The Tax Route

financial information for the long haul

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McGowen, Hurst, Clark & Smith, P.C.

Tax Reform

A side-by-side comparison of the current and upcoming.

On Friday, December 22, the president signed the Tax Cuts and Jobs Act (TCJA) of 2017 into law. We have separated the tax discussion into four major parts: individual provisions, pass-through provisions, corporate provisions, and estate provisions. These items are effective for the 2018 tax year.

Individual Provisions

Many individuals will see a tax decrease with the passing of the TCJA. The number of tax brackets will stay the same, but the rates will generally be lower for all individual taxpayers. The standard deduction will nearly double, while personal exemptions are repealed. A combined $10,000 deduction for state income tax and property taxes will be available to those who will still have itemized deductions. The changes that are described in the table below are only applicable through the 2025 tax year. Starting with the 2026 tax year, the rules will revert to the rules as they stand currently.

Issue	Current Law	Tax Cuts and Jobs Act
Tax Brackets (see chart below)	7 tax brackets (10%, 15%, 25%, 28%, 33%, 35%, 39.6%).	7 tax brackets (10%, 12%, 22%, 24%, 32%, 35%, 37%).
Preferential Tax Rates on Investment Income	Dividends and long-term capital gains are subject to 0%, 15% or 20% rates depending on income.	Retains the 0%, 15% or 20% tax rate on long-term capital gains and qualified dividend income.
Net Investment Income Tax	3.8% of net investment income.	Retained.
Personal Exemptions	$4,050 per individual.	Repealed.
Standard Deduction	$6,350 for single; $9,350 for head of household; $12,700 for joint filers.	$12,000 for single; $18,000 for head of household; $24,000 for joint filers.
Itemized Deductions	Itemized deductions are limited if a MFJ filer has more than $311,300 of AGI.	Limitation on itemized deductions is eliminated.
Medical Expenses	Deduction for unreimbursed medical expenses greater than 10% of adjusted gross income.	Deduction for unreimbursed medical expenses greater than 7.5% of adjusted gross income.
State and Local Income Tax and Property Tax	Able to deduct state income tax and property tax.	$10,000 limit on state income tax and property tax deduction.
Home Mortgage Interest	Able to deduct home mortgage interest for primary and secondary home and interest on home equity lines of credit on loans up to $1M and $100K respectively.	Able to deduct home mortgage interest for primary and secondary home on new loans up to $750K. Suspends the HELOC interest deduction.
Charitable Contributions	Deduction allowed up to 50% of AGI. Contributions for the right to purchase seating at athletic events are 80% deductible.	Increases overall charitable deduction to 60% of adjusted gross income. No deduction for the right to purchase seats at athletic events is allowed.
2% Floor Itemized Deductions (unreimbursed employee expenses, tax preparation fees, investment expenses)	Deductions are allowed if they total more than 2% of AGI.	Repealed.
Alternative Minimum Tax	AMT is calculated under current law.	AMT is retained but the exemption amount is increased.
Child and Family Tax Credits	$1,000 per qualifying child.	Increases child tax credit to $2,000 with phaseout beginning at $400,000 for joint filers.

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Breaking Down Tax Reform

What Your Trucking Company Needs to Know.

The Tax Cuts and Jobs Act (TCJA) was the largest tax reform bill passed since 1986, and with it comes confusion, especially for the trucking industry. It is hard to navigate between what was passed in the TCJA and what was only previously proposed by the House and Senate. To help trucking companies and their drivers better understand the TCJA's changes and their impact, we will briefly break down some relevant changes.

Per Diem Rates for Truck Drivers

• The TCJA disallowed all miscellaneous itemized deductions. As a result, employee drivers will no longer be able to deduct the per diem rate on their tax returns. As an alternative, and if allowed by their employer, employee drivers can run their reimbursements through their paycheck as a non-taxable wage. Drivers will be responsible for tracking and turning in any receipts to their employer.

• Drivers who are owner-operators or self-employed are still eligible to take the per diem rate and deduct up to 80% of the per diem on their individual tax returns. The rates remain the same for 2018: $63 per full day within the U.S. borders and $68 per day outside of the U.S. borders.

Converting from an S-corporation to a C-corporation

C-corporations are subject to a flat 21% tax under the TCJA; however, S-corporations are still subject to individual tax brackets (up to the highest rate of 37%) but are allowed a 20% deduction. Does it make sense for an S-corporation to convert to a C-corporation in terms of tax savings? Potentially. Each company's scenario needs to be analyzed individually to determine if converting will result in tax savings. If interested, McGowen, Hurst, Clark, & Smith can complete an analysis to determine if there are tax savings in converting.

