GLENN BURDETTE

# > 2017 Tax Cuts and Jobs Act


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## Disclaimers

*All information contained herein is based on interpretation of the new tax law and should not be construed as legal, accounting or tax advice. Glenn Burdette is not providing an official opinion on the facts within. Tax law is subject to continual change, sometimes on a retroactive basis. The facts presented are what is known as of the date of this presentation; should those facts subsequently change, the information contained herein may no longer be applicable. Please consult with your tax advisor to obtain specific advice relevant to your needs and situation.*

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# > Agenda

1. Overview
2. Individuals
3. Businesses and Flow-through Entities
4. Questions

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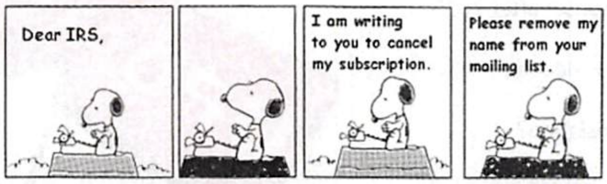
## > Individuals

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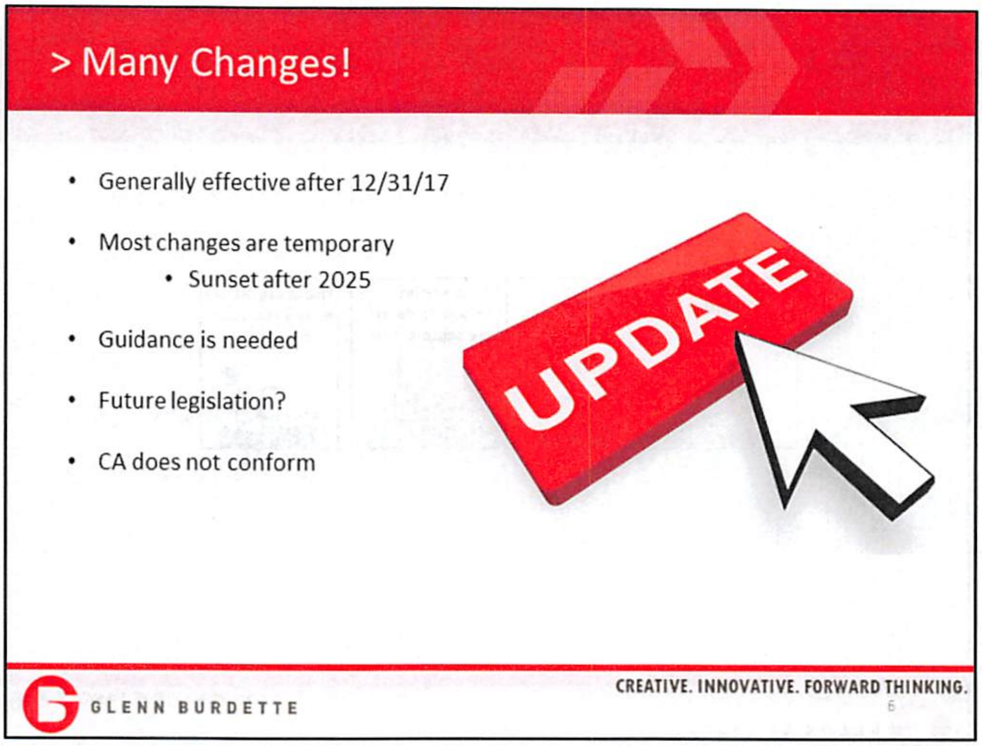


The Tax Cuts & Jobs Act (or its official title of "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018") provides for many changes to individual tax provisions. With a few minor exceptions, the provisions are generally effective starting in 2018 and a majority of the changes are temporary (in order to meet the requirements of the bill under budget reconciliation) and sunset after 2025.

Due to the number of changes and also some new concepts introduced in the law, there is a need for guidance from the IRS, and possibly from Congress in the form of technical corrections, on the application of the law. There are also many questions about which states will conform to any or all of the federal changes.

## > The Basics

- Still seven tax brackets
  - 10%, 12%, 22%, 24%, 32%, 35%, 37%

| Tax Bracket | Single | MFJ | H of H |
|---|---|---|---|
| 10% | $0 - 9,525 | $0 - 19,050 | $0 - 13,600 |
| 12% | 9,526 – 38,700 | $19,051 – 77,400 | $13,601 – 51,800 |
| 22% | 38,701 – 82,500 | 77,401 – 165,000 | 51,801 – 82,500 |
| 24% | 82,501 – 157,500 | 165,001 – 315,000 | 82,501 – 157,500 |
| 32% | 157,501 – 200,000 | 315,501 – 400,000 | 157,501 – 200,000 |
| 35% | 200,001 – 500,000 | 400,001 – 600,000 | 200,001 – 500,000 |
| 37% | Over $500,000 | Over $600,000 | Over $500,000 |

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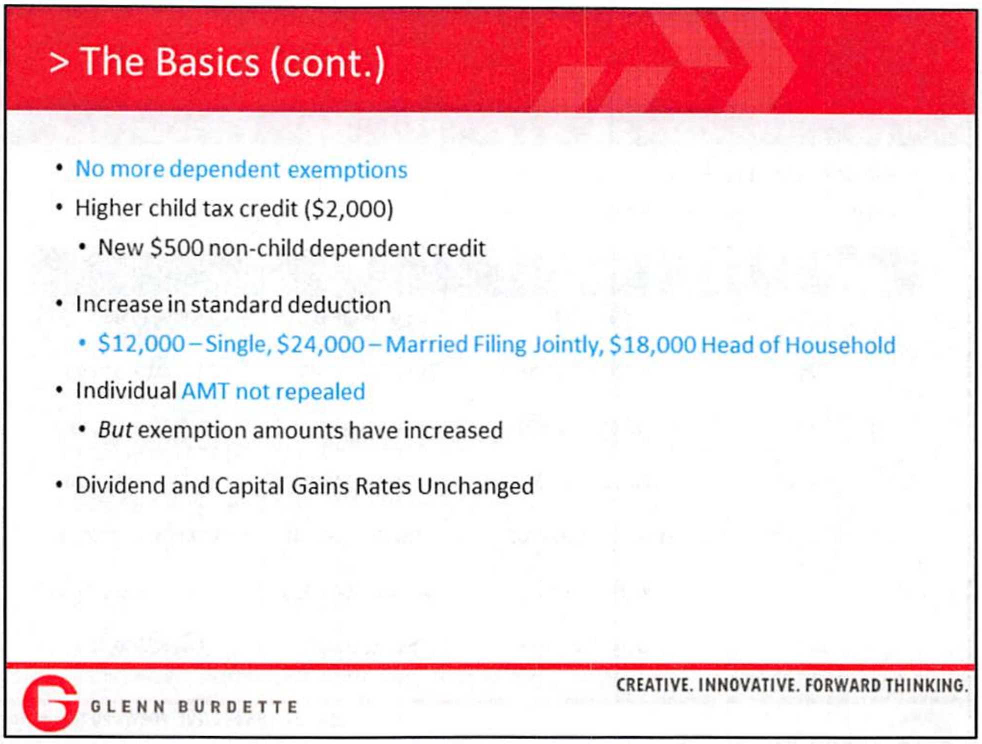
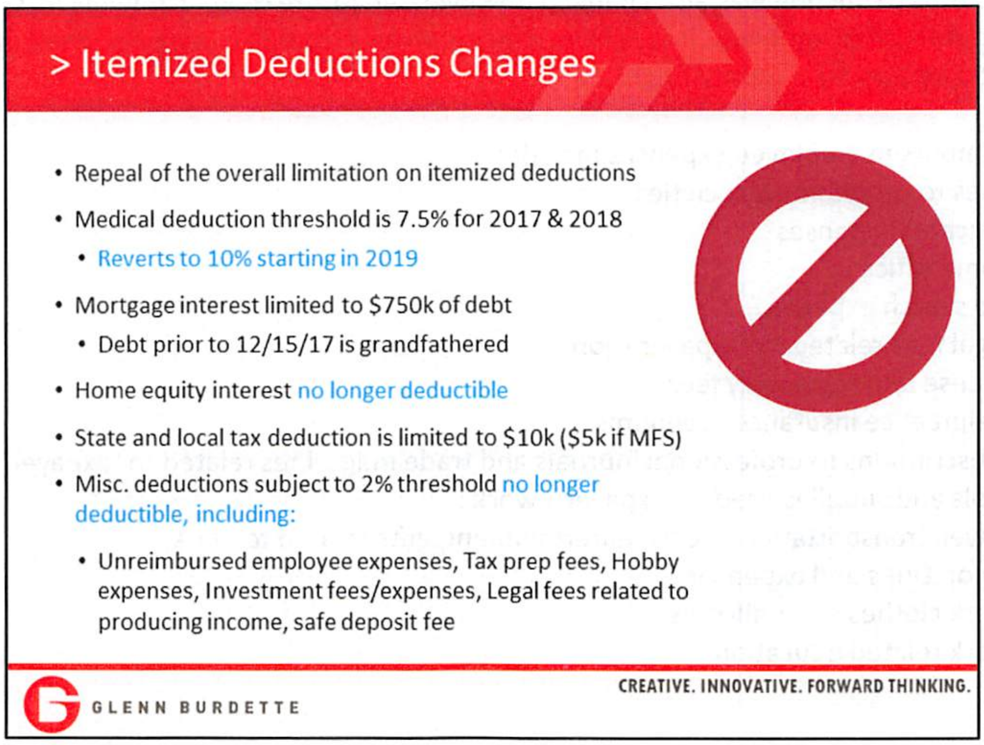
Here is an overall summary of the individual changes:

