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Subject: The Tax Cuts and Jobs Act of 2018

Dear Client,

As many of you are aware, there are a great many changes that are coming considering the recently passed Tax Cuts and Jobs Act of 2018. As of this writing, President Trump has yet to sign the act into law but is highly expected to do so. Keep in mind, that most of these changes are for the 2018 tax year and subsequent years and only a few pertain to the 2017 tax year that is about to end.

Attached to this letter is a brief Q&A of some of the most frequent questions our clients are asking right now. Also attached for your benefit is a small summary of tax changes.

We know that taxes and tax changes can be a complex and time-consuming topic and hope that we can assist you in understanding your individual tax situation and how best to respond considering the changes moving forward.

Yours truly,

Samuel B. Choi Accountancy, Corp.

Top Questions and Answers

If I own a house, do I need to prepay my 2018 property taxes before December 31, 2017?

If you itemize your deductions in 2017 and are not subject to AMT rules and anticipate your combined state and local tax deduction for 2018 to be over \$10,000, then yes you should prepay the 1st half of 2018 property tax before December 31, 2017. You do not need to prepay your property taxes on your rental properties, but you can prepay your property taxes on up to two primary residences.

If I itemized last year, will I still be able to itemize in 2018?

The standard deduction for 2017 is \$6350 for singles and \$12,700 for married filing jointly. In 2018 the amounts will be \$12,000 and \$24,000 respectively. If your itemized deductions for 2017 are only slightly more than the standard deduction, then you will not be able to itemize in 2018. If you have previously been able to itemize your unreimbursed work expenses, starting 2018 this type of deduction has been eliminated and will no longer be deductible.

If I currently make California state quarterly estimated taxes for 2017, should I prepay or wait?

If you are required to pay quarterly estimated taxes to your state, you should prepay the fourth quarterly estimated tax payment that is due on January 16, 2018 right now in 2017.

I am self-employed, what impact does the tax bill have on my small business?

Pass-through income from Sole Proprietorships and Partnerships will be able to deduct 20% of their profits as a deduction. S Corporations will be able to deduct the lesser of 20% of their profits or 50% of their salary.

Should I increase charitable contributions in 2017 if I cannot itemize in 2018 but I can in 2017?

You may want to consider making your charitable donations in 2017 rather than 2018 if you know you'll be using the higher standard deduction in 2018. You can still make contributions to an IRA or an employer retirement plan if you have one available to you.

Since the tax brackets are changing next year should I defer my income and or expenses?

If you are on an accrual basis and or are self-employed you may want to defer income and increase expenses before December 31, 2017. This is a topic that should be discussed with an accountant.

Will I have to pay more or less tax?

Every taxpayer's situation is unique and will require an analysis by an accountant.

What do I need to consider for 2017?

By December 31, 2017 you need to recharacterize any ROTH conversion, and possibly prepay any taxes if you will lose the excess in 2018.

When will my w2 withholding change in 2018?

The IRS will be issuing new w4 withholding amounts in January but are expected to be issued with a delay.

Do I still need to get health insurance to avoid a penalty?

The individual mandate is eliminated effective 2019. You will be penalized for 2017 and 2018 if you do not have an ACA approved plan for part or the whole of each year.

Individual Tax Rates			
	If you are filing as Single		
New Rate	New Income Bracket	Old Rate	Old Income Bracket
10%	Up to \$9,525	10%	Up to \$9,525
12%	\$9,525-\$38,700	15%	\$9,525-\$38,700
22%	\$38,700-\$82,500	25%	\$38,700-\$93,700
24%	\$82,500 - \$157,500	28%	\$93,700-\$195,450
32%	\$157,500-\$200,000	33%	\$195,450-\$424,950
35%	\$200,000-\$500,000	35%	\$424,950-\$426,700
37%	\$500,000+	39.60%	\$426,700+
	If you are a couple filing jointly		
New Rate	New Income Bracket	Old Rate	Old Income Bracket
10%	Up to \$19,050	10%	Up to \$19,050
12%	\$19,050-\$77,400	15%	\$19,050-\$77,400
22%	\$77,400-\$165,000	25%	\$77,400-\$156,150
24%	\$165,000-\$315,000	28%	\$156,150-\$237,950
32%	\$315,000-\$400,000	33%	\$237,950-\$424,950
35%	\$400,000-\$600,000	35%	\$424,950-\$480,050
37%	\$600,000+	39.60%	\$480,050+
	If you are filing as head of household		
New Rate	New Income Bracket	Old Rate	Old Income Bracket
10%	Up to \$13,600	10%	Up to \$13,600
12%	\$13,600-\$51,800	15%	\$13,600-\$51,800
22%	\$51,800-\$82,500	25%	\$51,800-\$133,850
24%	\$82,500-\$157,500	28%	\$133,850-\$216,700
32%	\$157,500-\$200,000	33%	\$216,700-\$424,950
35%	\$200,000-\$500,000	35%	\$424,950-\$453,350
37%	\$500,000+	39.60%	\$453,350+

Alternative Minimum Tax

The alternative minimum tax is a parallel tax system that makes people with high income and lots of deductions essentially pay more federal tax.

