# 2017 Tax Cuts and Jobs Act

## Key Provisions for Businesses

1. **The corporate income tax rate drops to a flat 21%** beginning with the 2018 tax year. For C corporations who have historically reported less than $90,000/$100,000 of income, this will be a tax increase because of the removal of the 15% tax bracket. For higher income corporations, this will be a clear tax cut. Additionally, the alternative minimum tax has been eliminated for C corporations with tax years beginning after 2017.

2. **There is a new 199A deduction for qualified pass through income** (S corporation, LLC, partnership, sole proprietor). This has the potential to bring the top individual tax rate down from the current 39.6% to 29.6% (37% new top rate less 20% pass through deduction).
   - a) **In its simplest form, the deduction is 20% of Qualified Business Income (QBI).** This is generally net business income for a trade or business (non investment income). The 199A deduction can generally be no more than 20% of taxable ordinary income.
   - b) **There are limits to this deduction if taxable income is over $315,000 (married) or $157,500 (single).** Certain limits based on wages paid by the business or unadjusted basis in depreciable assets start to take effect at this threshold. Limit is the greater of
     1. 50% of wages paid by the business, or
     2. 25% of wages paid by the business PLUS 2.5% of qualified property original cost (tangible property subject to depreciation and held at year-end).
   - c) **A specified service trade or business (SSB) is eligible as long as individual taxable income is below $315,000 (married) or $157,500 (single).** SSB income when taxable income is over $415,000 (married), or $207,500 (single) is not eligible for this deduction.

     **SSB** – health, law, accounting, performing arts, consulting, athletics, financial services, brokerage services, investing, investment management, trading or dealing in securities, partnership interests or commodities, OR

     **Any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners.**
   - d) **Reasonable compensation** (wages) paid by an S corporation to an owner **is not eligible for the 20% deduction.** Guaranteed payments paid to an owner of a LLC or a partnership are also not eligible for the 20% deduction.
   - e) **The 20% deduction** does not reduce Federal Adjusted Gross Income (AGI); therefore, the deduction **is not a factor in computing Illinois individual income tax.**

3. **Increased ability to write-off depreciable property** (whether new or used) with 100% bonus depreciation available for assets placed in service after September 27, 2017. In addition, for 2018 tax year, Section 179 deduction increases from $500,000 to $1 million.

4. **Entertainment expenses will be 100% nondeductible** instead of 50% deductible. Meals provided for the convenience of the employer will no longer be 100% deductible in 2018. Instead, these meals will be 50% deductible, similar to meals incurred in connection with a business meeting (i.e. customers).

5. **The simplification of several business provisions for small businesses** – for example inventory costing tax rules, construction accounting, and the new 30% of EBITDA interest limitation rules are not applicable to businesses with less than $25 million of revenues.

6. **The domestic production activity deduction of 9% of qualified income has been repealed** and will be no longer available beginning in 2018. Please note Illinois has eliminated this deduction in 2017.


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# 2017 Tax Cuts and Jobs Act

## Key Provisions for Individuals

1. **Loss of individual itemized deductions for 2018, in particular, state and local taxes**. For 2018, the limit will be $10,000 (whether single or married), which can be made up of property taxes and state income/sales taxes.

2. **The estate tax exemption is doubled** to $11.2 million for an individual and $22.4 million for a couple. The increased exemption levels are valid through 2025.

3. **The alternative minimum tax for individuals**, while not repealed, **will impact far fewer taxpayers.**

4. **The standard deduction for 2018 will be increased** to $24,000 for married filers and $12,000 for individual filers. **Personal exemptions would be eliminated** beginning in 2018.

5. **Child tax credit will be increased to $2,000 per child**, with the refundable portion increasing to $1,400. There is also a nonrefundable $500 credit for other qualifying dependents, such as children attending college and parents. **The full credit is available to married couples with adjusted gross income under $400,000 and single filers with income under $200,000.**

6. **The charitable contribution itemized deduction for** payments made in exchange for college **athletic event seating rights will no longer be allowed in 2018**.

7. **Business losses in excess of $500,000 would not be deductible even for active investors**. Losses in excess of $500,000 would be carried forward to subsequent tax years. Losses covered by this provision include passthrough losses as well as those from Schedule C and Schedule F.

| 2018 Rates Before Law Change | | | 2018 Rates After Enactment | | |
|---|---|---|---|---|---|
| Rate | Taxable income | | Rate | Taxable income | |
| | Single | Married | | Single | Married |
| 10% | $0 to $9,525 | $0 to $19,050 | 10% | $0 to $9,525 | $0 to $19,050 |
| 15% | $9,526 to $38,700 | $19,051 to $77,400 | 12% | $9,526 to $38,700 | $19,051 to $77,400 |
| 25% | $38,701 to $93,700 | $77,401 to $156,150 | 22% | $38,701 to $82,500 | $77,401 to $165,000 |
| 28% | $93,701 to $195,450 | $156,151 to $237,950 | 24% | $82,501 to $157,500 | $165,001 to $315,000 |
| 33% | $195,451 to $424,950 | $237,951 to $424,950 | 32% | $157,501 to $200,000 | $315,001 to $400,000 |
| 35% | $424,951 to 426,700 | $424,951—$480,050 | 35% | $200,001 to $500,000 | $400,001 to $600,000 |
| 39.6% | $426,701 or more | $480,051 or more | 37% | Over $500,000 | Over $600,000 |


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