- Tax brackets: The number of tax brackets did not change. For all income ranges (except noted) the new tax rate is the same or lower with the new law. Note that for MFJ taxable income between $400k and $424,950, the old rate was 33% and the new rate is 35%.
- Big jump are in the 24% bracket, which now goes to $315,000 for MFJ (was $233,350 at the 28% rate), and also the 35% bracket goes from $470,700 up to $600,000 (MFJ) and from $418,000 for Single and HOH to $500,000




Here is an overall summary of the individual changes:

- The standard deductions nearly doubled in amount. For 2018, the amounts are $12,000 for single, $18,000 for head of household, and $24,000 for married couples.
- Personal exemptions are suspended. Many other tax items tied to exemptions so they just suspended them and set them to zero.
- The child tax credit was increased to $2,000 (refundable up to $1,400) and there is also a new $500 credit for dependents that do not meet the child credit requirements, but are able to meet the dependency requirements. The credit is phased out when modified AGI exceeds $400k (MJF) or $200k (all others). The portion of the child tax credit that exceeds regular tax liability may be refundable (same calculation as prior law, except that the refundable portion cannot exceed $1,400 per qualifying child). The $500 credit is nonrefundable.
- Individual AMT was retained. However, the exemption amount and thresholds were increased: AMT exemptions are $109,400 MFJ, $54,700 MFS, and $70,300 for single or HOH and phasedown of exemption is much higher ($1M for MFJ rather than $164,100 for prior law); these are to be adjusted for inflation.
- Income levels are indexed for inflation using a “chained CPI” instead of a CPI.

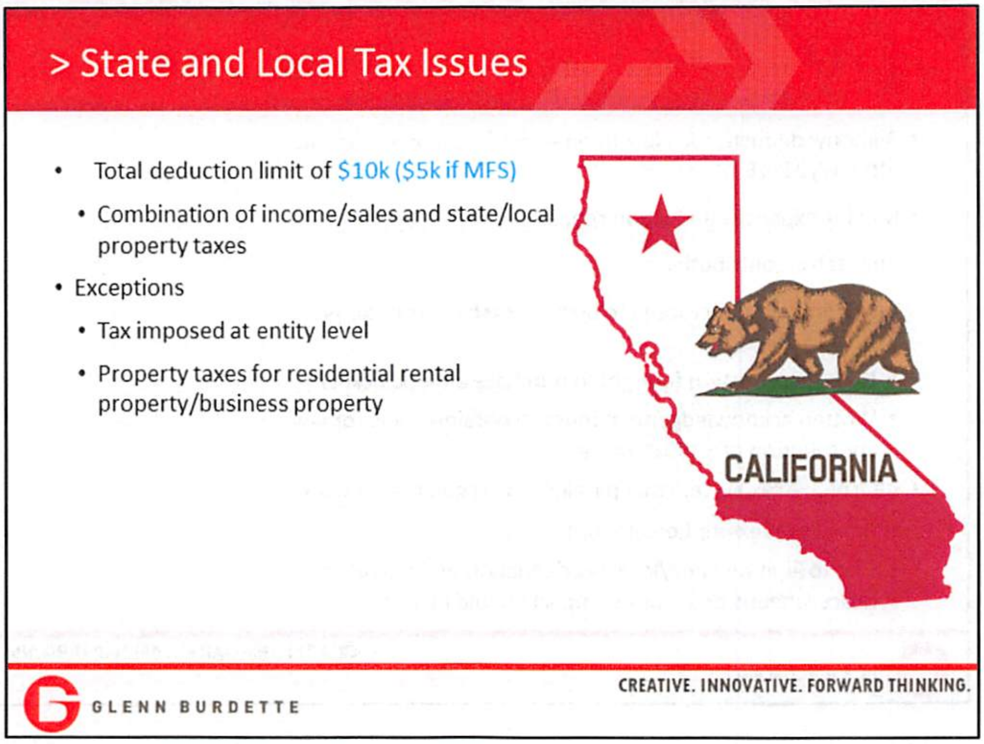



- There are several changes to itemized deductions.
- First of all, the Pease limitation (the overall limit on high income taxpayers' itemized deductions) has been repealed.
- And here is one of the changes that affects the current 2017 return- the medical deduction threshold will be 7.5% for 2017 and 2018 before it returns to 10% in 2019.
- The home mortgage interest deduction was modified to reduce the limit on acquisition indebtedness to $750k (from the prior $1M limit). A taxpayer who entered into a binding contract before 12/15/17 and closes on the property before 4/1/18 is considered to have incurred the debt prior to 12/15 and is therefore subject to the $1M limit. Also note that for refinancing, if amount is equal or less than grandfathered debt, the $1M limit is still in place.
- Home equity debt is not grandfathered however, and the interest is no longer deductible.
- State and local tax (including income tax, real estate tax, and property tax) is now limited to $10k (5k if MFS).
- Also, miscellaneous itemized deductions subject to the 2% AGI threshold are no longer deductible.
- There was no change to investment interest expense.

Here are some examples of miscellaneous deductions which will not longer be deductible.

Miscellaneous deductions that are not subject to the 2% AGI limitation include casualty losses (this deduction was also changed however-see future slide), gambling losses up to the amount of winnings, losses from other activities from K-1, repayments of more than $3,000 under a claim of right).

Unreimbursed employee expenses include:
- Dues to professional societies
- Educator expenses
- Home office
- Job search expense
- Legal fees related to taxpayer's job
- License and regulatory fees
- Malpractice insurance premiums
- Subscriptions to professional journals and trade magazines related to taxpayer's work
- Tools and supplies used in taxpayer's work
- Travel, transportation, meals, entertainment, gifts related to work
- Union Dues and expenses
- Work clothes and uniforms
- Work related education




- The new law limits the aggregate of state/local property tax not paid/accrued in carrying on a trade/business and state/local income tax to $10,000.

- Special rules prevent the deduction in 2017 of prepaid 2018 state and local income taxes. This limit expires after 2025. The IRS also issued guidance related to payment of 2018 real estate taxes stating that the tax needed to be assessed and paid in 2017 in order to be deductible.

- IRS guidance on real estate taxes: https://www.irs.gov/newsroom/irs-advisory-prepaid-real-property-taxes-may-be-deductible-in-2017-if-assessed-and-paid-in-2017

- Conference report for HR1 indicates that prepayment of 2018 state income tax is not deductible in 2017

## > Other Individual Changes to Note

- Casualty losses: only from federally-declared disasters
- Alimony: deduction/inclusion repealed for divorces executed after 12/31/18
- Moving expenses deduction repealed
- Charitable Contributions:
  - AGI limitation increased to 60% for cash contributions (from 50%)
  - No 80% deduction for right to purchase athletic tickets
  - Written acknowledgement must be obtained now for any contribution of $250 or more
- Alternative tax system that parallels the regular federal tax
  - Increase in exemption amount
  - Due to limit on state/local tax deduction and repeal of miscellaneous deductions, impact should be less

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Here are some other individual changes to note:

- A personal casualty loss is deductible (subject to prior law limitations) only if the loss is attributable to a federally declared disaster area (by President).

- Alimony is no longer deductible by payor nor includible by the recipient (for divorces executed after **12/31/18**).

- Moving expense deduction and exclusion is repealed except for members of the Armed Forces (provision expires after 2025)

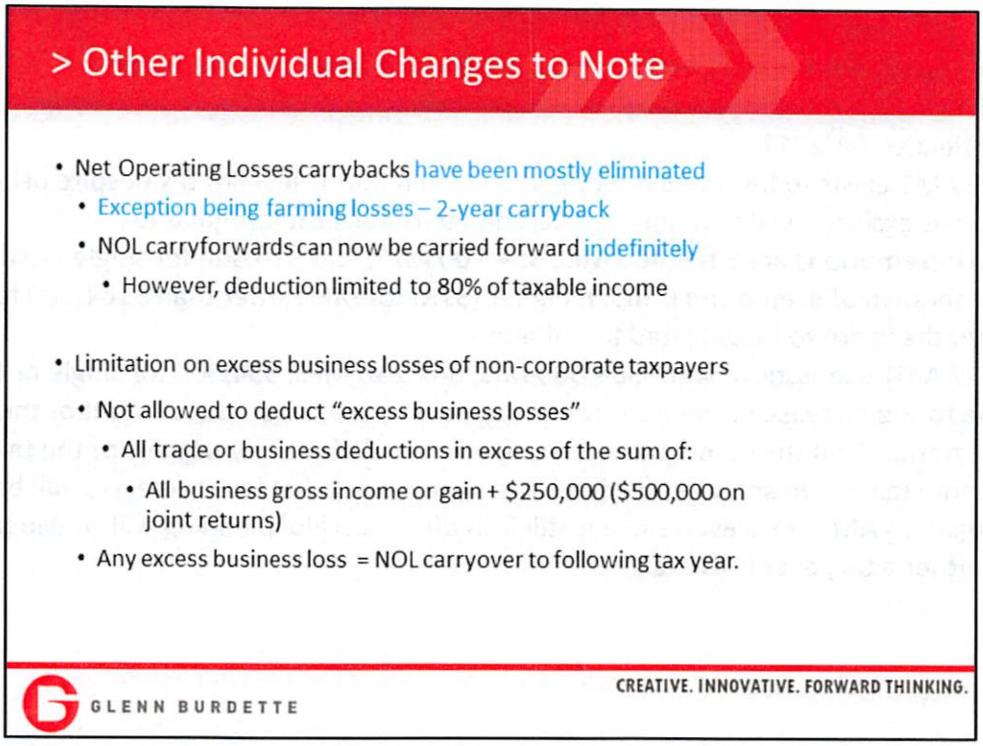
- Kiddie tax is now tied to the trust and estate rates (rather than the parents rates). This provision expires after 2025

- The cash contribution AGI limit has increased from 50% to 60%. This increase is temporary and expires at the end of 2025.

