Bowles Rice

Recent Tax Law Changes . . .
How they will impact your non-profit

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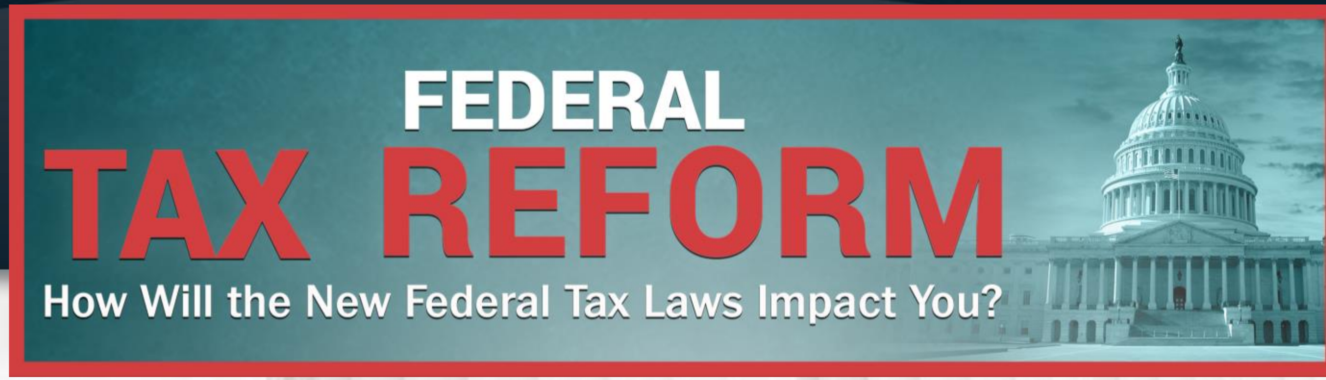


The Tax Cuts and Jobs Act (TCJA) made sweeping changes to Federal tax laws for individuals, businesses and nonprofit organizations, beginning in 2018.

Members of the **Bowles Rice Tax Team** have compiled the following summaries to help you learn more.

Changes to the Estate and Gift Tax Exemption

- Changes will result in fewer estates being subject to the 40% tax, and larger estates owing less tax.

- The TCJA doubles the base gift, estate and GST tax exemption from $5 Mill. to $10 Mill. (indexed for inflation from 2010).

- Charitable share plan. Donor may wish to revisit resulting proportions.

TCJA Impact on Individuals - Summary

- New, generally lower, ordinary income tax rates.
- Capital Gain rates the same but brackets changed.
- Personal exemptions eliminated.
- State and local income and property taxes deduction limited.
- Personal casualty and theft loss deduction no longer available, except for casualty losses incurred in a federally declared disaster.
- Charitable deduction for payment to university in exchange for right to purchase tickets to an athletic event eliminated.

TCJA Impact on Individuals – Summary (cont.)

- Deduction for miscellaneous itemized deductions (to the extent exceeded 2% of AGI) (such as tax prep costs, investment expenses, union dues, and unreimbursed employee expenses) eliminated.
- Increase in Standard Deduction to $12,000 and $24,000.
- Floor for medical expense deduction lowered to 7.5% of AGI.
- New Qualified Business Income Deduction
- Phase-out of itemized deductions for high-income eliminated.
- 50% of AGI limitation for cash contributions to charities increased to 60%

Individuals' Itemized Deductions of Non-Business Taxes

- Prior to the TCJA, taxpayers could claim various state, local and foreign real and personal property taxes and income/profits taxes as itemized deductions, even if they were not business related.

- Taxpayers could elect to deduct state and local general sales taxes in lieu of the itemized deduction for state and local income taxes.

- The TCJA limits deductions for state and local taxes paid by individual taxpayers to $10,000.

- Limit does not apply to taxes are paid or accrued in carrying on a trade or business or in an activity engaged in for the production of income

Changes to Deductions for Interest on Your Home Mortgage

- Limit on qualifying acquisition debt (including substantial improvement debt) on principal residence or second home is reduced from $1 Mill. to $750,000.

- Reduced limit does not apply to refinanced pre-2018 qualifying acquisition debt.

- Deduction for interest on home equity debt eliminated. This applies regardless of when the home equity debt was incurred.

Limitation on Total Itemized Deductions

- Old law
  - Phase-out began at AGI levels of
    - $261,500 for singles
    - $313,800 for married filing jointly
    - otherwise allowable amount of itemized deductions reduced by 3% of the amount by which AGI exceeded the threshold
    - total reduction couldn't be greater than 80% of all itemized deductions

- New law
  - No phase-out

Qualified Business Income (QBI) Deduction

- A significant new tax deduction – equal to 20% of "qualified business income (QBI)" from a partnership (incl. LLC), S corp or sole proprietorship. IRC §199A
- Business must be conducted within the U.S. to qualify.
- Investment-related items (such as e.g., capital gains or losses, dividends, and interest income) are NOT included.
- Does not apply to wages or salary of an employee (even if also a shareholder), or guaranteed payment to a partner.
- The deduction is taken "below the line."
- Not directly affected by whether you itemize or take standard deduction.

