Just the Tax Facts Ma'am!
By: Jacqueline N. Davie, Lincoln Financial Advisors Agribusiness Services

Love or hate the current administration there was in fact a tax bill signed by Christmas 2017 that has the potential to have a great impact on individuals and businesses. In the following article I'll discuss a few of the provisions and steps that can be taken to take advantage of the new regulations.

Prior to the election, then candidate Trump proposed a tax plan that would reduce the current seven income tax brackets to three. The Tax Cut and Jobs Act did not reduce the number of brackets but did replace both income thresholds and rates (see chart).

Income Tax Under Previous Law			Income Tax Under Tax Cuts and Jobs Act		
Tax Rate	Taxable Income		Tax Rate	Taxable Income	
	Individual	Married Filing Jointly		Individual	Married Filing Jointly
10%	$0-$9,525	$0-$19,050	10%	$0-$9,525	$0-19,050
15%	$9,526-$38,700	$19,051-$77,400	12%	$9,526-$38,700	$19,051-$77,400
25%	$38,701-$93,700	$77,401-$156,150	22%	$38,701-$82,500	$77,401-$165,000
28%	$93,701-$195,450	$156,151-$237,950	24%	$82,501-$157,500	$165,001-$315,000
33%	$195,451-$424,950	$237,951-$424,950	32%	$157,501-$200,000	$315,001-$400,000
35%	$424,951-$426,700	$424,951-$480,050	35%	$200,001-$500,000	$400,001-$600,000
39.6%	$426,701+	$480,051+	37%	$500,000+	$600,000+

Therefore, a married couple filing jointly with taxable income of $150,000, sees there tax bracket reduced from 28% to 24%. Many individuals may want to take advantage of the lower rates by taking income now that may otherwise have been deferred to take advantage of the lower rates. These tax brackets are due to revert back to 2017 rates on January 1, 2026.

As a general rule under previous regulations, taxpayers could take the standard deduction or itemize exemptions as well as receive a personal exemption for each family member. The new law has increased standard deduction amounts, reduces or eliminates itemized deductions and eliminates the personal exemption. The likely result will be simplification of tax returns as many taxpayers will opt for the standard deduction rather than itemize. In addition, this may negatively affect families with multiple children as seen in the following chart.

Married Filing Jointly with 3 Children			
Under Current Law		Under Tax Cuts and Jobs Act	
Standard Deductions	$12,700	Standard Deductions	$24,000
Personal Exemptions	$20,250	Personal Exemptions	$0
Total Deductions:	$32,950	Total Deductions:	$24,000

Corporate taxes are changing too. Corporate tax rates have changed from a graduated rate ranging from 15% to 35% to a flat tax rate of 21%. This does not include pass-through entities such as Sole Proprietorships, Partnerships, LLCs and S Corporations. The Act adds a new code (sec. 199A) for these entities- Qualified Business Income. The provision is intended to allow pass-through entities to deduct the first 20% of their business income up to a threshold amount of $157,000 ($315,000 if joint return), adjusted for inflation after 2018. The tax payers business income will be subjected to a lower rate while still subjecting a portion to individual tax rates. However, the deduction cannot be taken by those in specified personal service professions whose income is above the threshold amount plus $50,000 ($100,000 if joint). These professions include “health, law, engineering, architecture, accounting, actuarial science, performing arts, **consulting**, athletics, financial services, brokerage services, or **any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees**”. The new law is complex and it may be in the interest of privately-held companies to perform analysis to see if converting to a C corporation would make sense.

Between hurricanes, wildfires and snow storms, we all realize that disasters can and do occur. The Act eliminates the personal casualty loss except for Federally declared disasters. However, the 10% early withdrawal tax from a qualified plan for an individual whose principal residence sustained an economic loss due to a Federally declared disaster capped at $100,000. The distribution would be included in taxable income in the year withdrawn. In the case of personal casualty losses which were incurred on or after January 1, 2016, in a 2016 or 2017 Federally declared disaster area, losses are deductible without regard to whether they exceed 10% of AGI but must be over $500. These losses can be claimed in addition to the standard deduction. One option to be considered under the new regulations is if it is better to secure higher coverage or lower deductibles, or both.

One thing to consider is that the new regulations will sunset on December 31, 2025. In addition, before that time there will be two Presidential elections and both the House and Senate will turnover. The important thing to remember is we don’t know what the future holds but can take advantage of current law by planning. Feel free to reach out to me if you would like to discuss your own personal financial plan.