- No charitable deduction is allowed for a payment to a higher education institution in exchange for which the payor receives the right to purchase tickets or seating at an athletic event. This provision is permanent.

- Another change is that the exception to contemporaneous written acknowledgement requirement was repealed, meaning that the written acknowledgement must be obtained now for any contribution of $250 or more). This is effective for 2017.

- The AMT exists to be sure everyone pays a "minimum" level of tax despite using various exclusions, deductions, and credits to reduce their regular tax.
- AMT exemptions are $109,400 MFJ, $54,700 MFS, and $70,300 for single or HOH and phasedown of exemption is much higher ($1M for MFJ rather than $164,100 for prior law); these are to be adjusted for inflation.
- 2017 AMT exemptions were $84,500 MFJ, $42,250 MFS, $54,300 for single or HOH.
- Due to the increase in the exemption, increase in the phase-out amount of the exemption, and the elimination/limiting of several of the key triggers of the tax (state income tax and miscellaneous deductions), it is likely that less taxpayers will be subject to AMT. However, since it still is in effect, careful planning will consider whether a taxpayer is the tax.




Here are some other individual changes to note:

- NOL carrybacks are gone except for farming losses
- NOL carryforwards – indefinite
    - However, deduction limited to lesser of:
        - Aggregate of the NOL carryovers plus carrybacks, or
        - 80% of the taxable income (not including the NOL deduction)

## > Examples – Individual

| | Single Renter | | Single Home Owner | | Married, 2 Kids Renter | | Married, 2 Kids Home Owner | | Married, 2 Kids Home Owner II | | Married, No Kids Home Owner | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 |
| Adjusted Gross Income | 75,000 | 75,000 | 150,000 | 150,000 | 175,000 | 175,000 | 175,000 | 175,000 | 150,000 | 150,000 | 280,000 | 280,000 |
| Personal Exemptions | 4,050 | - | 4,050 | - | 16,200 | - | 16,200 | - | 16,200 | - | 8,100 | - |
| Standard Deduction | 6,350 | 12,000 | | | 12,700 | 24,000 | | | | 24,000 | | |
| Itemized Deduction | | | | | | | | | | | | |
| Mortgage Interest | | | 18,000 | 18,000 | | | 18,000 | 18,000 | 9,000 | 9,000 | 18,000 | 18,000 |
| Property Tax | | | 2,500 | 2,500 | | | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| State Income Tax | | | 9,286 | 9,286 | | | 7,909 | 7,909 | 8,746 | 8,746 | 18,380 | 18,380 |
| State Tax Phase Out | | | | (1,786) | | | | (409) | | (1,246) | | (10,880) |
| Taxable Income | 64,600 | 63,000 | 116,164 | 122,000 | 146,100 | 151,000 | 130,391 | 147,000 | 113,554 | 126,000 | 233,020 | 252,000 |
| Federal Income Tax | 11,895 | 9,800 | 25,508 | 23,570 | 28,003 | 21,099 | 24,075 | 20,219 | 26,116 | 21,099 | 53,291 | 49,329 |
| California Income Tax | 3,824 | 3,824 | 9,286 | 9,286 | 9,027 | 9,027 | 7,909 | 7,909 | 8,746 | 8,746 | 18,380 | 18,380 |
| Total Income Tax | 15,719 | 13,624 | 34,794 | 32,856 | 37,030 | 30,126 | 31,984 | 28,128 | 34,862 | 29,845 | 71,671 | 67,709 |
| Effective Tax Rate | 21.0% | 18.2% | 23.2% | 21.9% | 21.2% | 17.2% | 18.3% | 16.1% | 23.2% | 19.9% | 25.6% | 24.2% |
| Tax Increase (Savings) | | (2,095) | | (1,938) | | (6,904) | | (3,856) | | (5,017) | | (3,962) |

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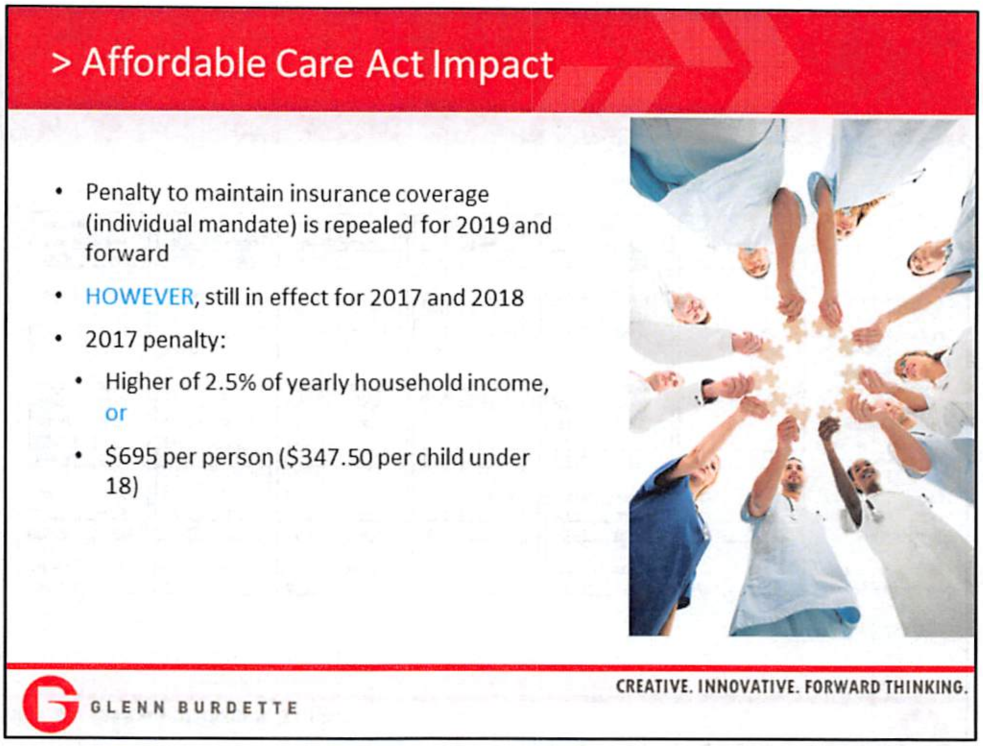
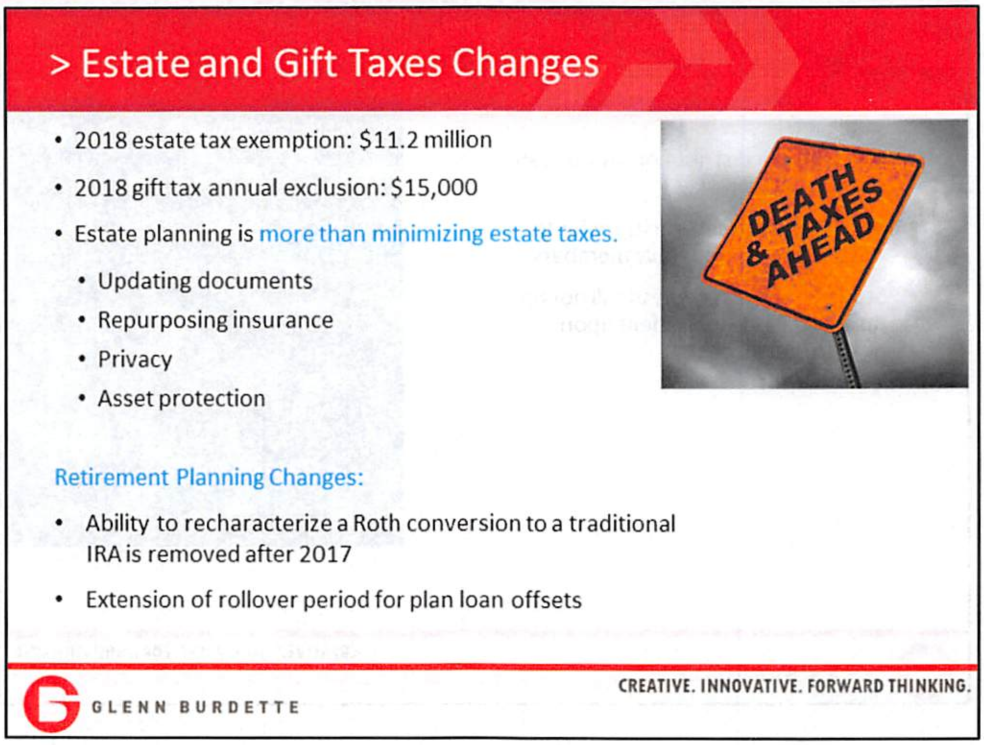
- Here are some examples of how the new tax law looks for different filers 2017 vs. 2018, assuming all factors stayed the same



