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# Seven Things to Know

About the Changing Tax Environment

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# Intro

2018 has been a blur of developing tax reform guidance since the passage of the Tax Cuts and Jobs Act in December 2017. You're likely aware of the major points outlined in the new tax law, but it can be difficult to keep up with all the evolving details. So we've put together a roundup of seven areas that have been defined further since the tax law passed.

# 01

## Individual Tax Rates

The new tax law follows the same seven-bracket structure for individuals as previous law, but the tax rates for many of those brackets decreased, and the income ranges that fall within each bracket changed. For example, the highest individual tax rate is now 37% rather than 39.6%, and it only applies to taxpayers who make more than half a million.

# 01

## Individual Tax Rates

In January 2018, the IRS released the new withholding tables, and by February the IRS released the new W-4 form and updated the Withholding Calculator to reflect the new tax rates.

The new brackets are as follows:

<b><u>Single</u></b>	<b><u>Married Filing Jointly</u></b>
<b>10%:</b> \$0-\$9,525	\$0-\$19,050
<b>12%:</b> \$9,526-\$38,700	\$19,051-\$77,400
<b>22%:</b> \$38,701-\$82,500	\$77,401-\$165,000
<b>24%:</b> \$82,501-\$157,500	\$165,001-\$315,000
<b>32%:</b> \$157,501-\$200,000	\$315,001-\$400,000
<b>35%:</b> \$200,001-\$500,000	\$400,001-\$600,000
<b>37%:</b> \$500,001 or more	\$600,001 or more

These brackets do not include the 3.8% additional net investment tax.

# 02

## Corporate Tax Rates

The corporate tax rate was cut permanently from 35% to 21%. In response to the tax cut, within the first 30 days of the tax law passing, dozens of corporations announced plans to spend more money in the form of one-time bonuses for employees, increased pay for minimum wage employees, larger charitable contributions, and larger investments.

Additionally, the corporate Alternative Minimum Tax (AMT) was eliminated, and there have also been changes made to US taxation of foreign income. Now there is a 100% dividends received deduction for distributions from controlled foreign corporations.

## 03

## Pass-through Entities

Pass-through entities (including sole proprietorships, partnerships, LLCs, S corporations, hedge funds, real estate companies, and private equity funds) have also seen a major change to their taxes. The pass-through deduction is now up to 20% until 2025. It's almost like getting 20 percent of the business's income tax free.

This new provision phases out for accountants, engineers, lawyers, and other service professionals once their income exceeds \$157,500 for individuals filers and \$315,000 for joint filers. The IRS expects to provide additional guidance in July 2018.

## 04

## The Standard Deduction

A widely discussed point of the new tax law is the doubling of the standard deduction. It increased from \$6,350 to \$12,000 for single filers and \$12,700 to \$24,000 for joint filers. The increase applies until 2026. For 2018, it's estimated that 94% of taxpayers will take the standard deduction.

## 05

## Moving, Mileage, and Travel Expenses

The deduction for moving expenses is suspended for tax years between Dec. 31, 2017 and Jan. 1, 2026 (with the exception of taxpayers who are active members of the military). All two-percent itemized deductions are also suspended, including unreimbursed employee travel expenses.

The business standard mileage rate still applies, but it cannot be used to claim an unreimbursed employee expense. The new standard mileage rates are as follows:

**54.5 cents for every mile of business travel driven**

**18 cents per mile driven for medical purposes**

**14 cents per mile driven in service of charitable organizations (unchanged from 2017)**

Because the deduction for moving expenses is suspended, a deduction cannot be claimed for use of a vehicle as part of a move using the above mileage rates.

# 06

## Wrongful Levy Claims

Individuals and businesses now have two years to file an administrative claim for wrongful levy or seizure as opposed to nine months. If a claim is made during the two-year period, the period for bringing a suit is extended for 12 months from the filing date or six months from the disallowance of the claim. This change applies to levies made after Dec. 22, 2017, or levies made prior to that date if the nine-month period had not expired at that point.

Like previous tax law, the two-year time limit for wrongful levy or seizure applies to situations where the IRS has already sold the property it levied. There is still no time limit for filing administrative claims if the IRS has not sold the property.



# 07

## SALT Deduction Limitations

The new SALT deduction limitation is \$10,000 for individuals and \$5,000 for married individuals filing separately. This limit only affects those who itemize their deductions on their tax returns and applies to tax years between Dec. 31, 2017 and Jan. 1, 2026.

In May 2018, the IRS issued a notice announcing that further regulations and guidance on state workarounds are coming, due to several states passing or attempting to pass legislation to get around the new limitation.

Keep in mind, this list is not comprehensive. There has been (and will be) a lot of other guidance released concerning these and other areas of the Tax Cuts and Jobs Act. What is certain is that the 2019 tax season will be full of learning curves.

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