



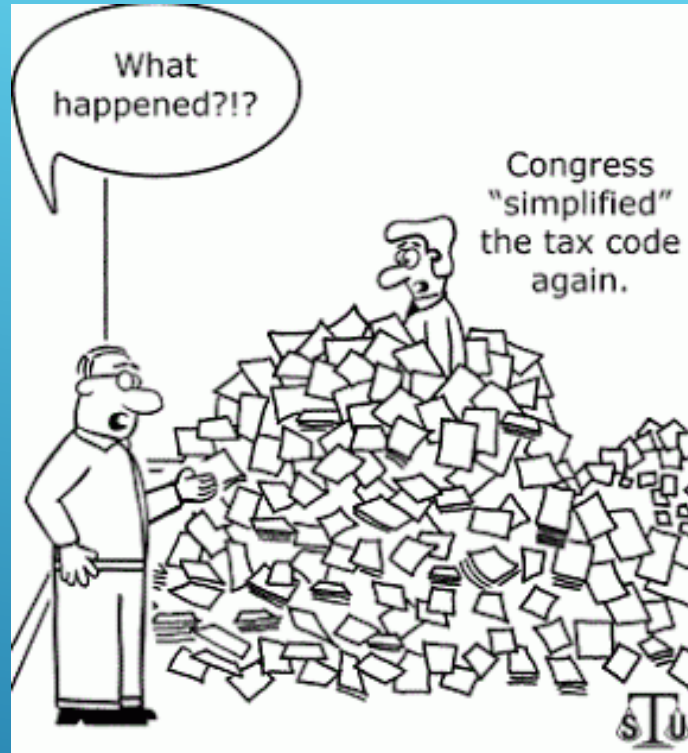
2018 Tax Reform and How Does It Impact My Real Estate Business and Clients?

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***A. WHICH CHANGES TO THE TAX CODE
WILL IMPACT MY BUSINESS AND MY
PERSONAL TAX RETURN IN 2018?***

2017 VS. 2018 TAX BRACKETS

Tax brackets for married taxpayers filing jointly

2017		2018	
10%	\$0-\$18,650	10%	\$0-\$19,050
15%	\$18,651-\$75,900	12%	\$19,051-\$77,400
25%	\$75,901-\$153,100	22%	\$77,401-\$165,000
28%	\$153,101-\$233,350	24%	\$165,001-\$315,000
33%	\$233,351-\$416,700	32%	\$315,001-\$400,000
35%	\$416,701-\$470,700	35%	\$400,001-\$600,000
39.6%	\$470,701 or more	37%	\$600,000 or more
Standard deduction:	\$12,700	Standard deduction:	\$24,000
Personal Exemption:	\$8,100	Personal Exemption:	Eliminated

BUSINESS INSIDER

2017 VS. 2018 TAX BRACKETS

Tax brackets for single filers

2017		2018	
10%	\$0-\$9,325	10%	\$0-\$9,525
15%	\$9,326-\$37,950	12%	\$9,526-\$38,700
25%	\$37,951-\$91,900	22%	\$38,701-\$82,500
28%	\$91,901-\$191,650	24%	\$82,501-\$157,500
33%	\$191,651-\$416,700	32%	\$157,501-\$200,000
35%	\$416,701-\$418,400	35%	\$200,001-\$500,000
39.6%	\$418,401 or more	37%	\$500,001 or more
Standard deduction:	\$6,350	Standard deduction:	\$12,000
Personal Exemption:	\$4,050	Personal Exemption:	Eliminated

