

Tax Cuts and Jobs Act

Construction Industry Impact

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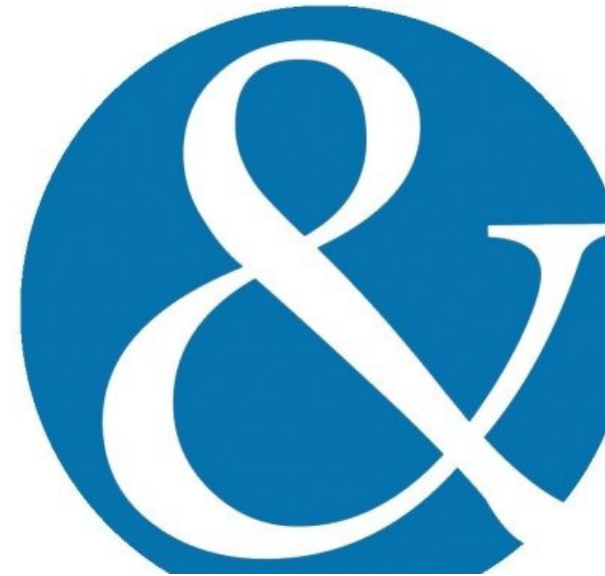




Introduction

Most but not all provisions effective for tax periods beginning after December 31, 2017

General Provisions



Bonus Depreciation

- Increased to 100%, retroactively effective for property placed in service after September 27, 2017 and before January 1, 2023
- Used property now eligible for bonus depreciation

Sec. 179 Expensing

- Limit increased to \$1 million annually
- Phase out threshold increased to \$2.5 million
- Expanded to include roofs, HVAC and fire alarm and security systems



Accounting Method Updates

- Cash basis allowed for all businesses with average gross receipts of \$25 million or less, even if the business has inventories
- Exempt method (i.e. completed contract) of accounting allowed if average gross receipts are \$25 million or less (formerly \$10 million)
 - AMT considerations



Other Provisions

- Limitation on losses for taxpayers other than corporations
 - Business losses exceeding \$500k (MFJ) disallowed and subject to carryover
- Like kind exchanges of tangible personal property disallowed, while real property LKE still allowed
 - Potential minimal impact due to new bonus depreciation rules
- Business interest deduction limitation
 - Limited to sum of interest income plus 30% of adjusted taxable income
 - If average gross receipts less than \$25 million, exempt from this limitation
 - Certain real property trades or business can make an irrevocable election of this limitation

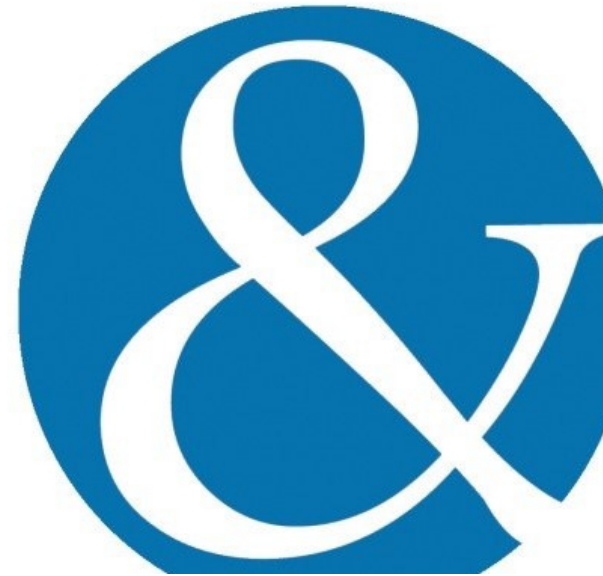
Other Provisions (continued)

- Contributions to capital non-owners are taxable, designed to impose income on grants and subsidies from state and local governments to businesses that locate operations within their jurisdiction.
 - Examples:
 - Contribution in aid of construction
 - Any other contribution as a customer or potential customer
 - Any contribution by a governmental entity
 - “Prior approval” exception-provision does not apply to any contribution made after the date of enactment (12/22/2017) by a government entity “pursuant to a master development plan that had been approved prior to such date by a government entity”

Other Provisions (continued)

- Domestic Production Activities Deduction (DPAD repealed)
- Entertainment deductions disallowed (previously subject to 50% limitation)
 - Includes country club and related dues
 - Meals still subject to 50% limitation
- 10% rehab credit for pre-1936 buildings is repealed. The 20% credit for rehab of a certified historic structure is retained, allowing the credit ratably over a 5 year period