Meals and Entertainment Expenses

Prior to the TCJA, meals and entertainment expenses were 50% deductible, and meals were 100% deductible if for the convenience of the employer and on the employer's premises. These rules have now changed.

• Meals for business purposes are still subject to the 50% deductibility rule.

• Meals for the convenience of the employer are now subject to the 50% deductibility rule.

• Entertainment expenses are no longer deductible. This includes social, athletic, or sporting club dues and expenses.

Like-Kind Exchanges

Real property is only eligible for like-kind exchanges under the TCJA. Trucks, trailers, and other equipment can no longer be a part of a like-kind exchange to defer gain.

Bonus Depreciation

For property purchased after September 27, 2017, business entities are allowed to take 100% bonus depreciation on both new and used property and equipment as long as the depreciable life is 20 years or less. There is an election available should the company not want to fully expense the purchased property.

Section 179

Section 179 is the election to expense the entire cost of property and equipment. Under the TCJA, the section 179 limits increased in 2018 from a $510,000 limit with a phaseout beginning at $2 million to a $1 million limit with phaseout beginning at $2.5 million.

The changes to the tax law are confusing. Whether you have a simple or complex question regarding the TCJA, our firm is available to help you better understand the tax implications the new bill may have on your company and employees. ■

Minimizing Harassment

Take steps to avoid harassment in your company.

It's probably impossible for your company to eliminate any chance of harassment, but there are precautions you can take to help win a lawsuit filed by an employee:

- Above all, have a sound company policy against harassment, which includes discrimination based on sex, race, color, religion, national origin, age or disability.

- Make sure your employees are aware of the policy. Spread the word through orientation sessions and your employee handbook.

- Require staff members to sign an agreement indicating that they understand the policy.

- At least once a year, train your employees and managers on the subject of harassment and its consequences. Employees must be told how to report incidents and feel they can without retaliation.

In some cases, you must be proactive. In one case, the EEOC said if there is sexually or racially offensive graffiti in the workplace, a company shouldn't wait for a complaint before erasing it.

To protect your company after a harassment complaint, here's a checklist to help conduct a thorough investigation:

- Listen to the complaint but stay neutral and don't validate the accusation.

- Take down a statement in writing and ask the employee to initial it for accuracy.

- Assure the employee that you will take action.

- Discuss the problem with legal counsel.

- Meet with key individuals and investigate the complaint (or hand the inquiry over to a neutral third party).

- Don't confine the investigation to the single incident. For example, does the alleged harasser have a history of similar behavior in the past?

- Take appropriate action if you determine harassment did take place, including a warning, disciplinary action, demotion, transfer or dismissal. Carefully document your findings.

- Institute additional training if your investigation uncovers a pattern of harassment or ignorance about the subject.

Even after conducting a thorough investigation and taking appropriate action, an employee may still sue the company. But the seriousness of your inquiry, along with a comprehensive policy and adequate training, can help convince the court that you did everything possible to provide a harassment-free workplace. ■

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Individual Tax Brackets

Current Law

	Single	Head of Household	Joint
10%	$0 - $9,525	$0 - $13,600	$0 - $19,050
15%	$9,525 - $38,700	$13,600 - $51,800	$19,050 - $77,400
25%	$38,700 - $93,700	$51,800 - $133,850	$77,400 - $156,150
28%	$93,700 - $195,450	$133,850 - $216,700	$156,150 - $237,950
33%	$195,450 - $424,950	$216,700 - $424,950	$237,950 - $424,950
35%	$424,950 - $426,700	$424,950 - $453,350	$424,950 - $480,051
39.6%	$426,700 +	$453,350 +	$480,051 +

Tax Cuts and Jobs Act

	Single	Head of Household	Joint
10%	$0 - $9,525	$0 - $13,600	$0 - $19,050
12%	$9,525 - $38,700	$13,600 - $51,800	$19,050 - $77,400
22%	$38,700 - $82,500	$51,800 - $82,500	$77,400 - $165,000
24%	$82,500 - $157,500	$82,500 - $157,500	$165,000 - $315,000
32%	$157,500 - $200,000	$157,500 - $200,000	$315,000 - $400,000
35%	$200,000 - $500,000	$200,000 - $500,000	$400,000 - $600,000
37%	$500,000 +	$500,000 +	$600,000 +

Pass-Through Provisions

The pass-through provisions might be the most complicated change of the TCJA. Pass-through businesses include partnerships, S corporations, trusts, estates, and sole proprietorships. With TCJA, there will be an additional deduction allowed for certain owners of pass-through businesses. There are a lot of limitations that will be applied and it remains to be seen how exactly these will be calculated. The table below describes the high-level changes to pass-through income and also discusses technical terminations.

