



# THE NEW TAX REFORM:

## How will it affect you and your business?

..... PREPARED BY .....

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# INTRO

Thank you for downloading *The New Tax Reform: How will it affect you and your business?*

As a business owner, CEO, COO, company president, or chairman, you certainly know the new law may affect your business and personal taxes.

The contents of this Ebook have been compiled by the Zinner & Co. tax team, including tax partner Brett Neate, and includes an easy-to-understand format outlining some of the elements of the new legislation and a comparison of the prior legislation.

The information contained in this book is accurate as of its publishing, February 2018. As with any matter that could be greatly affected by changing legislation, we urge you to consult with your tax advisor prior to submitting or filing any forms or returns to the IRS.

If you have questions regarding the new tax law, how the new law may affect your business or personal taxes, and what action steps one should consider, please contact us at [bneate@zinnerco.com](mailto:bneate@zinnerco.com), or any of the tax professionals at 216.831.0733.

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Partner



# TAX REFORM

	OLD LAW	NEW LAW
<b>Alternative Minimum Tax (AMT)</b>	<p>For 2018, AMT exemptions would have been:</p> <ul style="list-style-type: none"> <li>\$86,200 – married filing joint.</li> <li>\$55,400 – single taxpayers.</li> <li>\$43,100 – married filing separate.</li> </ul> <p>Exemptions would have been phased out when AMTI exceeded:</p> <ul style="list-style-type: none"> <li>\$164,100 – married filing joint.</li> <li>\$123,100 – single taxpayers.</li> <li>\$82,050 – married filing separate.</li> </ul>	<p>For 2018, AMT exemptions increase to:</p> <ul style="list-style-type: none"> <li>\$109,400 – married filing joint.</li> <li>\$70,300 – single taxpayers.</li> <li>\$54,700 – married filing separate.</li> </ul> <p>Exemptions phase out when AMTI exceeds:</p> <ul style="list-style-type: none"> <li>\$1,000,000 – married filing joint.</li> <li>\$500,000 – all other filing types.</li> </ul>
<b>Personal Exemptions</b>	Exemptions were allowed for taxpayer, spouse, and dependents. Amount per individual was scheduled to be \$4,150.	Deduction is effectively suspended by reducing the exemption amount to zero.
<b>Roth IRA Conversion rules after 2017</b>	<p>Prior law permitted such a recharacterization of a conversion by the due date (including extensions) of one's tax return as late as October 15 of the following year.</p> <p>After 2017, one can no longer recharacterize (or undo) a Roth IRA Conversion, unless the recharacterization is for a 2017 Roth conversion that was completed by the end of 2017.</p>	<p>Under this change, if one converts a Traditional IRA to a Roth IRA, one must fully commit to the conversion and pay tax on the gain. Unlike prior law, once one converts an existing IRA from Traditional to Roth, one no longer has the option to change one's mind and recharacterize it.</p> <p>However, one may still contribute directly to a Roth IRA and recharacterize that Roth IRA by the extended due date of the tax return – October 15 of the following year.</p> <p>This, of course, assumes that one meets the requirements to make a Roth IRA contribution.</p> <p>One may still contribute to a Traditional IRA and later convert it to a Roth IRA; however, one cannot later recharacterize this conversion.</p>

<b>529 Plan - Changes after 2017</b>		<p>Distributions of up to \$10,000 may now be made from a 529 plan for elementary school, or secondary public, private or religious school.</p> <p>This threshold will be applied to all 529 plans on a per-beneficiary basis, so only \$10,000 in total for the year may be used per student for this purpose.</p> <p>Distributions from 529 plans remain allowable for higher education purposes, as in the past. The Ohio income tax deduction for contributions to an Ohio 529 plan has doubled to \$4,000. This is also per-beneficiary, per-year. Any excess over this amount may still be carried forward to future years.</p>
<b>Alimony</b>	Alimony and separate maintenance payments were deductible by payor spouse and includible in income by recipient spouse.	For divorce or separation agreements executed after 12/31/18, payments are not deductible by payor or taxable to recipient.
<b>Standard Deduction</b>	<p>2018 standard deduction amounts were set to:</p> <ul style="list-style-type: none"> <li>\$6,500 for single.</li> <li>\$9,550 for head of household.</li> <li>\$13,000 for married filing jointly.</li> </ul>	<p>2018 standard deduction has increased to:</p> <ul style="list-style-type: none"> <li>\$12,000 for single.</li> <li>\$18,000 for head of household.</li> <li>\$24,000 for married filing jointly.</li> </ul> <p>Taxpayers who are age 65 or over and/or blind may claim an additional standard deduction in 2018 of \$1,300 if married or a surviving spouse or \$1,600 if unmarried and not a surviving spouse.</p> <p>This additional deduction was available in 2017, but has been adjusted for inflation for 2018.</p>
<b>Itemized Deductions - Medical Expenses</b>	Medical expenses could only be deducted to the extent that they exceeded 10% of AGI.	<p>Threshold on medical expense deduction has been reduced to 7.5% for all taxpayers.</p> <p>This lower threshold is set to expire after the 2018 tax year.</p> <p>The 10% threshold limiting the medical expense deduction for AMT purposes does not apply for tax years ending before Jan. 1, 2019.</p>