C Corporation Provisions

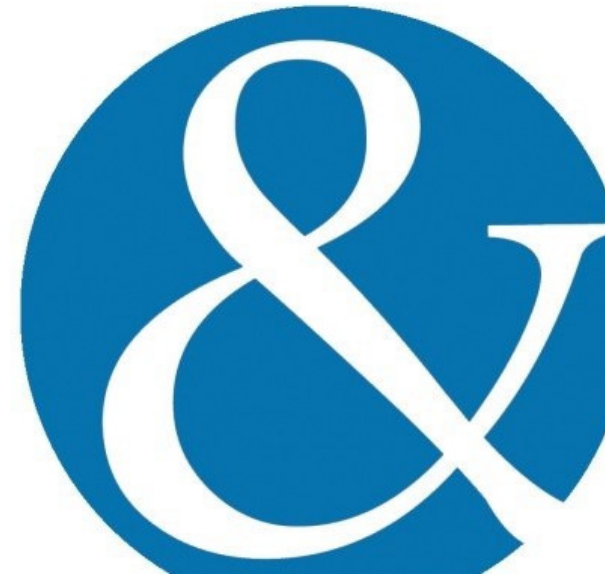


C Corporation Provisions

- Reduction in corporate tax rate to a flat rate of 21%
- Cash basis method of accounting allowed up to \$25 million average gross receipts (formerly \$5 million threshold)
- Corporate Alternative Minimum Tax (AMT) repealed



PASS- THROUGH INCOME
TAX DEDUCTION
PROVISIONS



Pass- Through Income Tax Deduction Provisions

New 20% deduction applicable to sole proprietorship, partnership, or S corporation qualified business income (excludes S corp shareholder wages and partnership guaranteed payments)



Pass- Through Income

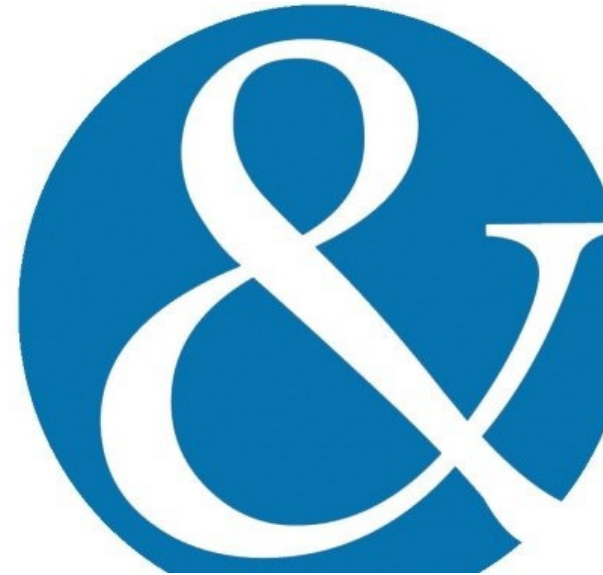
Tax Deduction Provisions (continued)

- Deduction is equal to the lesser of:
 - 20% of the combined qualified business income or
 - 20% of taxable income less capital gain income
- Deduction is limited to the greater of:
 - 50% of the taxpayer's share of allocable wages of the qualified business or
 - 25% of the taxpayer's share of allocable wages plus 2.5% of the unadjusted basis, immediately after acquisition, of all qualified property
 - 2.5% basis adjustment applicable until the later of the end of its recovery period or 10 years

Pass-Through Income Tax Deduction Provisions (continued)

- The 20% deduction does not apply to specified service business income defined as follows:
 - Trades or businesses in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services or brokerage services
 - Any other trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees
- The full 20% deduction is allowed when taxable income is less than \$315k (MFJ), phased out at \$415k (MFJ)
 - Applies to all businesses including specified service businesses
 - Not subject to wage /basis limitations detailed above

Individual Tax Provisions



Individual Tax Provisions

Table 1. Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Single Filer			
Current Law		Tax Cuts and Jobs Act	
10%	\$0-\$9,525	10%	\$0-\$9,525
15%	\$9,525-\$38,700	12%	\$9,525-\$38,700
25%	\$38,700-\$93,700	22%	\$38,700-\$82,500
28%	\$93,700-\$195,450	24%	\$82,500-\$157,500
33%	\$195,450-\$424,950	32%	\$157,500-\$200,000
35%	\$424,950-\$426,700	35%	\$200,000-\$500,000
39.6%	\$426,700+	37%	\$500,000+

Table 2. Tax Brackets for Ordinary Income Under Current Law and the Tax Cuts and Jobs Act (2018 Tax Year)

Married Filing Jointly			
Current Law		Tax Cuts and Jobs Act	
10%	\$0-\$19,050	10%	\$0-\$19,050
15%	\$19,050-\$77,400	12%	\$19,050-\$77,400
25%	\$77,400-\$156,150	22%	\$77,400-\$165,000
28%	\$156,150-\$237,950	24%	\$165,000-\$315,000
33%	\$237,950-\$424,950	32%	\$315,000-\$400,000
35%	\$424,950-\$480,050	35%	\$400,000-\$600,000
39.60%	\$480,050+	37%	\$600,000+

Note: The Head of Household filing status is retained, with a separate bracket schedule.