BUSINESS INSIDER

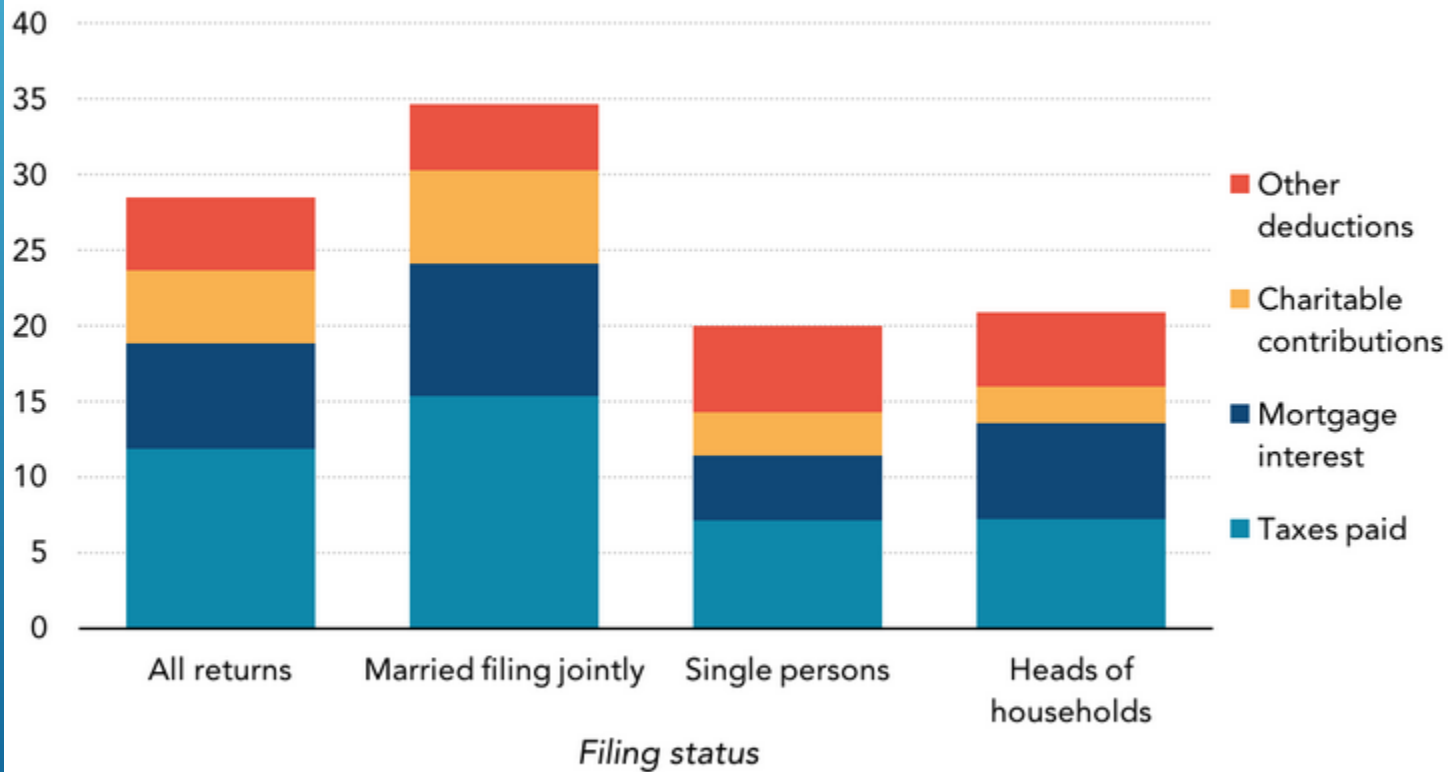
2017 VS. 2018 STANDARD DEDUCTION

	Old	2018
Single	\$ 6,500	\$ 12,000
Married Filing Joint	\$ 13,000	\$ 24,000
Married Filing Single	\$ 6,500	\$ 12,000
Head of Household	\$ 9,550	\$ 18,000

TAX REFORM IN PERSPECTIVE

FIGURE 4

Itemized Deductions by Type and Filing Status
2014



Source: Internal Revenue Service, Table 1.3.