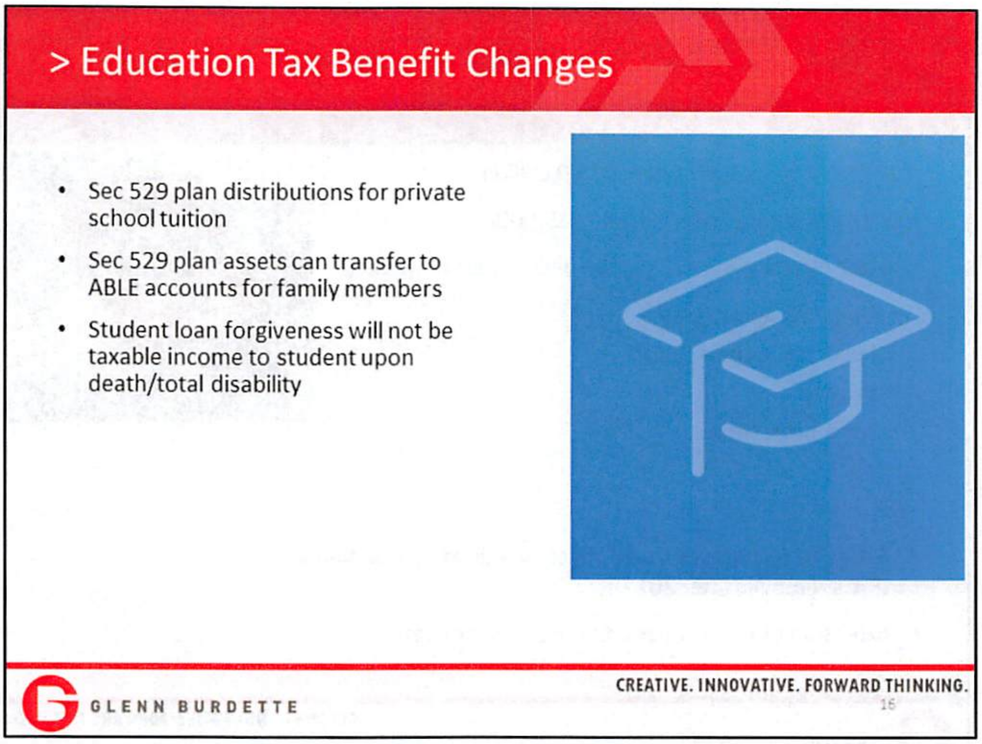

- The individual mandate to maintain insurance coverage was repealed as part of the new tax law, but that doesn't start until 2019.

- So, for 2017 and 2018, the information will still need to be gathered from individuals on their insurance coverage.
- The IRS has stated that for the upcoming filing season, they will not accept electronically filed tax returns where the taxpayer does not address the health coverage requirements of the ACA (meaning did they have coverage, or have an exemption, or whether they will make a shared responsibility payment).




The increased exemption rate further simplifies estate taxes for federal purposes, but that doesn't mean you don't need to do estate planning if your wealth falls below the exemption level. Many states have much lower thresholds and proper planning can alleviate some of the burden.

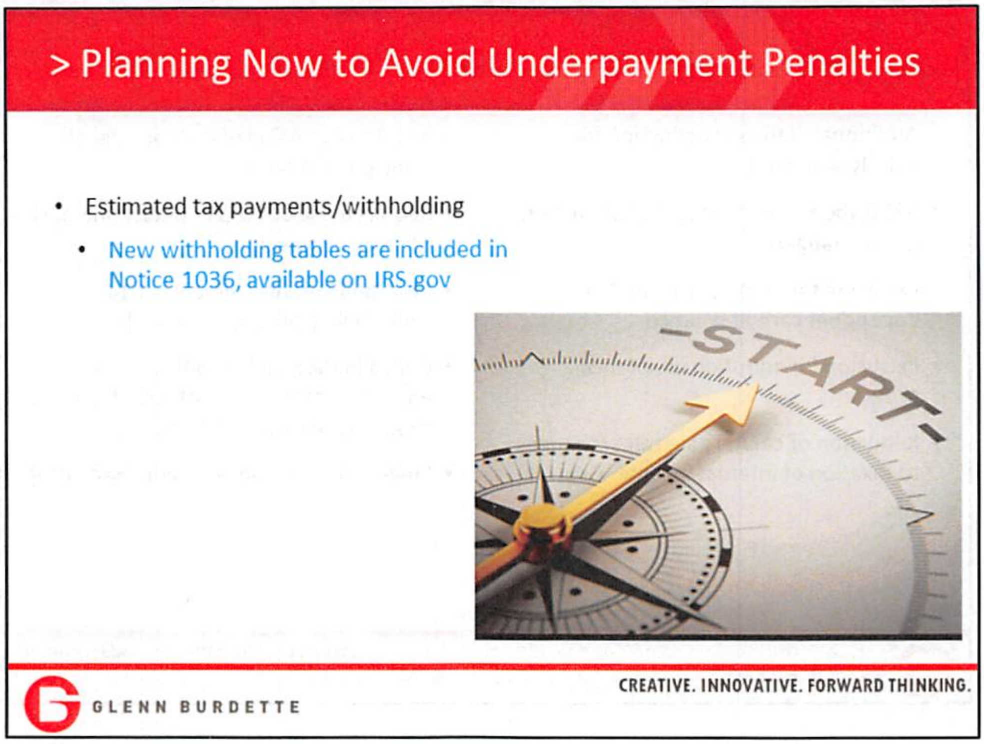
If you've had any significant changes in your family, such as a birth, marriage, divorce or death, it's still important to revisit your estate planning documents to make any necessary changes.



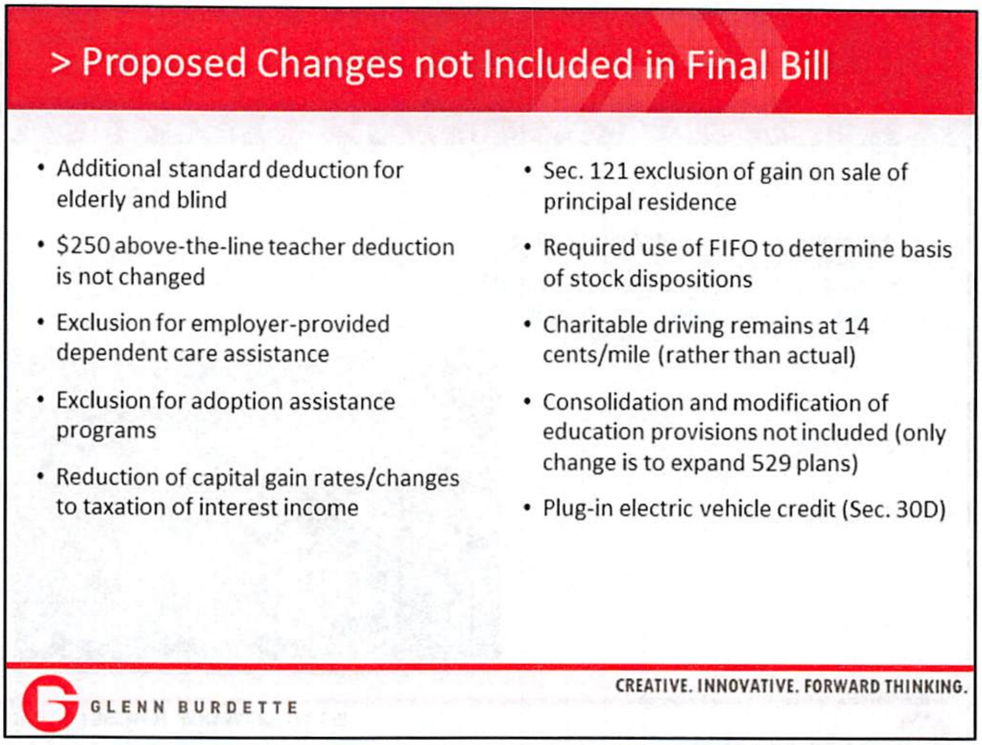

- Under pre-Act law, distributions from a 529 plan could only be used for qualified higher education expenses (or the earnings portion of the withdrawal was taxed and subjection to 10% penalty unless an exception applied). For distributions after 12/31/17, "qualified higher education expenses" include tuition at an elementary or secondary public, private or religious school.

- Unused funds in a Sec 529 plan can be transferred to the ABLE account of a family member.

- For discharges of indebtedness after 12/31/17 (and before 1/1/26), certain student loans that are discharged on account of death or total and permanent disability of the student are excluded from gross income (Sec. 108(f)



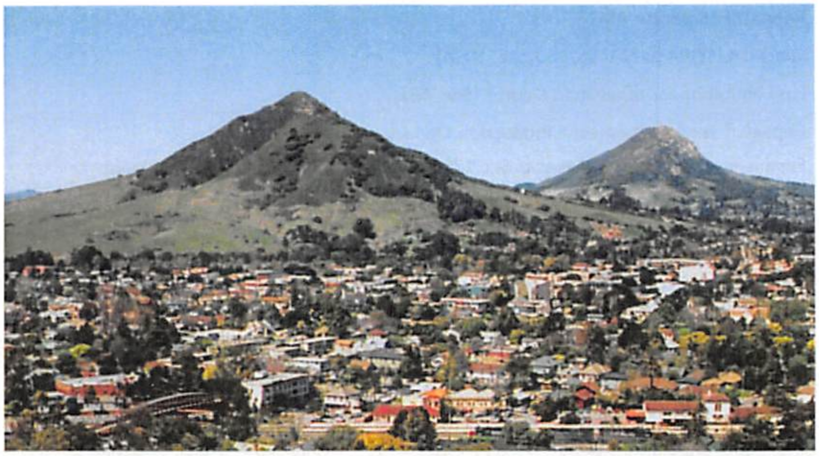

Withholding will be changed based on the new tables for 2018, but it is important to take a look at 2018 tax situation for clients to determine if withholding is appropriate based on other anticipated tax changes (change in itemized deductions, etc).




