November 26, 2018

Now is the Time to Get Ready for Taxes: Understand How the New Tax Law Will Affect Your Tax Return

As you know, the Tax Cuts and Jobs Act, was enacted in December of last year. Tax planning is important this year due to major tax reform that affects both individuals and businesses.

The Tax Cuts and Jobs Act (TCJA) law includes tax changes for individuals such as:

- increasing the standard deduction
- suspending personal exemptions
- increasing the child tax credit
- adding a new credit for other dependents
- limiting or discontinuing certain deductions

TCJA reduced income tax rates for 2018 with seven brackets ranging from 10% to 37%. It retained the maximum net capital gains and qualified dividend rates of 20% and the 3.8% net investment income tax rate from the prior law. The reduced ordinary income tax rates, however, don't necessarily mean you will pay lower taxes in 2018. With the suspension of personal exemptions and limitations on deductions, in some instances taxpayers may be surprised to find they are in the same effective tax rate as before or may even see an increase in their effective tax rate. That means, while many enjoyed a little boost in their net paycheck throughout the year, they may be paying that extra money back, and possibly more, when they file their 2018 Federal income tax return.

One of the major tax reform provisions that affect businesses for 2018 is that owners of sole proprietorships, partnerships, S corporations and trusts may be allowed to effectively pay tax on only 80% of their business income. This is referred to as the Qualified Business Income Deduction. There are limitations and income phase-outs related to the eligibility and computation of the deduction.

Businesses can also enjoy the availability of new provisions allowing for additional accelerated depreciation deductions. As has been the case for many years, a taxpayer may elect to expense the cost of equipment purchases and deduct it in the year the property is placed in service. The new law increases the maximum deduction from $510,000 last year to $1 million beginning in 2018. Another depreciation alternative the TCJA establishes is the ability to take a 100% first-year bonus depreciation deduction for new or used qualified property acquired and placed in service after September 27, 2017. Prior to TCJA, purchases of used equipment did not qualify for bonus depreciation and the deduction was limited to 50% of the acquisition cost.

These are just a few of the many tax reform changes that have been made under the TCJA for 2018. We encourage you to contact our office to learn about the steps you can take now to ensure the smooth processing of your 2018 tax returns and avoid any unexpected tax bill when you file in April.

Very truly yours,
Miller*Searles* LLC