changes and helping you with the appropriate response! Call us at (208) 687-0508

Big Changes to Tax Basics and Brackets!

The most obvious changes will apply to all taxpayers, no matter how they earn their income.

First, the law essentially doubles standard deductions, from $6,350 to $12,000 for singles and from $12,700 to $24,000 for joint filers. This should cut the number of taxpayers who itemize from the current one-third to about just 10%.

Second, the new law eliminates the old personal exemption, which was scheduled to rise to $4,100 for 2018. This will obviously blunt much of the benefit of the higher standard deductions, especially for families with children.

The law limits many popular itemized deductions, too. Writeoffs for state and local income/sales/property taxes are limited to just $10,000 per year, regardless of how much you actually pay. Mortgage interest deductions are limited to $750,000 of principal, down from $1 million. Home equity interest is no longer deductible, and most miscellaneous itemized deductions are gone, too.

Finally, the new law keeps the seven-bracket rate structure, but lowers those rates in almost every bracket, with the top rate dropping from 39.6% to 37%.

Good News on Alternative Minimum Tax

The Alternative Minimum Tax had effectively become a "flat tax" for millions of families, wiping out deductions for state and local taxes, miscellaneous itemized deductions, and more. The Tax Cuts and Jobs Act raises the AMT exemption from $54,300 to $70,300 for singles and from $84,500 to $109,000 for joint filers. It also raises the phaseout for that exemption, from $120,700 to $500,000 for singles and from $160,900 to $1 million for joint filers.

This should significantly cut the number of taxpayers snared in the trap. As always, the key to avoiding AMT is to use strategies like qualified retirement plan contributions and charitable planning strategies, that keep income *off* the return in the first place.

Big Changes in Alimony Rules

Under current law, alimony is deductible by the payor and taxable to the payee. This is in contrast to child support, which is both nondeductible and nontaxable.

The 2017 tax law grandfathers in the old rule for one year, then ends this treatment for divorces and separation agreements entered into after December 31, 2018. Existing agreements will also be grandfathered in, unless you specify you want the changes subject to the new rules.

Harsh New "Kiddie Tax" Rules

The "kiddie tax" rules have long limited your ability to shift investment income to your children -- by subjecting *their* unearned income above $2,100 per year to tax at *your* highest rate, for dependent children under age 19, or dependent full-time students under age 24.

However, the Tax Cuts and Jobs Act really puts the screws to that strategy by subjecting that income to special trust/estate rates, which start at the usual 10% for just $2,550 of income, and jump quickly to 37% for anything over $12,500. So now you'll want to be *extra* careful with this strategy!

Bigger Deductions for Charitable Gifts of Cash

The Tax Cuts and Jobs Act of 2017 raises the ceiling on gifts of cash from 50% of AGI to 60% of AGI, making big-ticket gifts even more valuable.

Big New Deduction for Proprietorship Income

Although sole proprietorships offer few specific tax breaks, the Tax Cuts and Jobs Act of 2017 makes them potentially more valuable by

characterizing proprietorship income as "qualified business income" -- and offering a deduction of up to 20% of that amount. However, careful planning may be required to take advantage of this opportunity, especially if it comes from "specified personal services" or your taxable income is over $157,500 (singles) or $315,000 (joint filers).

Big New Opportunity for Partnership Income

The Tax Cuts and Jobs Act makes partnerships potentially more valuable by characterizing partnership income (but not guaranteed payments or investment income) as "qualified business income" -- and offering a deduction of up to 20% of that amount. However, careful planning may be required to take advantage of this opportunity, especially if it comes from "specified personal services" or your taxable income is over $157,500 (singles) or $315,000 (joint filers).

Big New Opportunities -- And Careful Planning Required -- for "S"Corporations

S corporations have always been valuable vehicles for minimizing employment tax, shifting income to lower-bracket family members, and avoiding audit risk. The Tax Cuts and Jobs Act of 2017 makes them potentially more valuable by characterizing S corporation income (but not W2 wages or investment income) as "qualified business income" -- and offering a deduction of up to 20% of that amount. However, careful planning may be required to take advantage of this opportunity, especially if it comes from "specified personal services" or your taxable income is over $157,500 (singles) or $315,000 (joint filers).