20% QUALIFIED BUSINESS INCOME (QBI) DEDUCTION FOR “PASS-THROUGH ENTITIES”

- What/who is a pass-through entity?
 - Sole proprietorships, partnerships, S-Corp, LLC (single or multi-member)

- How does the 20% deduction for QBI work?
 - Step#1: If taxable Income **Below** \$315K MFJ(\$157.5k single), then small business owner can claim deduction.
 - Step#2: If taxable Income **Greater** than \$315K MFJ(\$157.5k), then small business owner will see a phaseout of the deduction with a limitation based on a.) wages and b.) capital limit exception

20% QUALIFIED BUSINESS INCOME (QBI) DEDUCTION FOR “PASS-THROUGH ENTITY” (CONT'D)

❑ Complexities:

- Deduction phaseout limitations for those with taxable income above \$315K (MFJ)/ \$157.5K (single)
- Final regulations have not been issued

STATE AND LOCAL TAX DEDUCTION LIMITATIONS

For those who itemize (do not take standard deduction), the combination of State and Local tax (SALT) deductions are limited to \$10k (MFJ)/(\$5k single)

- What is meant by SALT
 - State & Local Income Tax or State Sales Tax
 - Property Tax
 - Real Estate Tax

Previously, no limitations for SALT deductions

MISC. ITEMIZED DEDUCTIONS

For those who have miscellaneous itemized deductions (subject to 2% threshold), the provision is eliminated

- Examples of miscellaneous itemized deductions
 - Investment fees
 - Unreimbursed employee expenses

MEAL & ENTERTAINMENT EXPENSES

The Tax reform act limits the deductibility of Meals & Entertainment expenses.

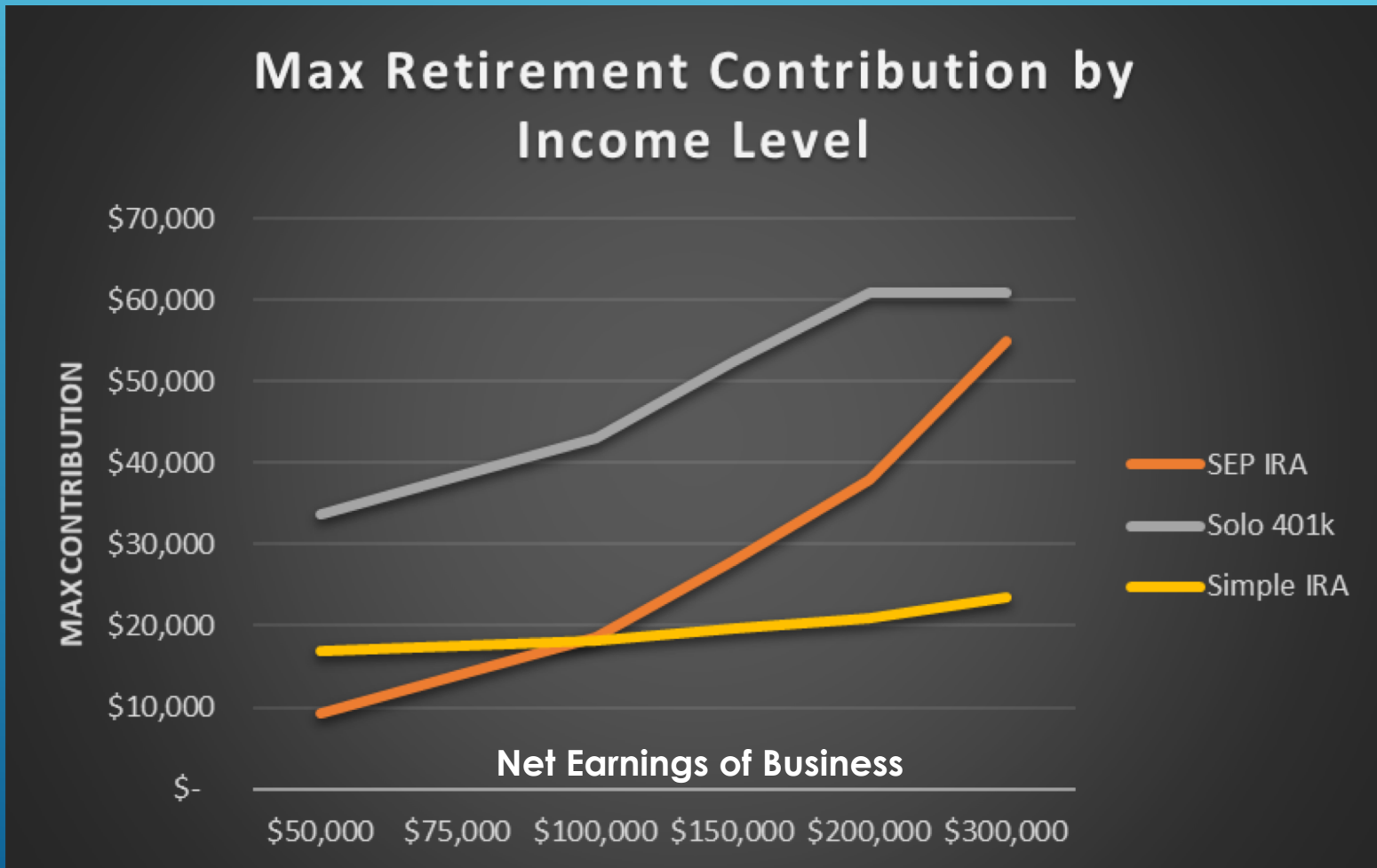
- Entertainment with clients (not deductible)
 - Ex: Sporting event tickets, entertainment related meals (no business conducted)
- Office holiday party (100% deductible)
- Client business meals (50% deductible), if business is conducted, taxpayer is present, and not lavish or extravagant