There is some confusion as there were several versions of the bills about what was included and what was not. Here is a list of the items that were included in some form in the House or Senate version of the bill, but not in the final bill that became law.

- Additional standard deduction for elderly and blind
- $250 above-the-line teacher deduction
- Exclusion for employer-provided dependent care assistance
- Exclusion for adoption assistance programs
- Reduction of capital gain rates/changes to taxation of interest income
- Sec. 121 exclusion of gain on sale of principal residence
- Required use of FIFO to determine basis of stock dispositions
- Charitable driving remains at 14 cents/mile (rather than actual)
- Consolidation and modification of education provisions not included (only change is to expand 529 plans)
- Plug-in electric vehicle credit (Sec. 30D)

## > Business and Flow-Through Entities



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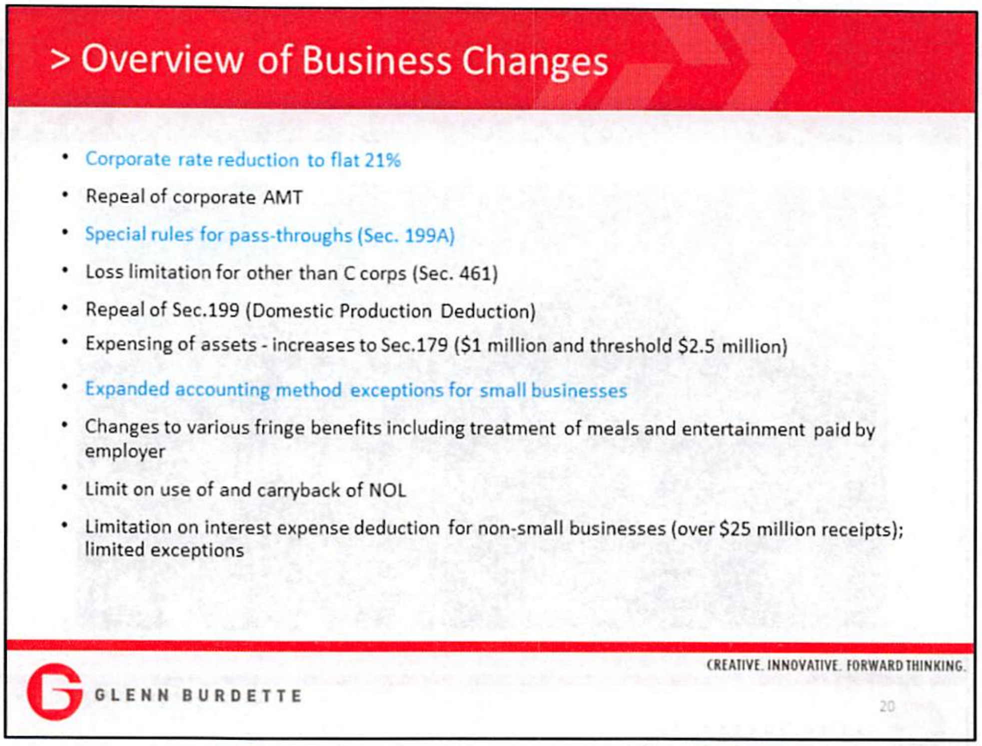
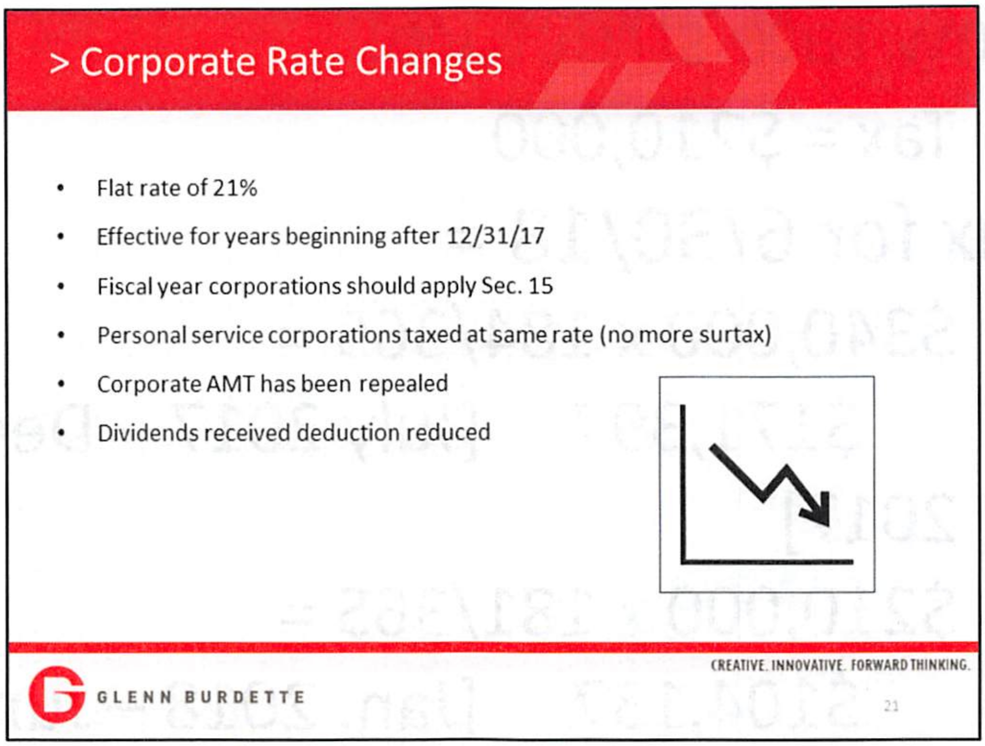
19

- Let's pivot to the changes to tax code for business and flow-through entities.
- Guidance is still needed in many areas
- But there are many areas you need to be aware of and plan accordingly




Here is an overall summary of the changes: We will discuss these in more detail in further slides.

- Corporate rate reduction to flat 21%
- Repeal of corporate AMT
- A new 20% deduction for pass-through income (Sec. 199A)
- Loss limitation for other than C corps (Sec. 461)
- Repeal of Sec.199-domestic production deduction
- Expensing of assets (bonus depreciation provisions plus increases to Sec.179 ($1 million and threshold $2.5 million)
- Expanded accounting method exceptions for small business
- Changes to various fringe benefits including provision of meals and entertainment by employer
- No more carrybacks of NOL and 80% limit on current year use of NOL – previously mentioned
- 30% limitation on interest expense deduction for non-small businesses (over $25 million receipts); limited exceptions
- Corporate shift from worldwide to territorial system




One major change is the reduction of the corporate rate to a flat 21%. This is effective for 2018.

However, for fiscal year returns that begin during 2017, there is an alternate way to calculate the tax.
Code Section 15 provides information on how to calculate. The effect is really a blended rate.

# Example: For year ending 6/30/18, taxable income is $1,000,000.

# Old rate structure:

Tax = $340,000

New rate structure:

Tax = $210,000

Tax for 6/30/18 =

$340,000 x 184/365 =

$171,397 [July 2017 – Dec. 2017]

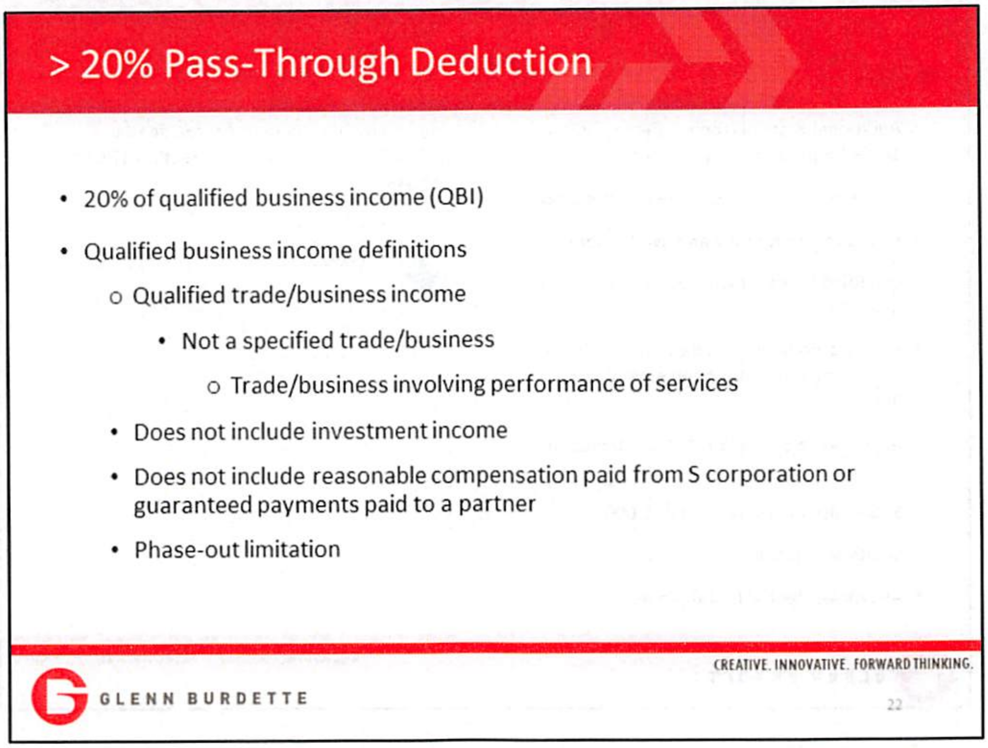
$210,000 x 181/365 =

$104,137 [Jan. 2018 – June 2018]