<b>Itemized Deductions - State and Local Taxes</b>	<p>Taxpayers were allowed to deduct several types of taxes paid at the state and local level, including real and personal property taxes, income taxes, and/or sales tax.</p>	<p>Domestic state, local, and foreign property taxes, and state and local sales taxes, are deductible only when paid or accrued in carrying on a trade or business. Foreign real property taxes may NOT be deducted.</p> <p>Taxpayer may claim an itemized deduction of up to \$10,000 for the aggregate of: State and local property taxes NOT paid or accrued in carrying on a trade or business, AND State and local income, war profits, and excess profits taxes paid or accrued in the tax year (or sales taxes if elected).</p> <p>The maximum \$10,000 itemized deduction is not increased for taxpayers who are married filing jointly. However, it is limited to \$5,000 for married taxpayers filing separately.</p> <p>Prepayment of 2018 real estate taxes are only deductible in 2017 if the taxes had been assessed prior to 2018.</p>
<b>Itemized Deductions - Mortgage &amp; Home Equity Interest</b>	<p>Taxpayers could deduct qualified residence interest, which included interest paid on a mortgage secured by a principal residence or a second residence.</p> <p>Underlying mortgage loans could represent acquisition indebtedness of up to \$1 million, plus home equity indebtedness of up to \$100,000.</p>	<p>Deduction for mortgage interest is limited to underlying indebtedness of up to \$750,000. The new lower limit does not apply to any acquisition indebtedness incurred before Dec. 15, 2017.</p> <p>The deduction for interest on home equity indebtedness is suspended.</p> <p>Home equity indebtedness is not grandfathered in and will no longer be deductible under any circumstances.</p>
<b>Itemized Deductions - Charitable Contributions</b>	<p>There was a 50% of AGI limitation on donations made to public charities and certain private foundations.</p> <p>80% of amounts paid for college athletic seating rights could be treated as a charitable contribution.</p>	<p>The percentage limitation has increased from 50% to 60%.</p> <p>Contributions exceeding this amount are allowed to be carried forward and deducted for up to five years.</p> <p>No inflation adjustment for charitable mileage rate (14 cents/mile).</p> <p>For contributions made in tax years beginning after Dec. 31, 2017, no charitable deduction is allowed for any payment to a college for which the payer receives the right to purchase tickets or seating at an athletic event.</p>