Issue	Current Law	Tax Cuts and Jobs Act
Pass-Through Income	Subject to individual's ordinary tax rates.	Still subject to individual's ordinary tax rate. However, there is a 20% deduction of pass-through income subject to: 1) 50% of partner's share of W-2 wages, or 2) 25% of W-2 wages paid plus 2.5% of the partner's unadjusted basis of all qualified property. This does not apply to service corporations unless taxable income is less than $315,000 for MFJ. Service corporations no longer includes architecture or engineering.
Terminations	Technical termination rules apply.	Repeals the technical termination rules.

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State Tax Alerts

ALL STATES. A few states have started to respond to federal tax reform. We expect most states will need to respond to the federal changes to ensure state revenues do not drastically change. We will keep you updated as states start to identify positions with respect to federal tax reform.

TEXAS. The Texas Comptroller of Public Accounts established a limited tax amnesty program that will run from May 1, 2018 to June 29, 2018. This permits qualified taxpayers to make their accounts compliant with Texas law without incurring penalties and interest on tax due.

ILLINOIS. The state of Illinois issued an information bulletin that discusses the permanent increase to personal and corporate income tax rates effective July 1, 2017. Taxpayers have two options with respect to calculating their income tax for periods that overlap July 1, 2017. The first option allows the taxpayers to use a blended rate to arrive at their Illinois tax liability. The second option allows taxpayers to treat income or loss as it was received in two different taxable years (before July 1, 2017 and after June 30, 2017) and calculate the income tax due for each period. The Department encourages taxpayers to use the blended rate, but both options are available.

PENNSYLVANIA. The state of Pennsylvania has responded to federal tax reform with respect to the new 100% bonus depreciation rule. Pennsylvania law requires the federal 100% bonus depreciation to be added back for Pennsylvania purposes and provides no mechanism for cost recovery until the property is disposed. This is a change from prior years which allowed partial recovery of federal bonus depreciation. ■

Tax Reform Continued...

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Corporate Provisions

The corporate tax provisions changed in the TCJA were the biggest tax cuts included in the overall bill. Included was a drop in the corporate rate. Currently, the corporate rate is a maximum 35% with a lower rate for lower income corporations. With the passing of the TCJA, the corporate tax rate will now be a flat 21%. Other changes include the repeal of the alternative minimum tax, the depreciation expensing of assets, limited interest expense deductions, and limited net operating losses. The table below discusses the current law as it applies and how the TCJA changed certain items.

Issue	Current Law	Tax Cuts and Jobs Act
Tax Rate	Graduated rate with a maximum 35% rate.	Flat 21%.
Alternative Minimum Tax	Corporations with gross receipts greater than $7M must calculate AMT.	Repealed.
Dividends Received Deduction	80% DRD for 20% owned corporations. 70% for less than 20% owned corporations.	65% for 20% owned corporations and 50% for less than 20% owned corporations.
Capital Investment - Bonus Depreciation	50% bonus depreciation in 2017, 40% in 2018 and 30% in 2019. 0% after 2019.	100% bonus depreciation on qualified property acquired and placed in service after September 27, 2017, but before January 1, 2023. Phases out from 2023-2026.
Capital Investment - Section 179 Expensing	$500,000 limit up to $2M of assets placed in service.	Limits deduction to $1M. Phaseout begins at $2.5M.
Interest Expense Deduction	Deductible.	Generally limited to amount of interest income plus 30% of taxpayer's earnings before interest, taxes, depreciation, and amortization (businesses with less than $25M of receipts are not subject to this provision.) Formula is changed to earnings before interest and taxes starting in 2022.
Net Operating Losses	2-year carryback, 20-year carryforward. Able to offset 100% of taxable income, 90% of Alternative Minimum Taxable Income.	No carryback. Unlimited carryforward period. Able to offset 80% of taxable income.
Like Kind Exchanges	Available for both real and personal property.	Repealed for personal property but retained for real property.
Domestic Production Activities Deduction (Section 199)	Available.	Repealed.
Cash Method of Accounting & UNICAP Rules	Eligible for businesses with less than $5M of receipts for cash method of accounting and $10M for UNICAP.	Eligible for businesses with less than $25M of gross receipts.
Business Credits	All credits mentioned in the proposed law are available for years 2017 and earlier.	Modifies the Rehabilitation Credit and Orphan Drug Tax Credit. Retains the Research and Development Credit, Low Income Housing Credit, Work Opportunity Tax Credit and New Markets Tax Credit.