TOTAL **$275,534**

**If a business has AMT credits, they will be refundable from 2018 – 2020 to equal 50% of the excess of the credit for the year over the amount of the credit allowable for the year against regular tax liability. In 2021, the limit will be 100%, so all remaining credits will be allowed.**

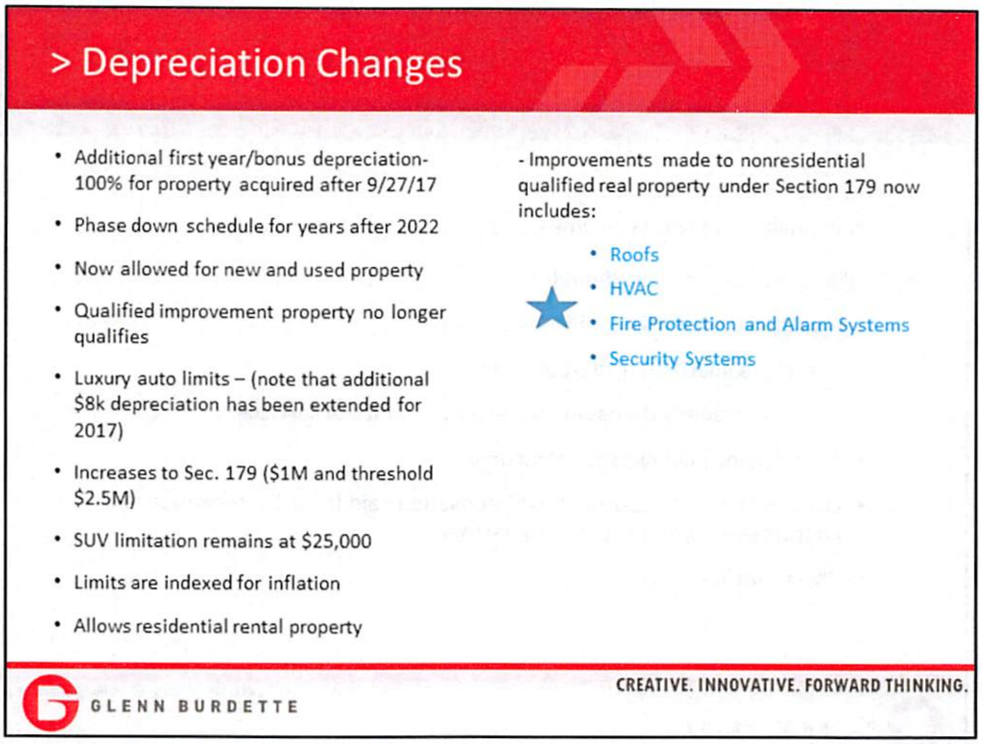
**Dividend received deduction was changed to reflect the new rate. : The 70% DRD is reduced to 50% and the 80% DRD is reduced to 65%.**




- This new provision provides a 20% deduction on qualified business income. This deduction is taken on the individuals' tax return from taxable income (not an above the line deduction therefore does not decrease SE tax) and can be result from the flow through of income from a sole proprietor, SMLLC, partnership, or S Corporation.

- The calculation is very complex and can be limited based on taxable income as well as the type of trade/business income that is applicable.

- A limitation based on W-2 wages and capital is phased in when the **taxpayer's taxable income exceeds a $157,500 ($315,000 MFJ) threshold amount.** A disallowance of the deduction with respect to specified service trades or businesses is **also phased in** when taxable income exceeds the threshold amount. These limitations are phased-in if taxable income exceeds the threshold amount but is **below $207,500 ($415,000 MFJ)** (the phase-in range).
- There are a great deal of questions on how this deduction will be applied and more guidance is needed.




- The new law increases the bonus depreciation to 100% for property acquired and placed in service after 9/27/17.
- There is a new phase-down schedule for years after 2022 (80% 2023; 60% 2024; 40% 2025; 20% 2026; 0 2027 and forward).
- For the 2017 year, if property was purchased and placed in service after 9/27, there is an election to apply the 50% bonus rather than 100%.
- Another changes is that the requirement that the original use of qualified property must begin with the taxpayer has been removed. So, both new and used property is available for bonus depreciation.
- The new law keeps the increased $8k depreciation for luxury auto placed in service in 2018 (eliminating the phase down for autos placed in service after 2017).
- The depreciation limits for luxury auto starting in 2018 allow $10k for year of service; $16k for 2nd year; $9,600 for 3rd year; and $5,760 for 4th and later years). These limits will be indexed for inflation.
- Sec. 179 has been increased to $1M with a phase out threshold of $2.5M. The $25,000 sport utility limit was maintained. The new law also expands the definition of Sec. 179 property to include personal property connected with lodging for residential rental property. In addition, improvement to nonresidential real property was expanded to include roofs, HVAC, fire/alarm systems and security systems.

## > Partnership Change

- Repeal of technical termination provisions
    - Greater than 50% ownership change (12 mos.)
        - No longer an automatic termination
        - No need to "close the books"
        - No short year returns
        - Effective for years after 12/31/17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24

- Effective for years beginning after 12/31/17, a P/S will not automatically terminate if there is a sale/exchange of more than 50% interest in the entity.
- This eliminates the need for closing the books to complete 2 tax returns, restarting depreciation lives, and maintaining P/S elections.
- The termination will only happen if the business is truly closing or if the ownership changes to a single member (therefore no longer a P/S).

# > Accounting Methods for Small Taxpayers

- Expanded availability of cash method
- Inventory tracking requirements
- Sec. 263A threshold raised
- Expanded availability of completed contract method

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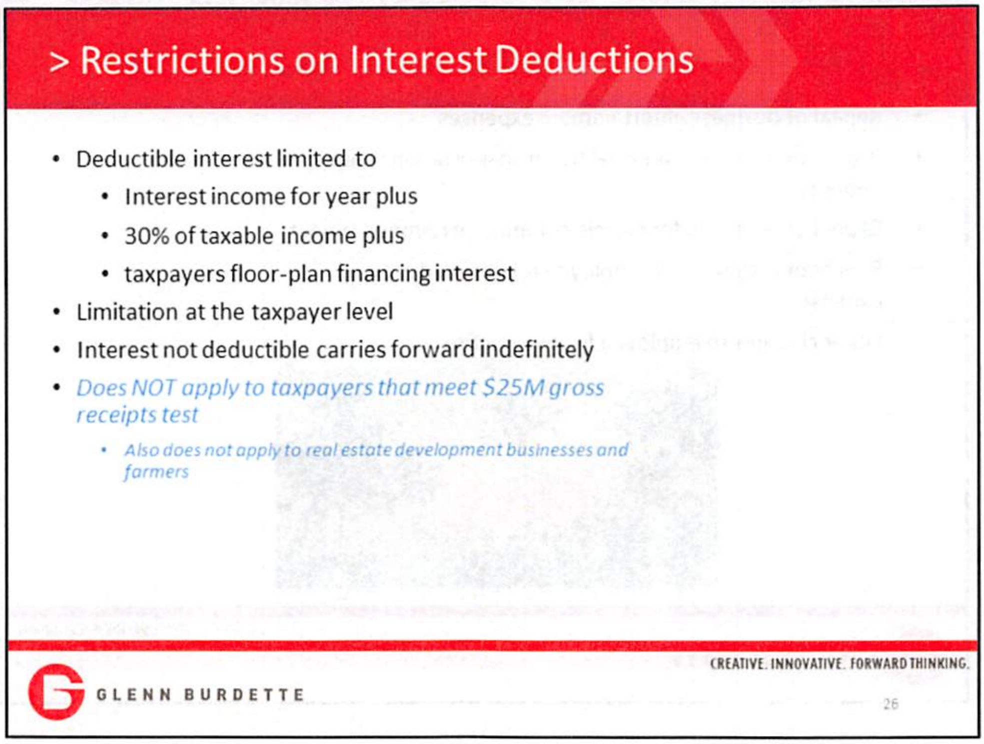
- The law also expands the availability of the cash method for small corporations.
- Cash method for C corporations less than $25 million of avg. gross receipts (average gross receipts for prior 3 years)
- Also if meet that $25M threshold, corporations can treat inventories as non-incidental materials and supplies if it conforms to financial treatment of inventories.
- Also if meet the $25M threshold, the corporation is exempted from requirement to allocate overhead to inventory as required by 263A.
- In addition, corporations with less than $25M gross receipts can use the completed contract if expect contract to be completed within 2 years.




- The law places new limits on the deduction for interest paid on business debts for taxpayers with avg. annual gross receipts > $25M.

- The deduction will be calculated as the sum of interest income plus 30% of adjusted taxable income (not below zero) plus interest attributable acquiring motor vehicles to be held as inventory for sale/lease.

- Special rules apply to the calculation of income for P/S and S Corporations.