*Tables from www.taxfoundation.org

Individual Tax Provisions



- Standard deduction doubled to \$24k (MFJ)
- Itemized deduction changes
 - Mortgage interest
 - Acquisition indebtedness of \$750k or less (down from \$1 million)
 - Home equity interest expense disallowed
 - State income taxes and real estate taxes subject to an overall limitation of \$10k
 - Charitable contributions – no significant changes
 - Medical expenses – no significant changes
 - Deductions formerly subject to 2% limitation repealed
 - Unreimbursed employee business expenses
 - Gambling loss deduction retained (but only to the extent of gains)

Individual Tax Provisions

- Qualified dividend and long-term capital gain rates remain the same
- Exclusion of gain from sale of principal residence
 - No change from current law - \$500k exclusion if primary residence for 2 out of 5 years (MFJ)
- Personal exemptions repealed

Individual Tax Provisions

Child Tax Credit

- Doubles to \$2k per eligible child
- Phase out thresholds significantly increased to AGI of \$400k (MFJ)
- Available to children under age 17 at end of tax year (up to \$1,400 “refundable”)
- \$500 credit available for qualifying dependents other than qualifying children

Section 529 Plan Changes

- Distributions allowed for elementary and high school tuition costs up to a \$10,000 limit
- Public, private, or religious school



Individual Tax Provisions

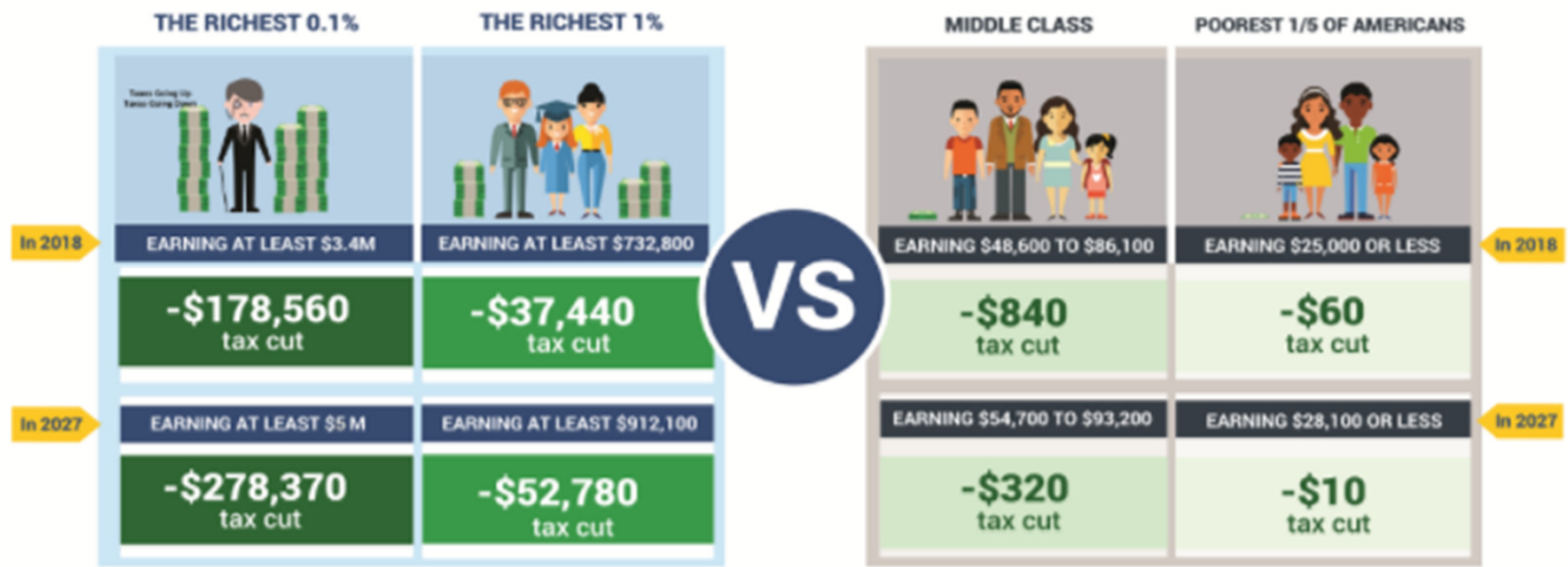
AMT Changes

- Increased exemption and phase out amounts and fewer AMT preference items
- Result will be far fewer taxpayers subject to AMT translating to significant overall income tax savings (important tax reform consideration often overlooked)

Estate tax exemption doubled to \$11.2 million in 2018

(consistent with many of the individual tax provisions, new estate tax exemption expires after 2025)