***B. WHAT OPPORTUNITIES DO I HAVE TO
CAPITALIZE ON THE NEW TAX CODE?***

MANAGING TAXABLE INCOME IS CRITICAL FOR HANDLING THE UPS AND DOWNS OF THE REAL ESTATE MARKET

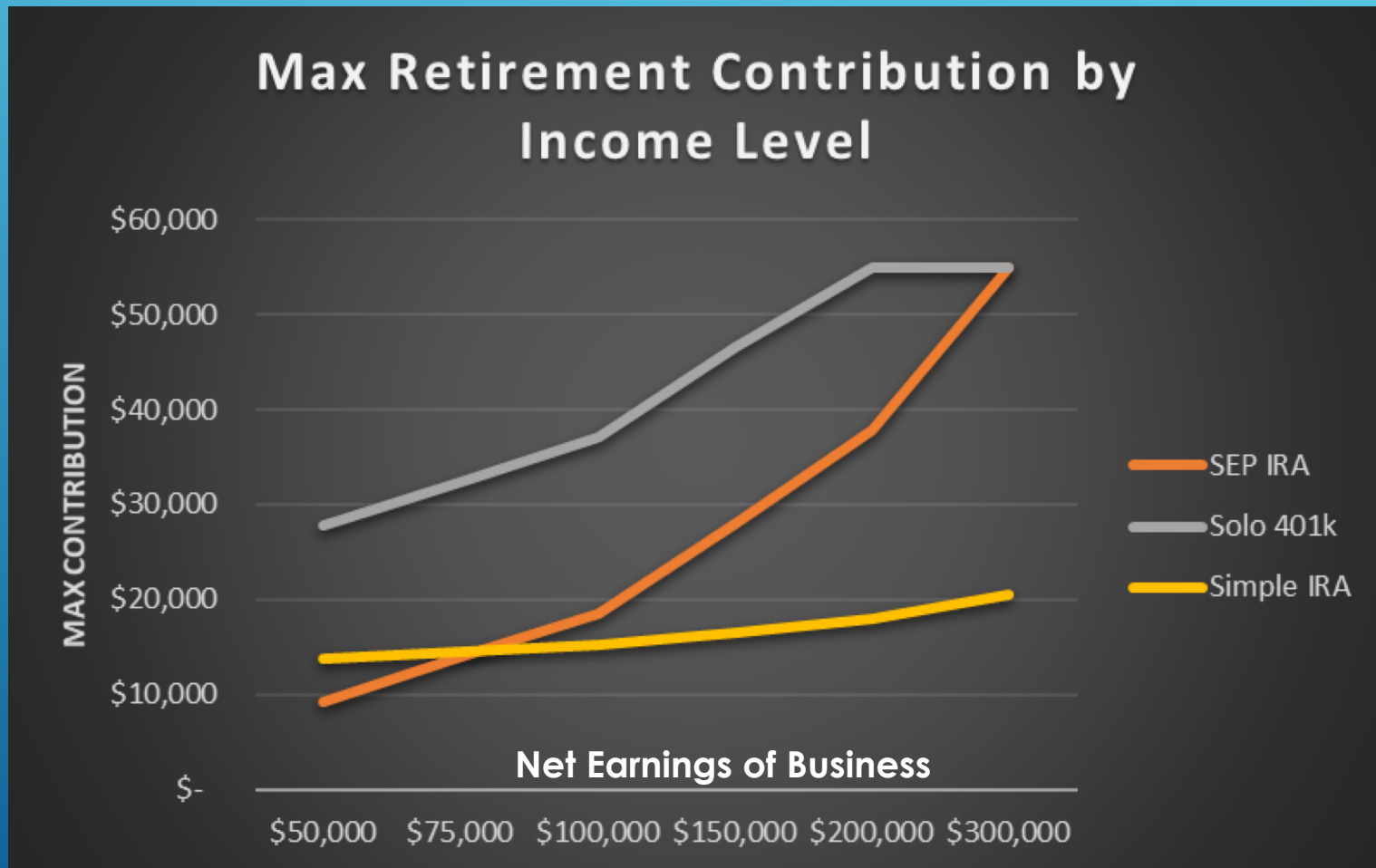
- Unique options exist for small business owners to lower taxable income (or manage taxable income)
 - Small Business Retirement Plans: Solo 401k, SEP IRA, Simple IRA, etc.
 - Health Savings Account
- Managing taxable income may be critical for Qualified business income (QBI) qualifications