Estate Tax Provisions

The only change worth noting with respect to estate tax is the threshold for whether a taxpayer is subject to the estate tax. The exemption amount nearly doubled from $5.49M to $10M. Just like the individual tax provisions, this change only applies through 2025.

Issue	Current Law	Tax Cuts and Jobs Act
Threshold	$5.6M.	$11.2M.
Step-Up in Basis	Yes.	Retained.
Eventual Repeal of Estate Tax		Retains the Estate Tax. ■

Our Trucking Team

Dan Schwarz, CPA/ABV Co-Managing Partner

Dan earned an Associate of Applied Science degree from Hawkeye Institute of Technology. He joined MHC&S in 1990 as a member of the Business Advisory and Tax Service department. Dan specializes in our trucking and transportation niche and has expertise in business valuation, consulting and tax services.

Dan is an Accredited Business Valuator (ABV). He is a member of the American Institute of Certified Public Accountants, the Iowa Society of Certified Public Accountants and CPAmerica International. He is a board member of the Iowa Motor Truck Association Allied Division.

Nick Finkenauer, CPA Senior Manager

Nick graduated from University of Northern Iowa with a bachelor of arts degree in accounting and joined MHC&S in 2012 after working for a Big 4 firm, specializing in closely held companies and state and local taxes. Nick's area of expertise includes corporate and individual taxation, multi-state tax issues and business consulting.

Nick is a member of the American Institute of Certified Public Accountants, the Iowa Society of Certified Public Accountants (where he has served on the Taxation Committee) and CPAmerica International. Nick is a past graduate of the West Des Moines Leadership Academy and IMTA Leadership Academy. He is the treasurer of Morsel Combat, a non-profit organization that benefits Meals from the Heartland.

Ashley Sly, CPA Supervisor

Ashley is a 2009 graduate of Buena Vista University with a bachelor of arts degrees in accounting and finance. Prior to joining MHC&S in 2013, she had three years of experience at a national accounting firm and one year at a large law firm. Ashley is experienced in tax, providing expertise for small to mid-size businesses, especially those with a multi-state presence and in the industries of transportation, manufacturing and distribution.

Ashley is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where she currently chairs the young professionals committee, LEAP. She is the current treasurer of the West Des Moines' Library Friends Foundation and a past graduate of the West Des Moines Leadership Academy. Outside of work, she enjoys spending time with her husband and young son.

Liz Krause, CPA Senior Accountant

Liz specializes in tax for closely held businesses as well as state and local tax issues. She is originally from Carroll, Iowa, and attended Creighton University, where she received bachelor degrees in accounting and financial planning. Liz is a member of the American Institute of Certified Public Accountants, the Iowa Society of Certified Public Accountants and CPAmerica International. She is involved with the Johnston Chamber of Commerce and firm-wide community and service events.

About McGowen, Hurst, Clark & Smith, P.C.

With offices in West Des Moines and Winterset, McGowen, Hurst, Clark & Smith, P.C. is one of the oldest and largest local firms in Central Iowa. Founded in 1946, we celebrate over 70 years of providing our clients with accounting, auditing and business consulting expertise.

McGowen, Hurst, Clark & Smith is proud to be a member of CPAmerica International, an exclusive association of leading independent accounting firms. CPAmerica offers a wide pool of additional technical expertise to its member firms, allowing us to offer you big firm opportunity with a small firm feel.

Mission: Providing outstanding, professional services while acting as proactive business partners with our clients. Providing a work environment that enables our firm members to achieve their personal and professional goals.

Values: Integrity. Excellence. Respect. Teamwork. Family. Fun.

In Trucking Territory this Quarter...

On February 22, **Dan Schwarz**, **Nick Finkenauer** and **Ashley Sly** will be attending the IMTA Allied Division Membership meeting.

S-corporation and partnership returns are due March 15.

C-corporation and individual tax returns are due April 17.

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