<b>Itemized Deductions - Casualty &amp; Theft Losses</b>	Taxpayers were allowed to claim an itemized deduction for uncompensated personal casualty losses.	<p>Personal casualty and theft loss deduction is suspended.</p> <p>EXCEPTION: Casualty loss incurred in a federally declared disaster.</p> <p>When a taxpayer has personal casualty gains, the loss suspension does not apply to the extent that such loss does not exceed the gain.</p>
<b>Itemized Deductions - 2% Miscellaneous Itemized Deductions</b>	Taxpayers were allowed to deduct certain miscellaneous itemized deductions to the extent they exceeded 2% of AGI. Examples include tax preparation fees, unreimbursed employee business expenses, investment expenses and expenses for the production or collection of income, and job search expenses.	The deduction for miscellaneous itemized deductions that are subject to the 2% floor has been suspended.
<b>Itemized Deductions - Gambling Loss Limitation</b>	Gambling losses are deductible to the extent of gambling winnings reported on Form 1040.	<p>The limitation on wagering losses is modified to provide that all deductions for expenses incurred in carrying out wagering transactions, and not just gambling losses, are limited to the extent of gambling winnings</p> <p>Example: Travel expenses to, or from a casino.</p>
<b>Itemized Deductions - PEASE Limitation</b>	<p>Higher income taxpayers who itemized their deductions were subject to a limitation on these deductions.</p> <p>\$1,000 tax credit per child - under the age of 17.</p>	<p>The limitation on itemized deductions is suspended.</p> <p>\$2,000 tax credit per child under the age of 17.</p>
<b>Child Tax Credit</b>	<p>Credit phased out \$50 for each \$1,000 of AGI over:</p> <p>\$110,000 – married filing joint.</p> <p>\$75,000 – single taxpayers.</p> <p>\$55,000 – married filing separate.</p> <p>Refundable up to 15% of earned income in excess of \$3,000.</p>	<p>Credit phased out \$50 for each \$1,000 of AGI over:</p> <p>\$400,000 – married filing joint.</p> <p>\$200,000 – all other filing types.</p> <p>Refundable up to 15% of earned income in excess of \$2,500, or \$1,400 per qualifying child, whichever is greater.</p> <p>New nonrefundable credit of \$500 per dependent other than qualifying children.</p>
<b>Affordable Care Act Individual Mandate</b>	Shared responsibility penalty applied unless minimum essential coverage was in place. 3.8% Net Investment Income Tax and 0.9% additional Medicare tax applied to specific income types.	<p>The shared responsibility penalty is reduced to zero for tax years after 2018.</p> <p>3.8% Net Investment Income Tax and 0.9% additional Medicare tax is maintained.</p>

<b>Kiddie Tax</b>	<p>The tax liability of a child with unearned income beyond a threshold amount (\$2,100 for 2017) is affected by the tax situation of the parents and siblings.</p> <p>Unearned income of children in excess of the threshold amount is taxed at the parents' tax rate. Remaining earned income plus unearned income up to \$2,100 is taxed at child's tax rate.</p>	<p>The tax liability of a child is no longer affected by the parents' or siblings tax situations. Earned income is taxed using tax rates for a single person.</p> <p>Unearned income is taxed using the tax rates applied to trusts and estates which are highly compressed compared to individual tax rates.</p> <table><tr><td>2018 Tax Brackets – Estates and Trusts</td><td></td></tr><tr><td>\$0 - 2,550</td><td>10%</td></tr><tr><td>\$2,551 - \$9,150</td><td>24%</td></tr><tr><td>\$9,151 - \$12,500</td><td>35%</td></tr><tr><td>\$12,501 +</td><td>37%</td></tr></table>	2018 Tax Brackets – Estates and Trusts		\$0 - 2,550	10%	\$2,551 - \$9,150	24%	\$9,151 - \$12,500	35%	\$12,501 +	37%
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<b>Tax Rates</b>	<p>Graduated tax rate:</p> <ul style="list-style-type: none"><li>• 15% on income of \$0 - \$50,000</li><li>• 25% on income of \$50,001 - \$75,000</li><li>• 34% on income of \$75,001 - \$10M</li><li>• 35% on income over \$10M</li><li>• Personal service corporations</li><li>• 35% on all taxable income</li></ul>	<p>Flat 21% corporate tax rate.</p>										
<b>Alternative Minimum Tax (AMT)</b>	<p>Corporations with average gross receipts less than \$7.5M for the three prior years were exempt. Corporate AMT is 20% with an exemption of up to \$40,000 which phased out starting at \$150,000 of alternative minimum taxable income.</p>	<p>Corporate AMT is repealed. For 2018 through 2021 tax years, any prior year AMT credit is refundable and can offset regular tax liability.</p>										
<b>Net Operating Losses (NOLS)</b>	<p>NOLS could offset 100% of income (90% for AMT).</p> <p>NOLS could be carried back two years and forward 20 years.</p>	<p>Post-2017 NOLS can offset 80% of income.</p> <p>Post-2017 NOLS can be carried forward indefinitely.</p> <p>Post-2017 NOLS can NOT be carried back two years.</p> <p>Pre-2018 NOLS are still subject to two year carryback and 20 year carryforward restrictions.</p> <p>Pre-2018 NOLS appear to be eligible to reduce 100% of income.</p>										