## > Changes to Fringe Benefits/Entertainment Expense

- Repeal of business entertainment expenses
- Repeal of deduction for qualified transportation fringe benefits
- Repeal of exclusion for bicycle commuting reimbursement
- Repeal of exclusion for employee reimbursed moving expenses
- Other changes to employee fringe benefits

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27

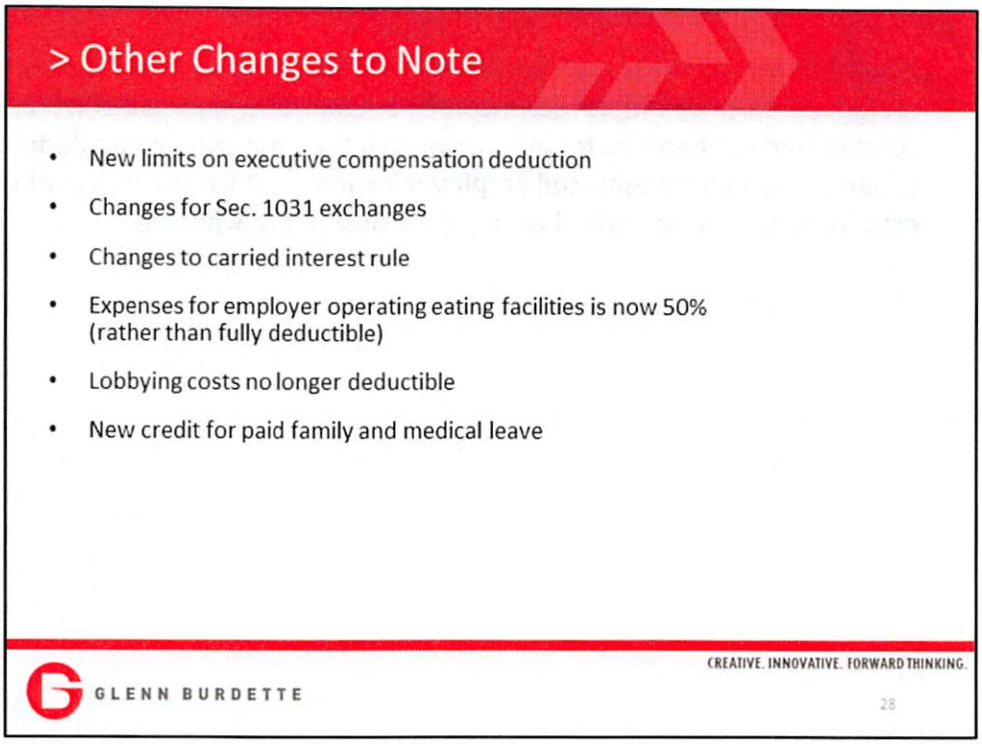
- The new law provides that no deduction is allowed for entertainment expenses (whether directly related or associated with trade business). This includes any activity that is considered to be entertainment, amusement or recreation, and includes membership dues for clubs organized for business, pleasure, recreation or social purposes.

- Taxpayers may still generally deduct 50% of food/beverage expenses associated with operating their trade/business (for work travel), but more guidance is necessary on what this will mean for meals that are not related to travel (taking clients out to lunch, etc.)

- There were also several changes to fringe benefits:
    - Historically transit passes, van pool transportation, free/subsidized parking, bicycle subsidy were excludable fringe benefits. Employers are no longer allowed to deduct these (except bicycle reimbursements) reimbursements (they are still excludable to employee if provided). Bicycle reimbursements are taxable to the employee, but are allowed as a deduction.

    - With the exception of active members of the Armed Forces, exclusions from income for reimbursement of moving expenses has been repealed (for 2018 – 2025).

- Employee achievement awards (for safety or length of service) are no longer excludable from an employees income. Section 132(a) excludes working condition fringe benefits for an employee if the employee could deduct the expenses as an unreimbursed employee expense. With the repeal of these expenses, it is unclear whether this exclusion still is available.




A few more changes to note:

- The $1M limit on executive compensation has been changed to expand the definition of publicly traded corporation and the also to include ALL compensation (performance based compensation is not excluded as it was previously)

- The change related to 1031 exchanges removes ability to trade personal property, so it is limited to real property.

- A new rule imposes a 3 year holding period for a partner receiving a profits interest in exchange for investor services (otherwise known as carried interest) to receive LTCG treatment. The portion attributable to less than 3 years is treated as ST gains subject to ordinary income rates. There was no change in the allocation/treatment of carried interest as has been discussed.

- For on-site eating facilities, rather than a 100% deduction, companies are allowed a 50% deduction. After 12/31/25, these expenses will be no longer deductible.

- Where certain lobbying expenses were allowed, the new law makes all lobbying costs nondeductible.

- This new credit (Sec. 38) is calculated at 12.5% of wages paid plus .25% (up to 25%) for each percentage point in excess of 50% of the employees salary for which the employer provides coverage. The maximum amount of family/medical leave that can be taken account is 12 weeks. There are rules in place to determine who is an eligible employer for the credit. This is in effect for 2018 and 2019.

## > Examples – Business Owner

30% Owner
in an LLC

| | | 2017 | 2018 |
|---|---|---|---|
| 1 | Filing Status | Single | Single |
| 2 | Personal Exemptions | 1 | 1 |
| 3 | Ordinary Income | 880,062 | 879,987 |
| 4 | Net Short-term Gain or Loss | 0 | 0 |
| 5 | Net Long-term Gain or Loss | 0 | 0 |
| 6 | Adjusted Gross Income | 880,062 | 879,987 |
| 7 | Itemized Deductions | 0 | 0 |
| 8 | Standard Deduction | 6,350 | 12,000 |
| 9 | Qualified Income Deduction | 0 | 150,000 |
| 10 | Taxable Income | 873,712 | 717,987 |
| 11 | AMTI Net of Exemption | 880,062 | 717,184 |
| 12 | Minor Child Tax | 0 | 0 |
| 13 | Schedule or Table Tax | 301,809 | 231,345 |
| 14 | Alternative Capital Gains Tax | 0 | 0 |
| 15 | Farm Income Averaging Tax | 0 | 0 |
| 16 | Foreign Earned Income Tax | 0 | 0 |
| 17 | Tentative Minimum Tax | 242,661 | 196,990 |
| 18 | Nonrefundable Credits | 0 | 0 |
| 19 | Self-Employment and Other Taxes | 45,556 | 45,705 |
| 20 | Federal Withholding & Estimated | 0 | 0 |
| 21 | Net Federal Tax | 347,365 | 277,050 |
| 22 | Resident State Tax | 93,502 | 93,493 |
| 23 | Resident State Estimated & W/H | 0 | 0 |
| 28 | Total Net Tax Liability | 440,867 | 370,543 |

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- 30% owner in LLC, ordinary income of $3M, LLC paid W-2 wages of $1M, adjusted basis of LLC property is $100K

## > Examples – Business Owner

50% Interest in an LLC for Commercial Rental

| | | 2017 | 2018 |
|---|---|---|---|
| 1 | Filing Status | Single | Single |
| 2 | Personal Exemptions | 1 | 1 |
| 3 | Ordinary Income | 1,500,000 | 1,500,000 |
| 4 | Net Short-term Gain or Loss | 0 | 0 |
| 5 | Net Long-term Gain or Loss | 0 | 0 |
| 6 | Adjusted Gross Income | 1,500,000 | 1,500,000 |
| 7 | Itemized Deductions | 0 | 0 |
| 8 | Standard Deduction | 6,350 | 12,000 |
| 9 | Qualified Income Deduction | 0 | 250,000 |
| 10 | Taxable Income | 1,493,650 | 1,238,000 |
| 11 | AMTI Net of Exemption | 1,500,000 | 1,250,000 |
| 12 | Minor Child Tax | 0 | 0 |
| 13 | Schedule or Table Tax | 547,304 | 423,750 |
| 14 | Alternative Capital Gains Tax | 0 | 0 |
| 15 | Farm Income Averaging Tax | 0 | 0 |
| 16 | Foreign Earned Income Tax | 0 | 0 |
| 17 | Tentative Minimum Tax | 416,244 | 346,178 |
| 18 | Nonrefundable Credits | 0 | 0 |
| 19 | Self-Employment and Other Taxes | 49,400 | 49,400 |
| 20 | Federal Withholding & Estimated | 0 | 0 |
| 21 | Net Federal Tax | 596,704 | 473,150 |
| 22 | Resident State Tax | 174,713 | 174,713 |
| 23 | Resident State Estimated & W/H | 0 | 0 |
| 28 | Total Net Tax Liability | 771,417 | 647,863 |

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30

- Owns 50% interest in a commercial rental property through an LLC.
- Share of rental income of the LLC is $1,500,000
- LLC pays no W-2 wages, rather it pays a management fee to an S corp that he controls.
- Management company pays W-2 wages but also breaks even, passing out no net income to the owner.
- His share of the total unadjusted basis of the commercial rental is $10,000,000

## > Examples – Business Owner

Farmer with No Wages and an Interest in an S Corp

| | | 2017 | 2018 |
|---|---|---|---|
| 1 | Filing Status | Joint | Joint |
| 2 | Personal Exemptions | 0 | 0 |
| 3 | Ordinary Income | 543,518 | 543,444 |
| 4 | Net Short-term Gain or Loss | 0 | 0 |
| 5 | Net Long-term Gain or Loss | 0 | 0 |
| 6 | Adjusted Gross Income | 543,518 | 543,444 |
| 7 | Itemized Deductions | 0 | 0 |
| 8 | Standard Deduction | 12,700 | 24,000 |
| 9 | Qualified Income Deduction | 0 | 22,500 |
| 10 | Taxable Income | 530,818 | 496,944 |
| 11 | AMTI Net of Exemption | 543,518 | 411,544 |
| 12 | Minor Child Tax | 0 | 0 |
| 13 | Schedule or Table Tax | 155,435 | 125,309 |
| 14 | Alternative Capital Gains Tax | 0 | 0 |
| 15 | Farm Income Averaging Tax | 0 | 0 |
| 16 | Foreign Earned Income Tax | 0 | 0 |
| 17 | Tentative Minimum Tax | 148,429 | 111,410 |
| 18 | Nonrefundable Credits | 0 | 0 |
| 19 | Self-Employment and Other Taxes | 25,510 | 25,658 |
| 20 | Federal Withholding & Estimated | 0 | 0 |
| 21 | Net Federal Tax | 180,945 | 150,967 |
| 22 | Resident State Tax | 44,472 | 44,465 |
| 23 | Resident State Estimated & W/H | 0 | 0 |
| 28 | Total Net Tax Liability | 225,417 | 195,432 |

