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"Tax Reform Tidbits"

The quick-strike tax reform bill that became law late last year is still being digested in the accounting and tax world. And we're being cautioned not to make any drastic tax-maneuvers to position ourselves to either benefit from new tax policy or avoid a few of the more onerous nuances. There's just so much yet to be defined . . . and tax reform is still not over.

- **A Heavy Tome:** According to the Tax Foundation, the actual tax code itself is over 2,600 pages (roughly 1 million words, about the length of the entire Harry Potter series). But if that's *all* your accountant had to go by, you'd probably be sent to the pokey in pretty quick order. What you really need to do the job is all the statutes, regulations, and case law that give the tax code meaning. Which brings you to over 74,000 pages. Enjoy.
- **It *will* be Simpler for Many of Us:** For 2018 (filing in 2019) the Joint Commission (non-partisan committee of the Congress) estimates that 94% of filers will claim the new, higher standard deduction ($12,000 individual; $24,000 couple) rather than itemize. That's up from about 70% of filers now, and ought to be a pretty easy process for that 94%.
- **Conceptually Speaking . . . :** "The large print giveth, and the small print taketh away" (Tom Waits, "Step Right Up"). In order to lower tax rates, and not lose a whole lot of revenue, you've got to broaden the base of the things you tax. Therefore a number of things will be taxed under the new law that were deductions in the past. If the government needs $200 in revenue they can tax $500 (after deductions) at 40% . . . or they can tax $1,000 (no deductions) at 20%. We know this is an oversimplification.
- **Say Goodbye:** To the personal exemption of $4,050 (2017); and adios to unreimbursed business expenses. Moving expense deductions are gone too, as are casualty and theft losses under the new laws. You can't deduct tax preparation and investment advisory fees, either. For most tax payers using the standard deduction none of this will matter, but for quite a few of us it means that even a lower tax rate may not lower our tax bill much at all (because more income is being taxed).
- **SALT and Mortgage Interest:** State and local tax (SALT) deductions (income, sales, and property) cannot exceed $10,000 under the new law. That's a low threshold for a number of high tax states. Too, for mortgages taken out after 12/14/2017 only mortgage interest on the first $750,000 is deductible (if you

itemize). That will be felt by homebuyers in ultra-high property value areas like San Francisco, New York, and Boston. And, before we forget, no interest deduction will be allowed at all for home equity loans.

- **Good News for C-Corporations:** The corporate tax rate for C- corporations (which includes most of the big companies) has been dramatically lowered from 35% to 21%. Of course, they'll have fewer deductions, too, but it's thought that a whole lot of money will come back to the U.S., as profits brought back from overseas are going to be taxed at relatively low rates. This is a big break and is expected to be a huge lift to profitability, and ultimately to capital expenditures and wages . . . therefore boosting overall economic growth.
- **Deficit Angst:** Even many who voted for the new tax legislation admit there will be lower tax revenues at first, and that the U.S. budget deficit will increase the first few years. However, they earnestly believe economic activity and growth will be spurred and this growth (from spending) will result in greater tax revenues some years out.
- **We're not done with this:** To offset limits on the state and local tax deductions, states such as New York, Connecticut, California, and others are contemplating ways around the federal tax law changes. Too, we will see reams of new regulations and guidance which will define how these laws are put into practice. And . . . Democrats, should they gain in mid-term elections, could maneuver to reform the reforms. Things will be in flux for a while at the very least.

The goal of Republican-led tax reform is simple: Put more money in people's hands. More people spending more money creates more jobs, and a growing economy. A growing economy creates even more jobs, and supporters of the reforms conclude that this virtuous economic circle will continue for years.

There are things people will love in the new tax laws*,* and things people will dislike. There is much we haven't mentioned, such as the effect on charitable giving, benefits for "pass-through" companies, and 529 college savings plans (can be tapped for pre-college private school). You've got months to figure some things out before you file . . . just don't overreact, and let us know if we can help find some answers for you.

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