<b>Disqualified Interest Expense</b>	<p>Deduction disallowed if debt-to-equity ratio exceeds 1.5 to 1.0 and interest expense exceeds 50% of adjusted taxable income.</p> <p>Disallowed interest could be carried forward indefinitely.</p>	<p>Interest expense limited to 30% of adjusted taxable income regardless of debt-to-equity ratio.</p> <p>Adjusted taxable income definition changes in 2022 to no longer addback depreciation and amortization.</p> <p>Disallowed interest can be carried forward indefinitely.</p> <p><b>Exceptions to interest expense limitation: Under \$25M of annual gross receipts (3 year average).</b></p> <p>Real property trades or businesses can elect out.</p> <p>Farming can elect out.</p> <p>Floor plan financing.</p>
<b>Dividends Received Deduction</b>	<p>Deductions were allowed for dividends received from other corporations.</p> <p>80% deduction if ownership in the issuer was at least 20%.</p> <p>70% deduction for all other dividends.</p>	<p>80% deduction is reduced to 65%.</p> <p>70% deduction is reduced to 50%.</p>
<b>S-Corporations</b>	<p>Electing Small Business Trusts (ESBT) could be an eligible shareholder only if each potential current beneficiary qualified as an eligible shareholder.</p> <p>A nonresident alien is not considered an eligible shareholder.</p>	<p>Nonresident alien current beneficiaries no longer disqualify an ESBT as an eligible shareholder.</p>



<b>Partnership &amp; LLCs</b>	<p>A partnership was terminated if no part of any business, financial operation, or venture of the partnership continued to be carried on by any of its partners in a partnership or if within any 12-month period, there was a sale or exchange of 50% or more of the total interest in partnership capital and profits (a technical termination).</p> <p>Under regulations, the technical termination gave rise to a deemed contribution of all the partnership's assets and liabilities to a new partnership in exchange for an interest in the new partnership, followed by a deemed distribution of interests in the new partnership to the purchasing partners and the other remaining partners.</p> <p>As a result of a technical termination, some of the tax attributes of the old partnership terminated, the partnership's taxable year closed, potentially resulting in short tax years, partnership-level elections generally ceased to apply, and the partnership depreciation recovery periods restarted.</p>	<p>The TCJA eliminates the technical termination rule.</p> <p>Thus, a partnership is terminated only if no part of any business, financial operation, or venture of the partnership continues to be carried on by any of its partners in a partnership.</p> <p>The technical termination rule is repealed.</p>
<b>Substantial Built-in Loss rule</b>	<p>The basis of partnership property was not adjusted as a result of a transfer of a partnership interest unless the partnership made a Code Sec. 754 basis adjustment election or there was a substantial built-in loss with respect to the transfer of a partnership interest.</p> <p>The partnership had a substantial built-in loss with respect to a transfer of a partnership interest if the partnership's adjusted basis in the partnership property exceeded by more than \$250,000 the fair market value of the property.</p>	<p>A partnership has a substantial built-in loss with respect to a transfer of a partnership interest if either:</p> <p>The partnership's adjusted basis in the partnership property exceeds by more than \$250,000 the fair market value of the property, or The transferee partner would be allocated a loss of more than \$250,000 if the partnership assets were sold for cash equal to their fair market value immediately after the transfer.</p>

