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"Change may not always bring growth, but there is no growth without change."
– Roy T. Bennett–

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A Quick Glance – Positive and Negative Tax Changes

By Patrick Wiesner
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After more than 30 years without serious changes to the American tax code, Congress passed the Tax Cuts and Jobs Act on December 22, 2017. Here is a quick look at some of the positives and negatives of the tax reform law.

The Positives:

- **C Corporation Tax Rate** – decrease in the corporate tax rate from 35 percent to 21 percent
- **20% Deduction for Businesses** – many taxpayers can deduct 20% of their qualifying income; owners of S corporations, partnerships and LLCs, as well as those who report income on Schedule C or Schedule E of their tax returns
- **Depreciation** – options to write off your investment in property are enhanced with more properties eligible for quicker depreciation
- **Tax Brackets for Individuals** – most individuals will pay less taxes
- **Larger Standard Deduction** – while personal exemptions are eliminated , the standard deductions are nearly doubled; $12,000 on single returns, $18,000 for head-of-household filers and $24,000 on joint returns … up from $6,350, $9,350 and $12,700 in 2017
- **Higher Child Tax Credit** – the $1,000 tax credit for each child under age 17 is doubled to $2,000 and significantly increases the income phase-out thresholds making the credit more available
- **Estate Tax** – the new law doubles the amount that can be left to heirs tax-free in 2018, to about $11 million for singles and about $22 million for married couples
- **Fewer Impacted by Alternative Minimum Tax (AMT)** – fewer taxpayers will be impacted by AMT due to the increased AMT exemption
- **Health Insurance Mandate** – starting in 2019 the penalty is removed for those without health insurance
- **529 Plans** – up to $10,000 a year from tax-advantaged 529 savings plans will now cover the costs of K-12 expenses for a private or religious school

The Negatives:

- **Miscellaneous Itemized Deductions** – write-off elimination for tax preparation fees, unreimbursed employee business expenses (Form 2106) and investment fees
- **Meals and Entertainment** – most of these expenses were already limited to a 50% deduction and going forward entertainment such as golf fees and sporting event tickets are no longer deductible
- **Mortgage Interest Deduction** – reduce from $1,000,000 to $750,000 the amount of debt on which homeowners can deduct mortgage interest
- **State and Local Tax Deduction** – you can deduct any combination of state and local income or sales taxes or property taxes, up to $10,000
- **Casualty Losses** – the new law greatly restricts the opportunity for individuals who suffer unreimbursed casualty losses unless they occur in a presidentially declared disaster area
- **Alimony** – for agreements executed after December 31, 2018, payors will no longer get to deduct alimony, but the payments will be tax-free for the ex-spouse who receives them
- **Like-Kind Exchanges** – the new law restricts its use to like-kind exchanges of real estate
- **Moving Expenses** – moving expenses are eliminated other than for members of the military
- **Net Operating Loss (NOL)** – a taxpayer's ability to use an NOL to either (a) obtain a refund of taxes they paid in a prior year or (b) reduce their subsequent year tax liability is now prevented or restricted, depending upon when the NOL was generated

Many of the changes are only temporary and they are set to expire after 2025 unless further action is taken by Congress. Please reach out if you have questions on how these changes will impact you!

JOHN MORRISSEY ACCOUNTANTS, INC.
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THE MORRISSEY REPORT

www.johnmorrissey.com Summer 2018

From the Desk of John F. Morrissey

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What a beautiful summer we have had in the Rockford Region! I hope you have all taken some time off to slow life down for a little bit and enjoy family, friends and the beauty in Mother Nature! On a nice summer day in August it seems too early to think about 2018 tax returns, however, this is the time of year that we as tax preparers need to look at what has happened at the IRS.

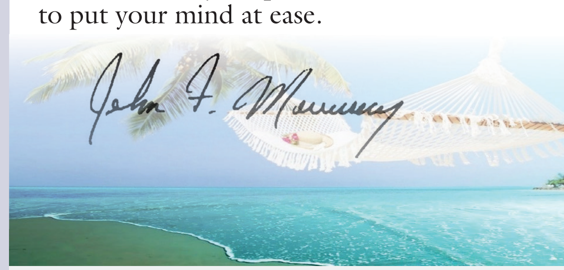
I have been preparing taxes for over 50 years and have seen many changes, as the IRS continues to attempt to make tax filing easier, but it just doesn't seem to happen. This most recent tax overhaul is one of the biggest changes since 1986 and as we have looked at it so far it seems "interesting".