SMALL BUSINESS OWNER OPTIONS TO LOWER TAXABLE INCOME (> 50 YRS OLD)



See appendix for more details

SMALL BUSINESS OWNER OPTIONS TO LOWER TAXABLE INCOME (< 50 YRS OLD)



See appendix for more details

SMALL BUSINESS OWNER OPTIONS TO LOWER TAXABLE INCOME

Health Savings Account (HSA)

- A savings account that allows you save pre-tax dollars (thus lowering taxable income)
- Maximum yearly contribution is \$3,450 for single/ \$6,900 for family
- Must have high deductible health plan
 - Deductible \$1,350 individual \$2,700 for a family

***C. WHAT WILL THE TAX REFORM MEAN FOR
MY CLIENTS?***

MORTGAGE INTEREST DEDUCTIONS

- ❑ Mortgage interest is deductible on mortgages of up to \$750K (down from \$1m) for MFJ.
 - The change in deductions applies to new mortgages after December 15, 2017.
 - Mortgages created prior to December 15, 2017 will be grandfathered into the old rules
 - Private mortgage insurance (PMI) has not been renewed yet

INTEREST ON HOME EQUITY LOANS OFTEN STILL DEDUCTIBLE

Per the IRS News
Release, 2/21/2018:

“Under the new law, for example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan **used to pay personal living expenses, such as credit card debts, is not**. As under prior law, the loan must be secured by the taxpayer’s main home or second home (known as a qualified residence), not exceed the cost of the home and meet other requirements.”

PROPERTY TAXES

- ❑ For those who itemize (do not take standard deduction), State and Local tax (SALT), deductions are limited to \$10k (MFJ)/(\$5k single)
 - Property taxes are included in this calculation
 - Based on the increase in standard deduction, expect that number to decrease to 10% in 2018 (from 30% in 2017) according to Tax Policy Center.

