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Due to the tax reform passed in December, many taxpayers will be seeing tax changes in their 2018 tax return. Some changes are positive and some negative, and it is important to keep as updated as possible with the ever-changing tax environment, especially if your clients are among the groups affected.

Let's take a look at a few of the groups of taxpayers who will be affected the most.

# Taxpayers Who Will Benefit from Tax

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While most taxpayers who are purchasing depreciable assets, these taxpayers who bought equipment had to depreciate the cost over five or 10 years. Going forward, almost the only thing they have to depreciate for federal purposes is real property—the buildings they are buying.

The changes to depreciation is one of the few changes that had an early effective date. The accelerated depreciation started for assets placed in service mid-September 2017.

## Corporations

Corporations now pay lower marginal rates than most other taxpayers. The decreased corporate tax rate is significant enough that some business entities are considering switching their businesses from being taxed as partnerships to being taxed as corporations. Some are electing out of S-corp status to become C-corps. I expect we will hear of more businesses doing this as the year progresses.

## Pass-through Entities

To benefit taxpayers who are not corporations, Congress made a new “pass-through” deduction. The name is a bit of a misnomer since a sole proprietor who files Schedule C could also take the deduction. The deduction is almost like getting 20 percent of the business's income tax free.

This new provision has specific limitations for accountants, engineers, and lawyers when their income exceeds certain thresholds. As with anything new, there are a lot of questions about what does and does not qualify. The IRS expects to provide additional guidance in July.

# Taxpayers Who Will Be Negatively

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brackets, they will pay even more in taxes next year.

## Small Wage Contractors

Contractors who work for wages instead of as independent contractors will be negatively affected by the new tax law. This situation often comes up in union trade jobs. Like the athletes mentioned previously, these contractors have lost the ability to deduct business production expenses like uniforms, tools, and safety clothing against their wage income with the loss of two percent itemized deductions. These tradesmen may include construction workers, electricians, iron workers, plumbers, etc.

If these wage-earning taxpayers could switch to independent contractors, it might be beneficial in order to deduct the expenses, but switching could prove difficult. California, for example, is trying to make it so more independent contractors will be considered employees.

## Entertaining Taxpayers

Taxpayers who wine and dine or recruit clients and employees have lost many of their meal and entertainment deductions. Entertainment expenses such as renting box seats or rooms at stadiums are no longer tax deductible. There is some debate in CPA circles if a meal expense for working out of town is 50 percent deductible. Hopefully the IRS will provide more guidance on this deduction restriction before the end of the year.

There are many other tax changes to be aware of outside of those mentioned in this post. One of the best ways to keep informed is to read a lot of different notices, newsletters, updates, and publications.

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