Tremendous Opportunities for "C" Corporations

The Tax Cuts and Jobs Act made the most significant changes to C corporation tax rules in a generation, primarily by slashing rates to a flat 21%. It also eliminates the old "personal service corporation" rules that taxed those businesses at a flat 35% rate. These changes open up all sorts of new income-shifting opportunities.

Expanded Deductions for Buying Business Vehicles

You can choose two different methods for deducting business car and truck expenses: "actual expenses" or the mileage allowance (54.5 cents/mile for 2018). The right choice can add thousands in deductions and easily justify recordkeeping requirements. And the Tax Cuts and Jobs Act of 2017 raises depreciation deductions on passenger vehicles to $10,000 in year one and $16,000 in year two.

The new depreciation limit means that buying, rather than leasing, may give you bigger deductions up front. However, you're also likelier to owe tax on "recaptured" depreciation when you go to sell the vehicle. (The new law also closes old rules that let you defer that recapture by trading in the old vehicle for a new one.) This means careful planning is in order before you acquire a new business vehicle.

New Strategies for Business Assets

Segregating business assets such as equipment, vehicles, and real estate in separate entities has always offered potential tax breaks, as well as enhanced asset protection. The Tax Cuts and Jobs Act of 2017 makes this strategy potentially more valuable if the business assets can maximize "qualified business income" deductions.

New Opportunities for Family Income-Shifting

The Tax Cuts and Jobs Act of 2017 nearly doubles the standard deduction for single taxpayers to $12,000. This creates even more opportunity to shift tax-free earned income to your children by hiring them to work for your business.

New Opportunities for Family Management Companies

Adding a C corporation to your overall structure can create savings through income-shifting and deductible benefits. The Tax Cuts and Jobs Act made the most significant changes to C corporation tax rules in a generation, primarily by slashing rates to a flat 21%. These changes create even more opportunities to shift income off your personal return or lower the effective

rate on income you route through a side entity. However, it will take careful planning to make the most of these changes.

Strict New Rule for Roth IRA Conversions

Under the old rules, you could "undo" a Roth IRA conversion if you discovered you had created more taxable income than you expected, or the value of your account dropped after the conversion. The Tax Cuts and Jobs Act of 2017 eliminates this opportunity, which makes it even more important to plan carefully before converting.

New Opportunities for Family Income Shifting

The Tax Cuts and Jobs Act of 2017 nearly doubles the standard deduction for single taxpayers to $12,000. This creates even more opportunity to shift tax-free earned income to your children by hiring them to work for your properties.

New Opportunities for Management Companies

Establishing a corporation to "manage" your property lets you convert income from rents and capital gains into ordinary income, which you can use as a basis for deductible benefit programs such as retirement contributions and medical expense reimbursements. The Tax Cuts and Jobs Act made the most significant changes to C corporation tax rules in a generation, primarily by slashing rates to a flat 21%. This change opens up substantial new opportunities to shift income out of your properties.

Estate Tax Barely Hangs on to Life

The Tax Cuts and Jobs Act of 2017 doubled the estate tax unified credit to $11.2 million per person for 2018. This may make estate planning easier for some individuals and couples. However, careful planning may still be required to avoid the tax, which is a flat 40% on taxable amounts above that threshold.

For more information on this topic or to schedule a tax analysis, please reach out to us at (208) 687-0508 or email me at diane@taxcoach4you.com.

Note:
Any tax advice contained in the body of this presentation was not intended or written to be used, and cannot be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

If you are not taking advantage of every legal deduction, credit, loop hole and strategy, connect with us! We can make sense of it all and give you the expertise you need to zero in on strategies you can apply and take advantage of. Call - (208) 687-0508 Email - diane@taxcoach4you.com OR

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