

# Tax Law CHANGES



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With the recent tax law changes come opportunities and challenges. Here is a brief analysis as to how this would impact your 2017 planning and insights into 2018 from our financial team at Thomas, Wirig, Doll. There are sure to be more updates soon, and we'll keep you informed as they become available.

## For Businesses -

- Corporate tax rates drop from 35% to 21%. This only applies to C Corps. Before you set up a C Corp remember that this is only for income retained inside the corp. To get the money out to you personally, you would experience a double tax - not a good strategy.
- Bonus Depreciation allows all businesses to deduct 100% of "eligible property" in the current year. This section also applies to the purchase of used items as well.
- Section 179 also allows for immediate expensing of certain property up to \$1m. The definition of eligible property includes on non-residential real estate items such as roofs, HVAC, fire alarms and security systems.
- "Luxury" autos have a much improved depreciation schedule. Wait until 2018 to buy your next business auto.
- Section 199, used by many dentists as an additional tax deduction, was repealed.

- Entertainment expenses are being disallowed starting in 2018. Meals are still deductible at 50% of cost.
- Net operating losses generated in 2018 and beyond cannot be carried back - just carried forward. And when it is carried forward, it can only be used to offset 80% of taxable income.

### For Individuals -

- The top tax bracket falls to 37% and starts at taxable income of \$600,000.
- The standard deduction goes to \$24,000 for couples and \$12,000 for individuals. This change may provide some opportunities for employing children that you are supporting. Personal exemptions are eliminated.
- Only interest on mortgages of \$750,000 or below are deductible - all existing loans are grandfathered. Interest on home equity loans are only deductible if the proceeds are used to improve the primary residence. And when added to the underlying mortgage cannot exceed \$750,000.
- These limits do not apply to rental property.
- Pass through entities are getting the majority of the press coverage. Simply

stated, 20% of pass through income becomes a tax deduction. This includes income from an S Corp, a sole proprietor, publicly traded partnership, REIT, and partnership/LLC. Details are still forthcoming.

- There are limitations for S Corp shareholders - the shareholder must receive reasonable compensation for services. Example: Dr. A has S Corp income of \$500,000 prior to her salary. She must take "reasonable compensation (not strictly defined)" of \$250,000 - which is what she deems to be reasonable. The balance of \$250,000 is eligible for the lower taxes. Caveat - this benefit phases out for those whose taxable income exceeds \$315,000 (joint return).
- The Child Tax Credit was raised to \$2,000 per qualifying child, and \$500 for dependents who are not children (parent, sibling, etc.). Up to \$1400 per child is refundable even if you owe no taxes. The phase out for the credit start at \$400,000 for joint taxpayers which is a big jump from the prior credit.
- 529 plans can now distribute up to \$10,000 per year for elementary or secondary schooling. This is a huge change.
- Only \$10,000 of state taxes and property taxes are

allowed. Consider prepaying the first installment of 2018 property taxes before the end of the year. Even if you are in AMT and get no federal tax benefit you will receive a state tax deduction.

- If you have low itemized deductions - below \$24,000 (and remember only \$10,000 of state and local taxes are allowed), you would be better off paying your 2018 charitable contributions in 2017. Consider using a Charitable Gift Fund to avoid the scramble of figuring out to whom to give. The CGF allows you to take the deduction when you make the deposit, and later on you can disperse funds to the ultimate charity of your choice.
- Education tax credits are still available in 2018.
- All miscellaneous itemized deductions subject to the 2% of AGI threshold are repealed. This would include tax prep fees, investment management fees, and unreimbursed employee business expenses. Moving expenses are also disallowed.
- Medical expenses have a lower threshold for deductibility - it is now 7.5% vs 10% currently. This could create a higher deduction for large medical expenses not covered by insurance such a home health care.

- Alimony is not deductible to the payer and not included in taxable income to the recipient.
- Estate and gift tax exemptions are doubled to \$22.4m for couples and half of that for individuals. Who knows how long this will last - consider taking advantage of this provision in case of future repeal or lowering of the exemption.
- The individual mandate for health insurance coverage is repealed.
- The AMT exemption increases so fewer will pay it.

### Planning Tips -

Here is a summary of action items to consider taking before December 31, 2017.

- If possible, defer collecting income until next year
- Prepay expenses in 2017
- Pay your 2017 Q4 state tax estimate and 2017 property taxes before the end of the year
- Accelerate charitable contributions in 2017
- Pay for business entertainment expenses in 2017

Under the Tax Cuts & Jobs Act (TCJA) of 2017, the deduction for State and Local Taxes (SALT) on your federal tax return is limited to \$10,000 starting in 2018. If you are making a mad dash to your local tax collector's office you might want to re-think your plan. Dentists attempting to pre-pay their state income or property taxes may find themselves dealing with long lines or heavy website traffic similar to that experienced during their last-minute Christmas shopping.

### Alternative Minimum Tax (AMT) – Or, pouring SALT into a wound.

Before rushing to pre-pay your SALT taxes check with your friendly Dental CPA to find out if you are in the AMT. If you are, the deduction for those taxes on your federal tax return is lost. While the regular tax system allows for the deductions and lowers your regular income tax, AMT is triggered by SALT taxes. So, for every dollar your regular income tax goes down, your Alternative Minimum Tax goes up. You lose the deductions. It's like pouring SALT into a wound. Very painful. If you are not in the AMT, pre-paying SALT's by December 31st

will help lower your 2017 tax bill. But beware! A deduction for any pre-paid tax will be disallowed if that tax has not already been assessed. In other words, don't guess at and try to pre-pay any 2018 taxes.

For most doctors, the new tax law should provide some relief in spite of the fact that the deduction for SALT tax is limited to \$10,000. The tax brackets are all ratcheted down and the threshold for AMT is higher meaning fewer people will find themselves subject to it.

There will be much more coming out in the coming weeks as Dental CPA's take advantage of time in January (our eye of the storm) to study the new tax law and attend continuing education classes. Yikes! I better register before they are all filled up with all those pesky Non-Dental CPA's!

**There you go - just the highlights that impact the vast majority of our clients. Stay tuned for more tidbits as they become available.**



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Haden has been a member of the affiliated Thomas Wirig Doll firms since 1998, providing wealth management, accounting and tax services to successful practitioners. Haden came to the firm following a lengthy career managing, consulting and providing accounting services to dental practices ranging from start-ups, to acquisitions to large group settings. He has regularly lectured and provided seminars on tax, financial planning, practice management and practice evaluations at the University of California, San Francisco; the University of the Pacific Dugoni School of Dentistry; and various dental societies. In addition to his CPA/PFS credentials, Haden also is a licensed real estate broker. He holds a bachelor's in Economics, University of San Francisco, accounting and taxation at Golden Gate University. Haden enjoys living in Lafayette, and pursuing his personal interests in flying, scuba diving and swimming.