Qualified Business Income (QBI) Deduction (cont.)

- Phase out and limitations
  - Service Businesses – incl. health, law, accounting, financial
    - ratable reduction or elimination of deduction
    - taxable income above $157,500 ($315,000 for joint filers) to
    - taxable income above $207,500 ($415,000 for joint filers)
  - All Other Businesses
    - taxable income above $207,500 ($415,000 for joint filers)
    - Limit on amount of deduction to greater of:

      50% of allocable share of W-2 wages paid by business, or

      Sum of 25% of such wages plus 2.5% of the unadjusted basis of tangible depreciable property used in the business (including real estate).

Double-Up Strategy for Individuals

- Goal – To maximize federal tax savings over a two year time frame.
  - Strategy – Use increased standard deduction in alternating years and use itemize deductions in other years
  - Method – Bunch, as much as possible, into the same year the following:
    - state and local taxes
    - mortgage interest
    - medical and dental costs
    - charitable contributions

Double-Up Strategy for Individuals

- New laws make old strategy more beneficial
  - Use higher standard deduction
  - Take advantage of no phase-out of amount of total itemized deductions
  - Take advantage of increased AGI limitation]
  - Reduce effect of elimination of misc. itemized deductions
  - Reduce effect of limitation of state and local tax deduction cap
  - Reduce effect of elimination of HELOC interest deduction
  - Reduce effect of phase-out of new QBI deduction

Double-Up Strategy for Individuals

- Implementation in context of annual giving
  - Will charities be flexible?
    - Alternating year gifts count for two years
  - Are donor-advised funds a solution?
    - DAF should not make distribution that provides benefit to donor of more than insubstantial goods and services
      - not more than the lesser of (1) 2% of the amount of the distribution, or (2) a specified dollar amount that is adjusted annually for inflation, now about $110.

TCJA Impact on Business - Summary

- Corporate tax rates reduced
- Charitable contribution deduction of up to 10% of taxable income unchanged
- NOLs arising after 2017 can only be carried forward, not back, and are limited to 80% of taxable income. Two-year carryback and unlimited carry forward allowed for certain farming losses.
- Deduction for business-related entertainment expenses eliminated

New Strategy for Businesses

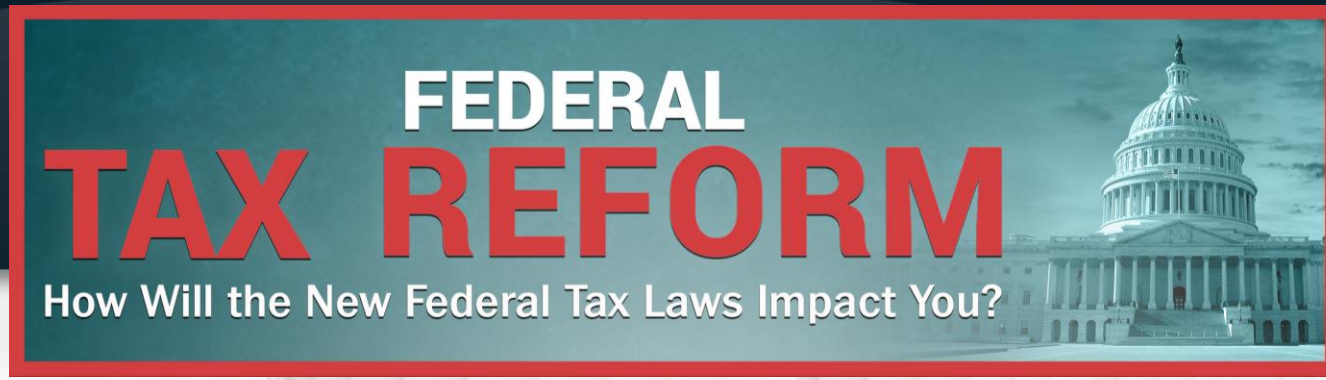
- Charitable deduction can further decrease tax liability since NOLs carried forward will not eliminate all of tax liability
- Convert entertainment expense to charitable contribution

529 Accounts Used for Elementary or Secondary School Tuition

- A 529 plan distribution is tax-free if it is used to pay “qualified higher education expenses” of the beneficiary (student).
- Before the TCJA, tuition for elementary or secondary schools wasn't a “qualified higher education expense.”
- The TCJA provides that qualified higher education expenses now include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.
- $10,000 limit on amount of tax-free distribution from a 529 plan for these newly qualified expenses.

Impacts on Tax-Exempt Organizations

- 21% excise tax on more than $1 Mill. of compensation paid to an employee of an exempt organization.
- 1.4% excise tax on net investment income of private college with $500,000 or more of endowed assets per student.
- Exempt organization's UBTI computed separately for separate businesses.
- Exempt organization's UBTI to include disallowed fringe benefit costs.



For more information, visit:

www.bowlesrice.com/tcja.html

Thank You!