<p><b>Charitable Contributions - Partnerships</b></p>	<p>A partner was allowed to deduct his distributive share of partnership loss only to the extent of the adjusted basis of the partner's interest in the partnership at the end of the partnership year in which such loss occurred.</p> <p>The excess of the loss over the basis was allowed as a deduction at the end of the partnership year in which the excess was repaid to the partnership.</p> <p>However, in applying the basis limitation on partner losses, the regs didn't take into account the partner's share of partnership charitable contributions and foreign taxes paid or accrued.</p> <p>The IRS took the position in a private letter ruling that the basis limitation on partner losses didn't apply to limit the partner's deduction for its share of the partnership's charitable contributions.</p> <p>While the regs relating to the loss limitation didn't mention the foreign tax credit, a taxpayer could have chosen the foreign tax credit in lieu of deducting foreign taxes.</p>	<p>The TCJA provides that in determining the amount of the partner's loss, the partner's distributive shares under Code Sec. 702(a) of partnership charitable contributions and taxes paid or accrued to foreign countries or U.S. possessions are taken into account.</p> <p>However, in the case of a charitable contribution of property with a fair market value that exceeds its adjusted basis, the partner's distributive share of the excess is not taken into account.</p>
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<b>New Partnership Audit Rules</b>	<p>The 2015 Bipartisan Budget Act has replaced the unified partnership audit procedures described in the following:</p> <p>Under the “unified partnership audit procedures,” sometimes called “TEFRA procedures,” which apply to all partnerships other than certain small partnerships and electing large partnerships, IRS audits and related activities involving the tax treatment of partnership items and affected items were done at the partnership level.</p> <p>The tax matters partner (TMP) had to keep partners informed of tax proceedings involving the partnership.</p> <p>IRS had to notify the TMP and other partners entitled to notice of the beginning of any administrative proceedings.</p> <p>All partners had the right to participate in any administrative proceeding and to have the same settlement opportunities as other partners have.</p> <p>Under prior law, while audits may have been conducted at the partnership level, any audit adjustments were made to the individual partners’ tax returns.</p> <p>These TEFRA partnership procedures applied to any partnership , except for partnerships with 10 or fewer partners (the “small partnership” exception) and “electing large partnerships.”</p>	<p>(Generally effective for tax returns for partnership tax years beginning after Dec. 31, 2017):</p> <p>Law eliminates the TEFRA unified partnership audit rules (so-called because they were introduced in the Tax Equity And Fiscal Responsibility Act of ‘82) and the electing large partnership rules, and replaces them with streamlined partnership audit rules.</p> <p>Under the new audit approach, any adjustment to items of income, gain, loss, deduction, or credit of a partnership for a partnership tax year (and any partner’s distributive share of such adjustment) is determined at the partnership level.</p> <p>Similarly, any tax attributable to such adjustment is assessed and collected, and the applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to any such item or share is determined, at the partnership level.</p> <p>IRS will examine the partnership’s items of income, gain, loss, deduction, credit and partners’ distributive shares for a particular year of the partnership (termed the “reviewed year” under Code Sec. 6225(d)(1)), and any adjustments will be taken into account by the partnership—not the individual partners—in the “adjustment year.”</p> <p>What constitutes the adjustment year depends on how the adjustment was made; for example, if it was made pursuant to a court decision, the adjustment year is the year that the decision becomes final.</p>
<b>Section 179 Increased Expensing</b>	<p>A taxpayer can elect to expense up to \$510,000 of qualifying property.</p>	<p>A taxpayer can elect to expense up to \$1,000,000 of qualifying property.</p>
<b>Immediate Expensing of Qualified Business Assets</b>	<p>An additional first-year depreciation deduction of 50% of the adjusted basis of qualified property was allowed.</p>	<p>A 100% first-year deduction for the adjusted basis is allowed.</p>

<b>Increased Luxury Auto Limits</b>	Passenger automobiles weighing below 6,000 pounds are subject to luxury auto depreciation limits.	Passenger automobiles weighing below 6,000 pounds are still subject to luxury auto depreciation limits, but the limits have been increased substantially.
<b>Recovery Period for Certain Real Property</b>	For property placed in service before 2018, qualified leasehold improvement, qualified restaurant, and qualified retail improvement property were treated uniquely.	For property placed in service after 2017, the separate definitions of qualified leasehold improvement, qualified restaurant, and qualified retail improvement property are eliminated.
<b>Like-Kind Exchanges</b>	No gain or loss recognized for property held for productive use in the taxpayer's trade or business.	Deferral of gain on like-kind exchanges is only allowed for real property.

## Tax Law Changes for Meals and Entertainment Expenses

NOTE: This information is new and developing and there may be changes to come if corrections or clarifications are made to the new Tax Reform Bill.

100% Deductible	50% Deductible	Nondeductible
<p>Qualified employee recreation, social or similar activities – primarily for the benefit of employees.</p> <p>Example: holiday party for employees, company cookout, employee appreciation events.</p>	<p>Meals with clients, customers, or prospects with substantial business discussion.</p> <p>Meal reimbursements for employees while traveling on business.</p> <p>On-premise meals provided for the convenience of the employer, such as lunch or dinner provided to employees while working. (This will become nondeductible after 2025).</p>	<p>All forms of business entertainment – such as golf outings, sporting events, theater tickets, country clubs.</p> <p>Meals with clients, customers, or prospects without substantial business discussions</p>

**To track these expenses accurately in your general ledger, we recommend creating new accounts:**

1. Entertainment - Employee – 100% Deductible
2. Entertainment - Nondeductible
3. Meals - Business – 50% Deductible

# ABOUT THE ZINNER & CO. TAX DEPARTMENT

Lead by partner Brett W. Neate, CPA, M.Tax, the taxation department team works with individuals and businesses to create and develop meaningful strategies to yield positive financial outcomes. The team guides and counsels clients in federal, state and local taxation in addition to sub-specialty area's within taxation, such as business tax, individual tax, IRS matters, estate, gift and trust services and international tax planning.



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# A BIT ABOUT US

In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

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