advice from their CPA on what the new rules will mean for their taxes.

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*What CPAs need to tell their clients about tax reform.*

The 2018 tax year marks the first year that the Tax Cuts and Jobs Act (TCJA) has been in place, meaning both businesses and individuals will be seeking a little extra advice from their CPA on what the new rules will mean for their taxes. With the countdown to 2019 quickly approaching, here are a few essential factors that you can share with your clients before the end of the year.

## FOR BUSINESSES

**Corporate Rates**

The TCJA has led to several major tax changes for businesses, perhaps most impactful being the reduced C Corporation rates. For the 2018 tax year, a flat rate of 21% has been placed on all corporate and personal service corporations regardless of earnings.

**Pass-Through Entities**

Pass-through entities are now allowed a deduction up to 20% of qualified business income (QBI) of a trade or business that is not a specified service trade or business. The deduction is not applicable to certain industries, such as health, law and financial services unless taxable income is below $157,500 for single filers and $315,000 for joint filers.

**Entertainment Expenses**

Entertainment expenses related to business activities are no longer deductible on



deduction in the current tax year.

**Limits on Deduction of Business Interest**

Under new TCJA rules, a business is only allowed to deduct its business interest expense for the tax year to the sum of business interest income, plus 30% of the business adjusted taxable income, plus floor plan financing interest. Adjusted taxable income will be calculated without regard to interest expense, depreciation, amortization, depletion, net operating losses and 20% qualified business deduction (as defined in the new section 199A deduction).

**Net Operating Loss (NOL)**

With the exception of some farming losses, the federal two-year carryback has been repealed. The NOL deduction is limited to 80% of taxable income and can be carried forward indefinitely.

**Corporate Alternative Minimum Tax (AMT)**

The Corporate Alternative Minimum Tax (AMT) has been repealed.

## FOR INDIVIDUALS

Aside from the 199A deduction, the most frequent question CPAs will receive from individual tax clients is whether or not they should continue itemizing deductions. To approach this question, clients will need to understand the increase in the standard deduction and how the changes to other deductions have been limited or eliminated.

**Standard Deduction**

The new standard deduction has increased to $12,000 (up from $6,000) for single



Charitable contributions will remain deductible so long as the taxpayer's itemized deductions exceed their standard deduction. Your client may want to consider grouping two years of deductions into every other year to take advantage of the larger deduction in the current tax year. This means proactively making their 2019 contributions in December of 2018. Additionally, certain clients may benefit from contributing long-term appreciated stock directly to the charity to take advantage of a fair market value charitable deduction for which there will be no taxes assessed on the gain.

**Alimony**

In previous years, alimony payments were tax deductible by the payor spouse and includible in income by the recipient spouse. Under new tax law, for any divorce or separation agreement executed after December 31, 2018, alimony payments will no longer be deductible by the payor nor be includible as income for the payee.

**Alternative Minimum Tax**

While Alternative Minimum Tax (AMT) remains in effect for individuals, the threshold has been increased. The increased threshold paired with the changes to individual tax deductions (SALT, miscellaneous itemized deductions, personal exemptions, etc.) will ultimately limit the number of people that would have previously been subject to AMT in the past.

As most CPAs would agree, the Tax Cuts and Jobs Act has undeniably sparked widespread commotion among taxpayers and tax professionals alike. With many significant changes to both business and individual taxes, it's best to begin conversations with your clients as early as possible to best prepare them for the changes and pave the way for a successful tax season.

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