***D. WHAT TAX TOPICS REMAIN
UNCHANGED?***

ITEMS DEBATED BUT MAINTAINED

- Capital gains on home sales – retained. Married couples can avoid \$500K (\$250K if single) in profit on home lived in 2 of last 5 years.
- Vacation homes mortgage interest and taxes (but limited to \$10K SALT deduction for MFJ)
- Code Sec. 1031 (a) (LIKE KIND) exchanges – retained

E. TAX REFORM IN PERSPECTIVE

TAX REFORM IN PERSPECTIVE

Biggest itemized tax deductions

Total deductions in billions:

State and local income and sales tax



Home mortgage interest



Charitable gifts



Real estate taxes



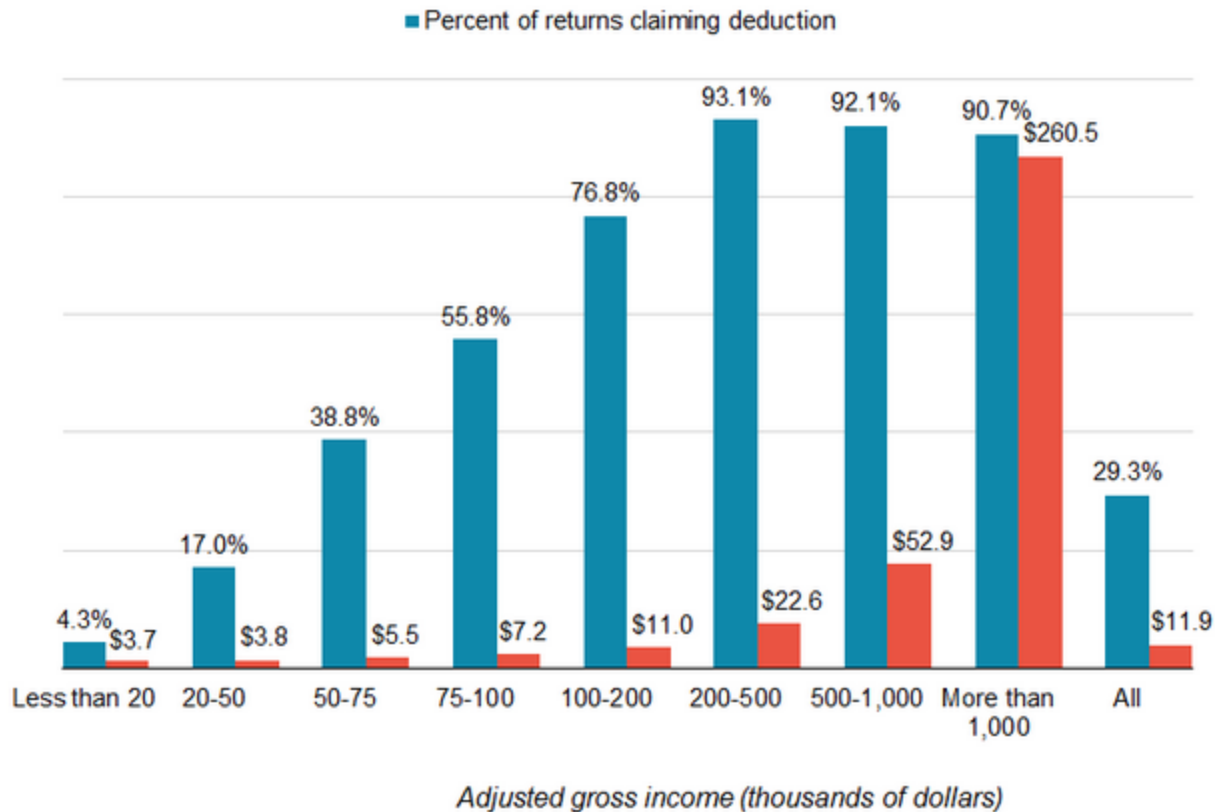
SOURCE IRS

George Petras/USA TODAY

TAX REFORM IN PERSPECTIVE

FIGURE 1

Share of Returns Claiming the State and Local Deduction, and Average Deduction Claimed
By income group, 2014