Over the past several months, we've studied the many tax law changes in the Tax Cuts and Jobs Act (TCJA). We are seeing lower tax rates, which may mean more cash in your bank accounts, but there is also uncertainty. Over the next few months, we as an office of professional preparers will spend many hours delving into the new tax rules and filing requirements in order to continue to provide professional service for our clients. We will be contacting many of you to find out if there are specific questions you may have regarding your tax situation.

Please take time to read the other articles in this newsletter. These are items that our professional staff has delved into and feel that the issues are worthy of bringing to your attention. We have packed this newsletter with several articles to help our clients through this maze of uncertainty.

The best way to understand and control your tax liability is to PLAN. We have found in the past that spending time before the end of the tax year with a tax professional is time well spent. Taking advantage of some of the current tax rules can in many cases reduce your tax liability on certain types of income.

Please call or set up an appointment and we will review your particular situation to put your mind at ease.



Focus on the Community

BELVIDERE·BOONE COUNTY FOOD PANTRY
"Miracle on 5th Street"

Are you aware that one in four of our children in Boone County routinely go hungry? This is a staggering number for such a prosperous community. Our Food Pantry serves approximately 800-1000 people in need each month.

According to Feeding America, almost 20% of Boone County residents are classified as "at or below Federal Poverty Guidelines" and face food insecurity regularly. The Belvidere Boone County Food Pantry strives to supply the most vulnerable men, women & children living in Boone County with food, clothing, personal care items and the resources needed to encourage them in their situation, equip them and empower them to move into self-sustainability.

How can you help?

- **Donations**- We rely on financial and material donations from individuals, corporations & grants to provide for our neighbors in Boone County.
- **Product collections**- We are always in need of items at our center. You can begin a collection at your work, school, church, club or online. We will provide collection bins and pick-up at your location.

These items are always needed at the center-

- Food, Pet Food, Clothing, Baby Items (new), Paper Products, Feminine Hygiene Products, Personal & Oral Care Items
- **Recycling items such as**- Cardboard, Aluminum & Pallets

Volunteering – They cannot do what they do without YOU. Contact Rev. Danice Loveridge, Executive Director of the food pantry, at 815-569-1571 to find out how your skills can be matched with their needs. There are also openings on the Board if volunteering is important to you and you want to make a difference in the community.

There is exciting news to unveil at our 10th annual Fundraising Event Banquet at the Community Building Complex in Belvidere on September 27th beginning at 5:30 pm with buffet dinner & 6:30 pm program. A silent auction will take place throughout the night. Your support is critical at this major fundraising event. In the past year we have become aware of the ongoing needs of our Boone County Neighbors for more than necessities, but also resources to create permanent change in their lives. We will be focusing 2018-2019 fiscal year on more effectively helping our neighbors meet those needs. Your presence at this event to hear about and support this expanded vision is vital. Thank you for your past support of our Food Pantry and your continued support of our expanded mission.

In This Issue...

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The information below has been compiled by CCH Incorporated and gives an excellent, comprehensive break down of what the Tax Cuts Acts will mean for businesses. Additionally, an overview of the Tax Cuts Acts for individuals will follow. We, at John Morrissey Accountants, are continuing to educate ourselves on how these changes will affect our clients and are always glad to help you work through any questions or concerns you may have.

2017 Tax Cuts Act: What it Means For Businesses

For businesses, tax benefits include a reduction in the corporate tax rate, increase in the bonus depreciation allowance, an enhancement to the Code Sec. 179 expense and repeal of the alternative minimum tax. Owners of partnerships, S corporations, and sole proprietorships are allowed a temporary deduction as a percentage of qualified income of pass-through entities, subject to a number of limitations and qualifications. On the other hand, numerous business tax preferences are eliminated.

Corporate Taxes
A reduced 21-percent corporate tax rate is permanent beginning in 2018. Also, the 80-percent and 70-percent dividends received deductions under current law are reduced to 65-percent and 50-percent, respectively. The Tax Cuts and Jobs Act also repeals the alternative minimum tax on corporations.

