Abiel Acosta, CFP® Acosta Wealth Management

300 E. Esplanade Drive
Suite 300
Oxnard, CA
93036

Telephone
805-973-5909

Fax
805-973-5918

Email
Abiel.Acosta@LFG.com

Website
www.AcostaWealth.com

NEW PASS-THROUGH BUSINESS TAX RULES:

THINGS TO CONSIDER

Late last year, the **Tax Cut and Jobs Act (TCJA)** was signed into law. The process was more hurried than the path for similar comprehensive federal tax changes in the past. As a result, the TCJA left many unanswered questions.

The TCJA made major changes to federal income taxes. The tax rules were amended for both individuals and businesses. For individuals, some of the biggest changes were:

- The rates for most **tax brackets were lowered**,
- The **standard deduction was increased** substantially,
- The **personal exemption was eliminated** and
- The rules for certain itemized deductions were changed.

Most individuals, particularly those with high income, will see a **reduction in 2018 federal income taxes** compared to what they paid in 2017.

Business owners will also see changes to their tax structure beginning in 2018. For those who own C corporations, for example, the **top business tax rate has dropped from 35 percent to 21 percent.**

For owners of business taxed as pass-through entities (proprietors, partners and S corporation shareholders), the **TCJA creates a new 20 percent tax deduction** against business income. However, the deduction is not available to every owner of a pass-through business, and not every bit of income is eligible for the deduction.

To help clarify some of the issues surrounding the pass-through deduction, the **IRS recently published proposed regulations**. Here are a few highlights:

- The IRS clarified how to calculate the **amount of business income eligible** for the pass-through deduction. The rules are more favorable for proprietorships and partnerships than they are for similar S corporations.

- The Service specifically defined the types of service businesses where, if the **owner is high income, the deduction will no longer be available.** These service businesses include those focusing on the practice of law, health care and investment banking.

- The proposed regulations make it **difficult for business owners to separate certain kinds of activities** into separate business entities in an attempt to maximize the pass-through deduction.

The Service has requested comments on the proposed regulations within 45 days of publication. It has set a public hearing on the regulations and comments for October 16. It seems uncertain whether the IRS will publish final Section 199A regulations before the end of 2018—the year in which they go into effect. For those who are closely-held business owners, the **time to implement tax planning is now.**

Do you have questions about the new tax law? Do you wonder if your business qualifies for the new pass-through tax deduction? Should you be considering changes now that will allow you to keep more money later? I'd be glad to visit with you and your tax professional to answer any questions.

AS ALWAYS, PLEASE FEEL FREE TO CALL TO DISCUSS THESE OR OTHER FINANCIAL SECURITY ISSUES OF CONCERN.

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