If you are Single or Head of Household, then you won't face the AMT until your income hits \$70,300 and phases out at \$500,000

If you are a couple Filing Jointly then you won't face the AMT until your income hits \$109,400 and phases out at \$1 million.

If you are married filing separately you won't face the AMT at all.

Status	2017		2018-2025	
	Exemption	Phaseout	Exemption	Phaseout
Single/Head of Household	\$54,300	\$120,700	\$70,300	\$500,000
Married Filing Jointly	\$84,500	\$160,900	\$109,400	\$1M
Married Filing Separate	\$42,250	\$80,450	N.A.	N.A.

Moving Expenses

The moving expense deduction is eliminated except for those in the armed forces.

Standard Deduction

The standard deduction nearly doubles from 2017 to 2018 until 2025.

Current 2017		NEW	
Single	\$6,350	Single	\$12,000
MFJ	\$12,700	MFJ	\$24,000
HOH	\$9,350	HOH	\$18,000

529 Savings Plans

Current

A 529 savings plans allows parents to save for their child's qualified college expenses by using an account whose contributions, growth and withdrawals are tax free.

NEW

You can now use the 529 for K-12 education and you may use up to \$10,000 per year for K-12. K-12 used be under a plan called the Coverdell Savings Plan but that plan is now gone. If you have a Coverdell you may consider rolling that into a 529.

Alimony

Current

Alimony paid is taxable to the recipient and deductible to the payer.

NEW

No deduction for the payer and Alimony paid to the recipient is no longer taxable.

Roth Recharacterizations

Current

You can reverse the decision to convert from a traditional IRA to a ROTH IRA before the tax filing deadline. You would do this if you experienced an investment loss between the conversion time and the filing deadline for example.

NEW

This option is now gone. If you converted to a ROTH in 2017 you need to do so by Dec. 31, 2017.

401K Loan Payback

Current

If you lose your job and have a 401k loan, the loan becomes due and payable within 60 days or face a 10% penalty on the loan amount due.

NEW

If you lose your job and have a 401k loan, you have until the filing deadline to pay back the loan.

Kiddie Tax

Current

Your child's unearned income (investment gains) are taxed at the parents' rate for income over \$2,100.

NEW

Estate Capital Gains are now applied to Kiddie Tax

0% rate	\$0-2600
15% rate	\$2600 to 12700
20% rate	above \$12,700

MISC Itemized Deductions

Current

Certain Investment fees and expenses, tax prep fees, safe deposit box fees, job hunting fees, union dues, trustee fees (for an IRA) and others are deductible if they exceed 2% of your AGI

NEW

These Deductions are now eliminated.

Personal Exemption

Current

For each taxpayer and most dependents on your tax return you may deduct an amount called the Personal Exemption

NEW

This Personal Exemption is now gone.

Child Tax Credit

Current

You receive a credit up to \$1000 for each child under 17 that is claimed as a dependent on your tax return.

Singles who earn less than \$75,000

MFJ who earn less than \$110,000

MFS who earn less than \$55,000

NEW

You receive a credit up to \$2,000 for each child under 17 that is claimed as a dependent on your tax return

The first \$1400 of each child credit is now refundable.

Singles who earn less than \$75,000 unchanged

MFJ who earn less than \$400,000

MFS who earn less than \$55,000 unchanged

SALT (State and Local Tax) Deduction

Current

If you itemize you can deduct the total of your state taxes, local property taxes, and real estate taxes or the total of your state tax, local tax, or sales tax.

NEW

The total combined deductions are now limited to \$10,000

Mortgage Interest Deductions

Current

If you currently itemize you can deduct the amount of interest paid on your home loan for mortgage debt up to \$1.1 million and \$100,000 of home equity debt.

NEW

Current Mortgage holders face no change in their deductions now and going forward.

New debt incurred after December 31, 2017 will now only be able to deduct interest on mortgage debt up to \$750,000 and may not deduct interest on home equity debt.

Medical Expense Deductions

Current

If you itemize you can deduct medical expenses that are in excess of 10 percent of your AGI.

NEW

You can deduct medical expenses that are in excess of 7.5 percent of your AGI in 2017 and 2018 but on Jan 1, 2019 it goes back to 10 percent.

Limits on Itemized Deductions

Current 2017

There are limits (reductions and phaseouts) on itemized deductions based on income (AGI).

	AGI
Single	\$261,500
MFJ	\$313,800
HOH	\$287,650
QW	\$156,900

NEW

There are no longer any AGI limits.

Estate Tax

Current 2017

Estates worth more than \$5.49 million (10.98 million for MFJ) are taxed at 40%

NEW

Estates worth more than \$11.2 million (\$22.4 million for MFJ) are taxed at 40%

Pass-Through Entity Taxes

Current

Income from Sole Props, LLC's, and Partnerships are not taxed but passed through to individuals and taxed on the individual tax rates.

NEW

Business owners can now deduct 20% of their pass-through income with the following limits on AGI

Single	\$157,500
MFJ	\$315,000

Corporate Tax Rates

Current 2017

The top rate for corporations is 35% and may need to include an AMT calculation that reduces and eliminates deductions and credits.

NEW

The top rate for corporations is now 21% and there is no more AMT.