Bonus Depreciation
The bonus depreciation rate has fluctuated wildly over the last 15 years, from as low as zero percent to as high as 100 percent. It is often seen as a means to incentivize business growth and job creation. The Tax Cuts and Jobs Act temporarily increases the 50-percent "bonus depreciation" allowance to 100 percent. It also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Section 179 Expensing

The Tax Cuts and Jobs Act sets the Code Sec. 179 dollar limitation at $1 million and the investment limitation at $2.5 million. Although the differences between bonus depreciation and Code Sec. 179 expensing would now be narrowed if both offer 100-percent write-offs for new or used property, some advantages and disadvantages for each will remain. For example, Code Sec. 179 property is subject to recapture if business use of the property during a tax year falls to 50 percent or less; but Code Sec. 179 allows a taxpayer to elect to expense only particular qualifying assets within any asset class.

Deductions and Credits
Numerous business tax preferences are eliminated. These include the Code Sec. 199 domestic production activities deduction, non-real property like-kind exchanges, and more. Additionally, the rules for business meals are revised, as are the rules for the rehabilitation credit. However, the Tax Cuts and Jobs Act leaves the research and development credit in place, but requires five-year amortization of research and development expenditures. It also creates a temporary credit for employers paying employees who are on family and medical leave.

Interest Deductions
In an attempt to "level the playing field" between businesses that capitalize through equity and those that borrow, the Tax Cuts and Jobs Act generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income, among other criteria. Exceptions exist for small businesses, including an exemption or businesses with average gross receipts of $25 million or less.

Pass-Through Businesses
Currently, up to the end of 2017, owners of partnerships, S corporations, and sole proprietorships - as "pass-through" entities - pay tax at the individual rates, with the highest rate at 39.6 percent. The Tax Cuts and Jobs Act allows a temporary deduction in an amount equal to 20 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications.

The Tax Cuts and Jobs Act contains rules that will prevent pass-through owners - particularly service providers such as accountants, doctors, lawyers, etc. from converting their compensation income taxed at higher rates into profits taxed at the lower rate.

Net Operating Losses
The Tax Cuts and Jobs Act modifies current rules for net operating losses (NOLs). Generally, NOLs will be limited to 80 percent of taxable income for losses arising in tax years beginning after December 31, 2017. It also denies the carryback for NOLs in most cases while providing for an indefinite carryforward, subject to the percentage limitation.

These are just highlights of the changes and impact of the Tax Cuts and Jobs Act. We can help you with the immediate and long-term impact of the Tax Cuts and Jobs Act on your company. Please call our office for guidance on all of the provisions that directly affect you.

CCH Tax Law Editors, *2017 Tax Legislation, Tax Cuts and Jobs Act,* CCH Incorporated and its affiliates, 2018.

2017 Tax Cuts Act: What it Means For Individuals

The Tax Cuts and Jobs Act makes sweeping changes to the U.S. tax code and impacts virtually every taxpayer. Individuals are more impacted by the provisions of the act than any other class of taxpayer. With the reduction in effective tax rates, the elimination of some deductions, exclusions, and credits coupled with the enhancement of other deductions and credits, individual taxpayers are going to have to navigate a different maze in making decisions to maximize their tax benefits and minimize their tax liability.

The major goal of tax reform is to simplify tax filing. Provisions of the 2017 Tax Cuts and Jobs Act affecting all individuals is the elimination of the deduction for personal exemptions and the near doubling of the standard deduction. The higher standard deduction that replaces the personal exemption, will cut, by more than half, those taxpayers who would otherwise do better by itemizing deductions. Of course, that group will realize less of a net tax benefit than those taxpayers who do not now itemize. Supporters argue that, in addition to simplification, it effectively creates a more broadly applicable "zero tax bracket" for taxpayers earning less than the

2017 Tax Cuts Act: What it Means for Individuals continued on page 3

2017 Tax Cuts Act: What it Means for Individuals continued from page 2

standard deduction amount.

The loss of many itemized deductions will channel an even greater number of taxpayers to the standard deduction. There are new limits on mortgage debt for purposes of the mortgage interest deduction. Annual itemized deductions for all state and local taxes, including property taxes, is capped at $10,000. The threshold for medical expense deductions is lowered to 7.5 percent of adjusted gross income (AGI) for tax years 2017 and 2018 and casualty losses will only be allowed for losses in federally declared disaster areas. For a large number of taxpayers, their total itemized deductions will no longer exceed the standard deduction.