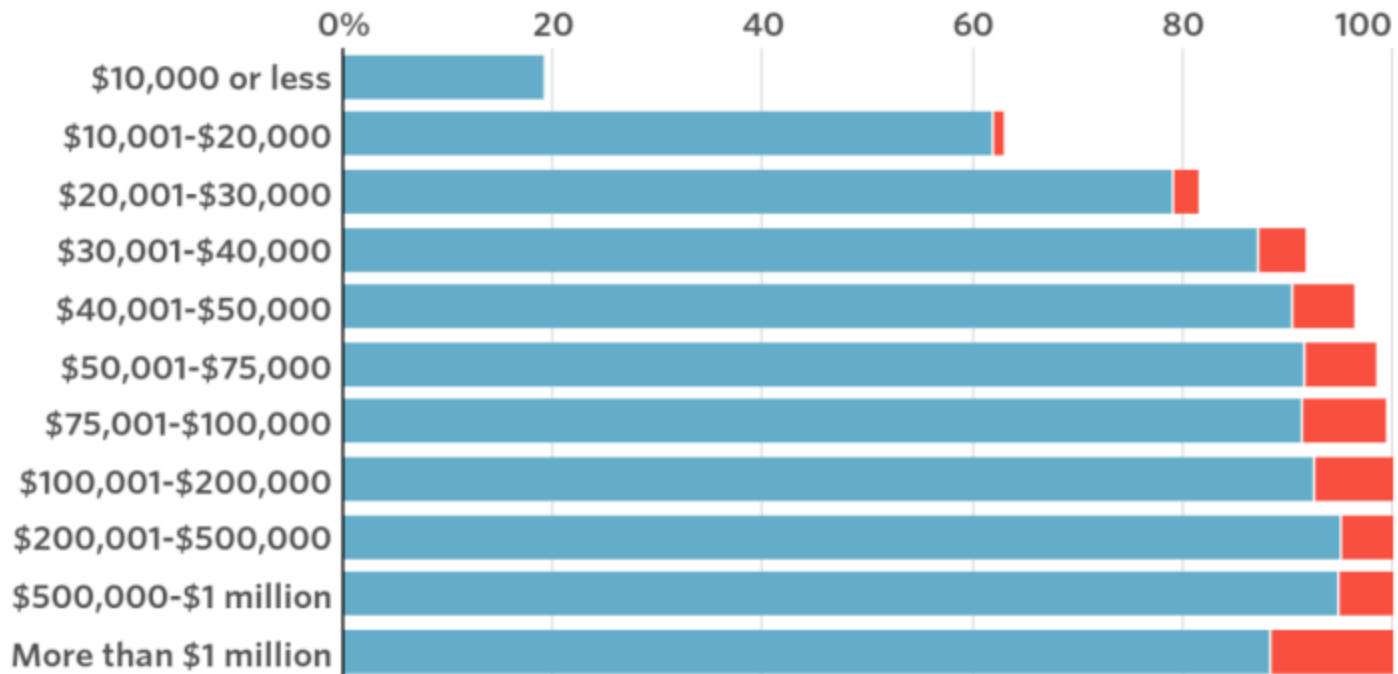
Source: Urban-Brookings Tax Policy Center based on data from the Internal Revenue Service.

