RxTaxScriptions

"A Prescription For Tax Relief"

ROSEN & ASSOCIATES, LLP
CPAs | Specializing in the Business of Dentistry

A MEMBER OF THE ADCPA ACADEMY OF DENTAL CPAS

Volume IX Issue IV

Topic Links

January 16th

4th Quarter Estimates

2017 Tax Reform - The Tax Cuts and Jobs Act

The House and Senate has passed significant tax reform that is expected to be signed by the President soon. We have been waiting on this tax bill to be passed for over a year and it is important to remember that many of the ideas, whether favorable or unfavorable, did not make it into the final wording.

In the next few weeks, months, and years, we will continue to develop new strategies based on new ideas, regulations, and tax court cases and will further communicate these. There is nothing significant to be decided by the end of December 2017.

It is important to note that the tax bill's impact will begin at the start of 2018 and in some cases not until 2019 and beyond.

WHAT YOU NEED TO CONSIDER BY END OF 2017:

- State and local taxes have been reduced to only $10,000 beginning in 2018
  - For 2017 - In order to prepay your real estate taxes, you need to check with your individual town to see if they permit it.
  - For 2017 - Prepaying your 4th quarter state estimate may be beneficial if you are not in AMT

are due.

Be sure to check your Sharefile site for your vouchers.

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(Alternative Min Tax)
- Entertainment deductions are eliminated in 2018 and beyond (i.e. tickets to games or golf)
- Dues deductions have been eliminated in 2018 (i.e. dues to Mass Dental Society)

WHAT YOU NEED TO KNOW FOR 2018 AND BEYOND:

- Individual tax rates decreased
- For C Corporations, the tax rate is now 21%. It is NOT better to switch to a C Corp if you are currently an S Corp, due to the double taxation of C Corp distributions and tax issues upon sale of a C Corp.
- For pass-through entities (S Corp, LLC, partnerships) there is a new 20% additional deduction
  - This **DOES NOT** apply to many high earners in the health care industry or those that provide professional services.
- Section 199 - Domestic Manufacturing Deduction is eliminated in the new bill (milling of dental crowns)
- Section 179 has increased to $1,000,000 from $510,000.

Below is a summary of some major changes for individuals, businesses, and estates and gifts that we believe are important for our clients:

CORPORATE TAX RATE & PASS-THROUGH BUSINESS DEDUCTION:

The corporate tax rate has been reduced to 21%, however earnings by the business are still subject to dividend tax rates when distributed to shareholders. Based on our calculations, it generally is not favorable to revoke an S election to be taxed as a C corporation.

For tax years after 2017 and before 2026, individuals will be allowed to deduct 20% of "qualified business income" from a partnership, S corporation, or sole proprietorship, as well as 20% of qualified real estate investment trust (REIT) dividends, qualified cooperative dividends, and qualified publicly traded partnership income.

A limitation on the pass-through deduction is phased in based on W-2 wages above a threshold amount of taxable income. **The deduction is disallowed for specified service trades or businesses which includes dentists with income above a threshold ($415,000 MFJ, $207,500 if filing single).**

INDIVIDUAL TAX CHANGES:

Tax Rates

For tax years 2018 through 2025, the following rates would apply to individual taxpayers: ***"click here"*** for tax rates. There are still seven tax brackets however, the tax rates are lower and each bracket is wider.

The system for taxing capital gains and qualified dividends did not change under the act, except that the income levels at which the 15% and 20% rates apply were altered (and will be adjusted for inflation after 2018). For 2018, the 15% rate will start at $77,200 for married taxpayers filing jointly, $51,700 for heads of household, and $38,600 for other individuals. The 20% rate will start at $479,000 for married taxpayers filing jointly, $452,400 for heads of household, and $425,800 for other individuals.