An enhanced child and family tax credit will make up some of the difference for certain families. As a credit, in contrast to a deduction, the enhanced child credit has been highlighted as one of the provisions that will lower overall tax liability for middle-class families.

These are just highlights of the changes and impact of the Tax Cuts and Jobs Act. There is much more to discuss than can be covered in this newsletter, including changes to the education benefits, alternative minimum tax, and the individual mandate, to name a few.

Tax reform is further complicated because many of the changes are temporary, generally ending after 2025. Therefore, a comprehensive tax plan must be flexible and anticipate either expiration of these changes or possible extenders in years to come.

We are focused on the immediate and long-term impact of the Tax Cuts and Jobs Act on your situation. Please call our office for guidance on all of the provisions that directly affect you.

CCH Tax Law Editors, *2017 Tax Legislation, Tax Cuts and Jobs Act*, CCH Incorporated and its affiliates, 2018

A Closer Look at Itemized Deductions

By Shannon McElroy
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The Tax Cuts and Jobs Act (TCJA) was passed by Congress on December 22, 2017. This new law has certainly created a buzz and a bit of confusion. It has left many taxpayers wondering what this means for their personal tax return in the upcoming year. One of the areas the law scrutinized is itemized deductions.

Almost one third of all personal taxpayers are currently able to itemize deductions on their tax return. Taxpayers have been able to reduce their taxable income by deducting a variety of personal expenses. In the past, these deductions have included mortgage interest, state and local taxes, property taxes, and certain miscellaneous expenses. The new law still leaves the option to itemize intact, but there have been some limitations put into place.

One of the largest changes is the increase of the standard deduction. In 2017, single filers were able to deduct $6,350 from their taxable income. Married couples filing jointly were able to deduct $12,700. If an individual was able to itemize their personal expenses beyond these standard deductions, they could decrease their tax burden even further. The TCJA has raised these thresholds. Each individual filer is now able to claim a standard deduction of $12,000 ($24,000 if filing a joint return). For many taxpayers, this new increase may be great news. This may mean there is no need to worry about itemizing deductions, if they do not anticipate being above this ceiling.

For some taxpayers, this may still be less than what they have typically claimed in itemized deductions on their return. In this case, taxpayers still have the ability to itemize expenses, but should take note that there have been new restrictions set in place. The following outlines the largest changes made to filers claiming certain deductions.

- State and Local Tax Deductions: Taxpayers can deduct expenses related to state and local taxes, sales tax, and property tax. However, under the new TCJA, the combined deduction of all of these taxes cannot exceed $10,000. For those with high state or property tax, it may no longer make sense to itemize these deductions on their return.
- Mortgage Interest and Home Equity Loans: Taxpayers can still choose to deduct mortgage interest on their tax return. However, the deduction is now limited to interest on the first $750,000 of debt. In previous years, taxpayers have also been able to deduct interest on home equity loans. Under the TCJA, this deduction has now been removed.
- Miscellaneous Itemized Deductions: In 2017, taxpayers were able to itemize additional miscellaneous deductions that exceeded 2% of their adjusted gross income. The deductions included things such as tax preparation fees, investment fees, safe deposit box rental, and unreimbursed employee expenses. The TCJA has now eliminated the miscellaneous deductions completely. This means that these deductions are no longer allowed under any threshold. For most, it may have been difficult to reach the 2% floor anyway. However, those with significant unreimbursed employee expenses may notice a significant difference on their itemized deductions.
- Medical Expenses: In prior years, taxpayers that had unreimbursed medical expenses in excess of 10% of their adjusted gross income were able to claim a deduction. The TCJA has now decreased the floor to 7.5%. This means, if a taxpayer has significant medical expenses throughout the tax year, the deduction could be greater for the upcoming season.
- Charitable Contributions: Charitable contributions are a very popular deduction and they are here to stay. The TCJA has actually increased the amount that any individual is able to contribute in one year. The previous deduction allowed 50% of adjusted gross income. This has now been increased to 60%. This may be great news to taxpayers that are missing out in other areas due to the TCJA changes.

Of course there are additional changes that we can expect not only on the Schedule A for itemizing expenses, but for the entire return as well. If you believe any of these changes may affect your tax burden at the end of the year, we encourage you to schedule an appointment with a tax preparer.