TAX REFORM IN PERSPECTIVE

Tax bill winners and losers for 2018

By expanded cash income level

■ Percent getting cut ■ Percent getting hike

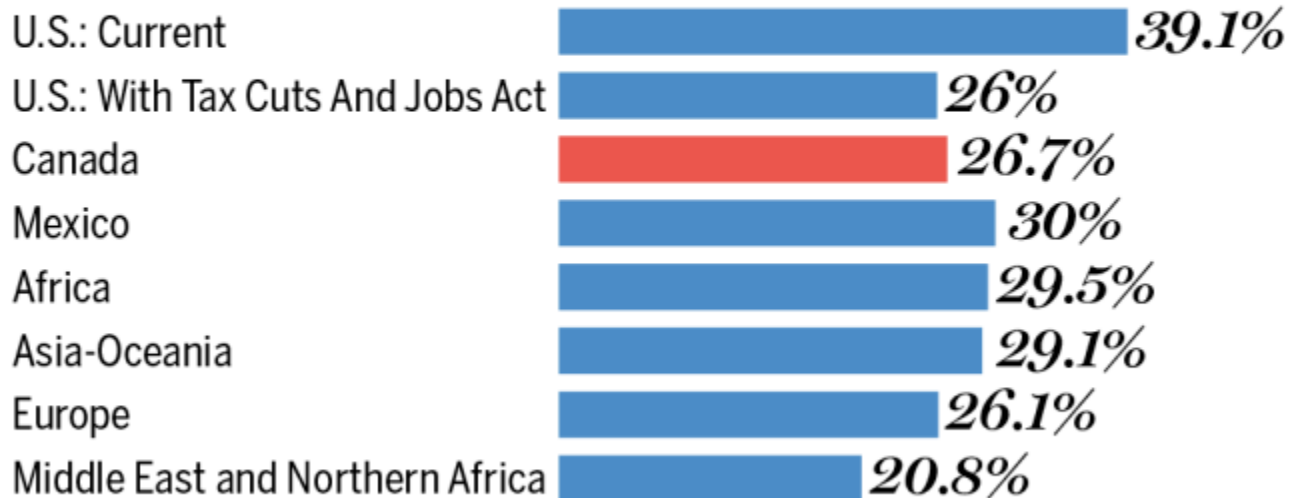


Source: Tax Policy Center

TAX REFORM IN PERSPECTIVE

AMERICA'S NEW ALLURE

CORPORATE INCOME TAX RATES* AS OF JAN. 1, 2018



*Combined central-sub-national corporate rates. Corporate rates are GDP-weighted.

F. APPENDIX

Name	Age	Income	Business Entity
	49	\$200,000.00	Sole proprietorship,partnership, LLC (taxed as sole proprietor)

Earned Income

Earned income is compensation for a self-employed individual who is covered under a qualified plan. Earned income is calculated by subtracting ordinary and necessary trade or business expenses from your total self employment income. You are self employed for this purpose if you are a sole proprietor, an independent contractor, a member of a partnership, or are otherwise in business for yourself.

Net Earning (before qualified plan deduction)	\$200,000.00
Calculate 1402(a)(12)Deduction	\$184,700.00
Calculate Medicare & FICA	\$21,315.10
1/2 of Self-Employment Tax	\$10,657.55
Self-Employment Income	\$189,342.45

Maximum Contribution

The maximum contribution into an Individual 401k plan is comprised of 2 elements, the profit sharing contribution and the 401(k) deferral. The maximum allowable contribution calculation simply takes the profit sharing contribution and adds the maximum 401(k) contribution amount to it and that is the total allowable contribution.

Maximum Profit Sharing Contribution	\$37,868.49
Maximum 401(k) Contribution	\$18,500.00
Maximum 401(k) Catchup	\$0.00
Maximum Individual 401k Contribution	\$55,000.00
Maximum SIMPLE IRA Contribution	\$18,014.83
Maximum SIMPLE IRA Catchup	\$0.00
Maximum SIMPLE IRA Contribution	\$18,014.83
Maximum SEP IRA Contribution	\$37,868.49
Maximum Defined Benefit Plan Contribution	\$109,600.00

Name	Age	Income	Business Entity
	51	\$200,000.00	Sole proprietorship,partnership, LLC (taxed as sole proprietor)

Earned Income

Earned income is compensation for a self-employed individual who is covered under a qualified plan. Earned income is calculated by subtracting ordinary and necessary trade or business expenses from your total self employment income. You are self employed for this purpose if you are a sole proprietor, an independent contractor, a member of a partnership, or are otherwise in business for yourself.

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Maximum SEP IRA Contribution	\$37,868.49
Maximum Defined Benefit Plan Contribution	\$141,200.00