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31

- Farmer's W-2 income is $55K from his farming busiess. He has $5K of interest income. He owns 100% of his farming business that has income of $400K. The farming business pays no wages, but has contract labor expense of $200K.
- The assets in the business are $100K
- Farmer is also in an S Corporation with income of $100K and wages paid of $50K

## > Examples – Business Owner

Partner in a Law Firm (S Corp)

| | | 2017 | 2018 |
|---|---|---|---|
| 1 | Filing Status | Joint | Joint |
| 2 | Personal Exemptions | 2 | 2 |
| 3 | Ordinary Income | 788,940 | 788,865 |
| 4 | Net Short-term Gain or Loss | 0 | 0 |
| 5 | Net Long-term Gain or Loss | 0 | 0 |
| 6 | Adjusted Gross Income | 788,940 | 788,865 |
| 7 | Itemized Deductions | 0 | 0 |
| 8 | Standard Deduction | 12,700 | 24,000 |
| 9 | Qualified Income Deduction | 0 | 0 |
| 10 | Taxable Income | 776,240 | 764,865 |
| 11 | AMTI Net of Exemption | 788,940 | 679,465 |
| 12 | Minor Child Tax | 0 | 0 |
| 13 | Schedule or Table Tax | 252,622 | 222,379 |
| 14 | Alternative Capital Gains Tax | 0 | 0 |
| 15 | Farm Income Averaging Tax | 0 | 0 |
| 16 | Foreign Earned Income Tax | 0 | 0 |
| 17 | Tentative Minimum Tax | 217,147 | 186,428 |
| 18 | Nonrefundable Credits | 0 | 0 |
| 19 | Self-Employment and Other Taxes | 26,588 | 26,737 |
| 20 | Federal Withholding & Estimated | 0 | 0 |
| 21 | Net Federal Tax | 279,210 | 249,116 |
| 22 | Resident State Tax | 70,774 | 70,765 |
| 23 | Resident State Estimated & W/H | 0 | 0 |
| 28 | Total Net Tax Liability | 349,984 | 319,881 |

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32

- Partner in a law firm, married, taxable income of $800K. His share of income of the law firm is $700K, his share of the W-2 wages of the law firm is $100K, his share of the unadjusted basis of the assets of the business is $20K.
- He is entitled to no deduction because a law firm is a specified service business and his taxable income exceeds $415K, meaning he is completely phased out of any possible deduction.

## > Examples – Business Owner

Wage Earner and Interest in an S Corp

| | | 2017 | 2018 |
|---|---|---|---|
| 1 | Filing Status | Joint | Joint |
| 2 | Personal Exemptions | 2 | 2 |
| 3 | Ordinary Income | 270,000 | 270,000 |
| 4 | Net Short-term Gain or Loss | 0 | 0 |
| 5 | Net Long-term Gain or Loss | 0 | 0 |
| 6 | Adjusted Gross Income | 270,000 | 270,000 |
| 7 | Itemized Deductions | 0 | 0 |
| 8 | Standard Deduction | 12,700 | 24,000 |
| 9 | Qualified Income Deduction | 0 | 40,000 |
| 10 | Taxable Income | 249,200 | 206,000 |
| 11 | AMTI Net of Exemption | 212,775 | 120,600 |
| 12 | Minor Child Tax | 0 | 0 |
| 13 | Schedule or Table Tax | 57,453 | 38,019 |
| 14 | Alternative Capital Gains Tax | 0 | 0 |
| 15 | Farm Income Averaging Tax | 0 | 0 |
| 16 | Foreign Earned Income Tax | 0 | 0 |
| 17 | Tentative Minimum Tax | 55,821 | 31,356 |
| 18 | Nonrefundable Credits | 0 | 0 |
| 19 | Self-Employment and Other Taxes | 760 | 760 |
| 20 | Federal Withholding & Estimated | 0 | 0 |
| 21 | Net Federal Tax | 58,213 | 38,779 |
| 22 | Resident State Tax | 18,807 | 18,807 |
| 23 | Resident State Estimated & W/H | 0 | 0 |
| 28 | Total Net Tax Liability | 77,020 | 57,586 |

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33

- Taxpayer has QBI of $200K from an S corp that paid a total of $30K in W-2 wages and that has no qualified property. Taxpayer's spouse has $50K of W-2 income and A and B have interest income of $20K.

## > Planning for 2018 and Forward

- Guidance needed on Sec. 199A (pass-through deduction)
  - Definitions: qualified business income; qualified trade/business; small business
  - Interplay of Sec. 199A with rules such as NIIT, passive activity loss limits
- Effect of corporate rate reduction to 21% on choice of entity
- Debt structure due to interest limitations
- Entertainment expenses/fringe benefits and effect on employees
- Choice of entity for business ventures
- Charitable giving planning
- Estate/gift planning with temporary increased exemption
- Stock option and restricted stock exercise planning

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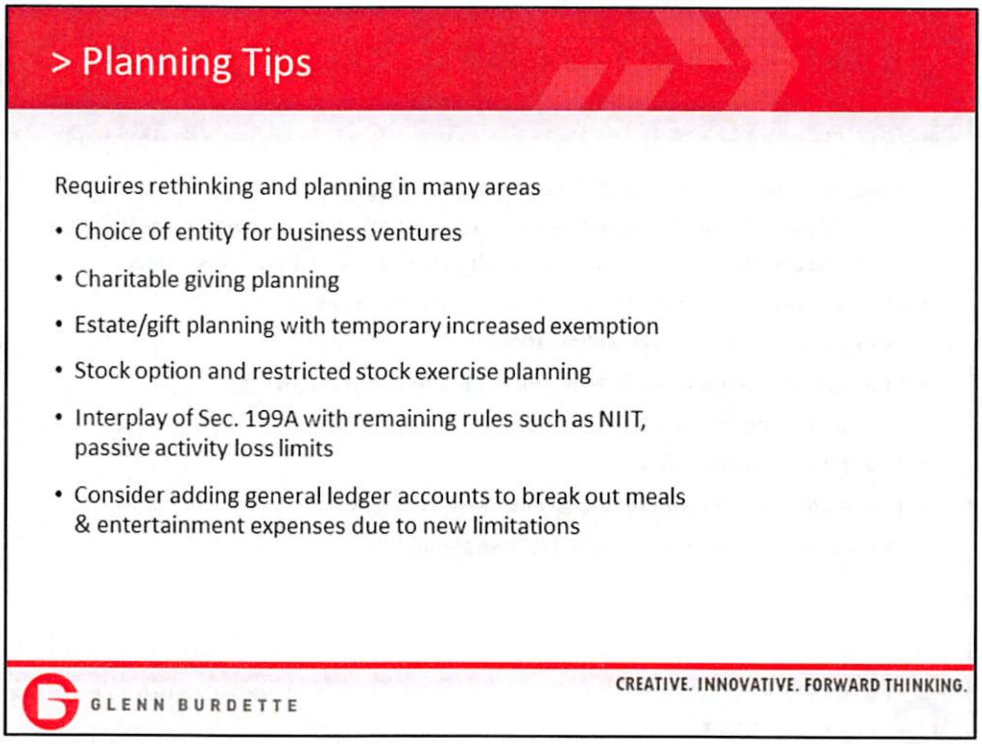
34

- Due to the many changes across the board that this new law contains, many planning strategies will need to be evaluated and examined to make sure they still make sense.
- More guidance is needed on the application of Sec. 199A and what it will mean for reporting for businesses tax returns.
- With the reduction of the corporate tax rate to 21%, this may cause a need for an evaluation of choice of entity for current and future business plans.
- For those businesses subject to the interest limitations, there will be additional planning needed related to debt financing decisions.
- With changes to fringe benefit exclusions and deductions, businesses may make different decisions about company parties and benefits offered to employees.




Due to the many changes across the board that this new law contains, many planning strategies will need to be evaluated and examined to make sure they still make sense. With the reduction of the corporate tax rate to 21%, this may cause a need for an evaluation of choice of entity for current and future business plans. Also, due to the overall changes in itemized deductions, charitable giving timing will likely be more important. And as stated earlier, due to the temporary nature of the estate changes, estate plans will need to be reviewed. With AMT changes, different decision may need to be made related to exercising incentive stock options. Also, for individuals with pass-through income, incentives for classifying activities may be different than in the past.


So many things we do have tax consequences that we often don't think about until it's too late — changing jobs, having children, planning for retirement, exercising stock options, receiving a promotion with a nice raise, opting into an employer-provided retirement plan like a 401(k), transitioning parents into long-term care — and many more. Today, we touched on the major topics at a very high level, but with new complex tax laws and changes to your particular situation, it is always a good idea to review how the tax laws affect you. That is where we can help. It is what we do year-round.

We can answer quick questions or provide an in-depth tax projection to help you anticipate how these new tax laws will affect your returns. So, don't hesitate to reach out to us after today's presentation if you'd like to discuss something in more detail.

And with that, we'll move on to Q&A and take any questions you have. ***(Note to Presenter: After this last statement, move forward to the next slide and open up the floor for participant questions)***.

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# THANK YOU

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