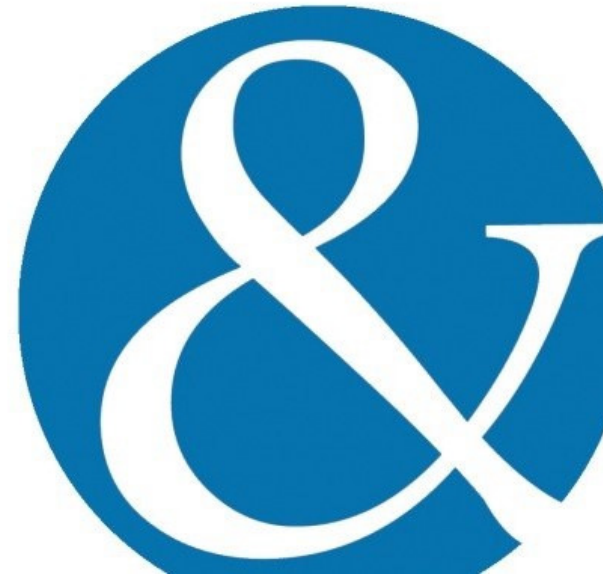
COMPARING THE “TAX CUTS AND JOBS ACT”



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 2017-1); Race/Ethnicity of Income Percentile: Prosperity Now's analysis of American Community Survey data, using Urban-Brookings Tax Policy Center's Income Percentiles (in 2017 dollars) defined in "A Preliminary Analysis of the Unified Framework."



Case Studies



Case Study 1

MFJ w/ Pass-through
income totaling \$215,000

Example Using 2016 Form 1040:		Adjustments +/-
AGI	317,072	AGI not affected by new Sec. 199A deduction; offset in determining TI
<u>Less:</u>		
R/E taxes	(10,000)	-942 (real estate taxes would be eliminated)
SALT	-0-	-21,619 (No deduction for state/local income taxes)
Mrtg Interest	(16,414)	N/A (no impact since no QSR)
<u>Charitable</u>	<u>(11,911)</u>	<u>N/A (no impact on charitable contributions)</u>
Itemized Deductions	(38,325)	-22,561 (total itemized deductions lost to SALT tax reform)
Personal Exemptions	-0-	-7,614 (after partial phaseout on 2016 tax return)
Sec. 199A	(42,878)	-42,878 (104,980 K-1 income = 104,011 Schedule C net profit + 5,400 Schedule E net rental income) x 20%; Not limited to 50% of W-2 income since taxable income < 315,000 on MFJ return
Taxable Income	235,869	-11,796 (taxable income had been 248,745 in 2016)
Tax	45,188	-12,311 (regular tax in 2016 was 57,499)
Tax Calculation:		$((235,869 - 165,000) \times 24\%) + 28,179 = 45,188$
AMT	-0-	-5,173 (AMT that had been due on 2016 tax return)
<u>Total Tax Savings</u>	17,484	Note: Total tax in 2016 had been 62,672; under tax reform proposals = 45,188; savings = 17,484

Case Study 2: MFJ w/ \$70,000 W-2 Income and Three Dependents

<u>Impact of Tax Cut and Jobs Act</u> <u>Using Client 2017 Tax Return</u>		
	2017	2018
Wages	70,000	70,000
<u>Less:</u>		
Standard Deductions	(12,600)	(24,000)
Personal & Dependent Exemptions <small>*5 x 4,050</small>	(20,250)*	N/A
Taxable Income	37,150	46,000
Tax	4,640	5,139
<u>Less:</u>		
Child Credit <small>*3 x 1,000</small>	<u>(3,000)*</u>	(6,000)* <small>*3 x 2,000</small>
Net tax Due:	1,640	-0-

Total Savings = 1,640

Case Study 3:

MFJ w/ \$310,000 W-2 income
and Three Dependents

Impact of Tax Cut and Jobs Act Using Client 2017 Tax Return		
<u>Example Using 2016 Form 1040:</u>		<u>Impact of New Tax Act</u>
Wages	310,000	310,000
Less: Itemized Deductions	(80,000)	(40,000) (10,000)
Personal & Dependent Exemptions *5 x 4,050	(20,250)*	N/A
Taxable Income	209,750	260,000
Regular Tax	45,615	50,979

Impact of Tax Cut and Jobs Act Using Client 2017 Tax Return		
<u>AMT Calculation:</u>		
Regular TI	209,750	260,000
Plus:		
Exemptions Itemized Deductions	20,250 <u>40,000</u>	N/A <u>10,000</u>
Pre-AMTI	270,000	270,000
<u>Less:</u>		
Exemption	(57,225)	(109,400)
AMTI	212,755	160,600
<u>TMT</u>	55,821	41,756
AMT	10,206	-0-
<u>Less:</u>		
Child Credit	(N/A)	(6,000) *3 x 2,000
<u>Tax Due:</u>	55,821	44,979

Total Savings = 10,842