- Increases the standard deduction to $24,000 for married filing jointly, $18,000 for head of household, and $12,000 for single filers
- Eliminates the deduction for personal exemptions
- Limits the deduction for total state and local, sales, and real estate taxes paid to $10,000 for the total of (1) state and local property taxes; and (2) state and local income taxes. To avoid this limitation, pay the last installment of estimated state and local taxes for 2017 no later than Dec. 31, 2017, rather than on the 2018 due date. But don't prepay in 2017 a state income tax bill that will be imposed next year - Congress says such a prepayment won't be deductible in 2017. However, Congress only forbade prepayments for state income taxes, not property taxes, so a prepayment on or before Dec. 31, 2017, of a 2018 property tax installment is apparently OK.
- Increases the child tax credit to $2,000, with up to $1,400 refundable
- Allows qualified mortgage interest deductions on loans up to $750,000 (from the prior-law limit of $1 million) existing mortgages would be unaffected by the change
- Eliminates the deduction for home equity loan interest
- The **alternative minimum tax** is retained but will impact less taxpayers due to the $10,000 cap on state income and property taxes. For tax years beginning after Dec. 31, 2017, and beginning before Jan. 1, 2026, the AMT exemption amount increases to $109,400 for married taxpayers filing a joint return (half this amount for married taxpayers filing a separate return) and $70,300 for all other taxpayers (other than estates and trusts). The phase-out thresholds are increased to $1 million for married taxpayers filing a joint return and $500,000 for all other taxpayers (other than estates and trusts). The exemption and threshold amounts will be indexed for inflation.
- Eliminates the deduction for alimony paid and the taxability of alimony received for divorces executed after December 31, 2018.
- Retains the deduction for medical expenses and temporarily expands the deduction by reducing the threshold to 7.5% of income
- Eliminates the health insurance mandate penalty beginning in 2019

- Doubles the deduction for classroom expenses paid by educators to $500
- The itemized deduction for charitable contributions remains intact. However, most other itemized deductions will be eliminated in exchange for a larger standard deduction (i.e., $24,000 for joint filers), charitable contributions after 2017 may not yield a tax benefit for many because they won't be able to itemize deductions. ***If you think you will fall in this category, consider accelerating some charitable giving into 2017.***
- Eliminates the deduction for miscellaneous itemized deductions, including deductions for investment fees, unreimbursed employee business expenses, and home-office expenses
- Simplifies the Kiddie Tax by disconnecting it from the parents' tax situation and the unearned income of any siblings; the tax rate for a child's unearned income will be based solely on the tax brackets applicable to trusts and estates.

BUSINESS TAX CHANGES:

- As mentioned above, reduces the corporate tax rate to 21%
- As mentioned above, changes to pass-through.
- Eliminates the business alternative minimum tax
- Limits the deduction for net operating losses to 80% of taxable income
- Disallows any deduction for expenses associated with entertainment activities (i.e. business meetings at a Patriots game) and membership dues with respect to any club organized for business (professional dues previously were 100% deductible), pleasure, recreation, or any other social purposes and facilities used in connection with any of these activities (the 50% deduction for business meals remains)
- The §199 domestic production activities deduction has been eliminated. **This deduction was a special deduction that previously applied to milling of dental crowns.**
- §1031 like-kind exchanges have been eliminated other than for real property. Automobiles traded in will now be subject to a gain or loss instead of having the tax basis rolled forward into the new automobile purchased.
- Meals provided on the business premises for employees for the convenience of the employer used to be 100% deductible are now only 50% deductible.

Depreciation

- Bonus depreciation - A 100% deduction is allowed for new or used property placed in service after September 27, 2017.
- §179 - The §179 allows for a 100% deduction of new or used equipment, up to $1 million if less than $2.5 million was placed in service. §179 is usually more beneficial

than Bonus depreciation due to state conformity and because §179 can deduct a portion of an asset while bonus is always 100% and sometimes it is better to carryforward depreciation to future years.
- Luxury automobile deprecation limits - Annual depreciation allowed on an automobile (under Sec. 280F) was previously limited to the threshold of a $15,800 asset, resulting in first year depreciation of $3,160. This cap has been increase to the equivalent of a $50,000 asset, resulting in first year depreciation of $10,000, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years.

ESTATE & GIFT TAX CHANGES:

- Increases the taxable threshold to estates above $11.2 million (Massachusetts still taxes estates greater than $1 million)
- Increases the gift tax threshold as above (Massachusetts has no gift tax)

TAX RATES

Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Heads of households

Taxable income over	But not over	Is taxed at
$0	$13,600	10%
$13,600	$51,800	12%
$51,800	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Married taxpayers filing joint returns and surviving spouses

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

Married taxpayers filing separately

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$300,000	35%
$300,000		37%

Estates and trusts

Taxable income over	But not over	Is taxed at
$0	$2,550	10%
$2,550	$9,150	24%
$9,150	$12,500	35%
$12,500		37%