DEANDORTON

DEAN DORTON ALLEN FORD, PLLC

NEWSLETTER

SPRING 2018

Inside

Tax Cuts and Jobs Act: Some Observations About Its Impact

The Tax Cuts and Jobs Act (TCJA), signed into law in late December, has been accurately described as being the most significant federal tax legislation since 1986. Rather than providing our readers with a long list of changes, which you probably have seen already, we've undertaken some analyses to gain insights into some of TCJA's impacts on people's personal income tax liabilities. Before sharing the results of our analyses, however, we note how distorted much of what we have read and heard in press commentaries and political discourse have been. People with an agenda can without doubt develop hypothetical examples to make their political points. We have tried very hard in our analyses to present unbiased results, with a view to educate, not advocate.

In our first analysis, we focus only on the impact at different taxable income levels of changes in regular income tax rates and the starting and stopping points of the different tax brackets. This very basic change has not gotten the attention it deserves. Here are the results we computed, comparing 2017 to 2018 regular income taxes (and ignoring other taxes, such as AMT, self-employment, and net investment income, and ignoring tax credits):

Taxable Income	2017 Tax	2018 Tax	Difference	% Change
$50,000	$6,568	$5,619	<$949>	-14%
$100,000	$16,478	$13,879	<$2,599>	-16%
$200,000	$42,885	$36,579	<$6,306>	-15%
$500,000	$143,231	$126,379	<$16,852>	-12%
$750,000	$242,231	$216,879	<$25,352>	-10%
$1,000,000	$341,231	$309,379	<$31,852>	-9%

Note: These tax amounts are computed using married filing joint rates and brackets.

While it is true that everyone's taxable income will change as a result of TCJA provisions, some will increase and others will decrease. Recognize that this analysis is intended to focus only the impact of changes in tax rates and the brackets at which they apply. Here are a couple of readily-observable results from this analysis:

- At each taxable income level used in our computations, 2018 tax amounts are less than those for 2017.
- Generally, taxes at higher taxable income levels are reduced by smaller percentages than at lower levels.

In our second analysis, we tried to assess the overall federal income tax impact on a family of four (parents and two children, ages 10 and 15) at different income levels and with deductions we believed would be fairly representative of those at the respective income levels. In each case, we assumed all the family's income would be fully taxed at ordinary rates (TCJA does not change tax rates on capital gains or qualified dividends).

Continued on page 2

106 W. Vine Street, Suite 600 ▪ Lexington, KY 40507 ▪ **phone** 859-255-2341 ▪ **fax** 859-255-0125
500 W. Jefferson Street, Suite 1400 ▪ Louisville, KY 40202 ▪ **phone** 502-589-6050 ▪ **fax** 502-581-9016
deandorton.com

Tax Cuts and Jobs Act (continued)

Here are the assumptions we used in each case:

	Case #1	Case #2	Case #3	Case #4	Case #5
Adjusted Gross Income (AGI)	$50,000	$100,000	$250,000	$500,000	$1,000,000
Deductions:					
Standard (2017)	$12,700	N/A	N/A	N/A	N/A
Standard (2018)	$24,000	$24,000	N/A	N/A	N/A
Home mortgage interest	N/A	$7,500	$15,000	$30,000	$52,500
Property tax	N/A	$2,000	$4,000	$8,000	$14,000
State and local income tax	N/A	$6,000	$15,000	$30,000	$60,000
Contributions	N/A	$2,000	$10,000	$25,000	$50,000

Based on these assumptions, here are the 2017 and 2018 income taxes by case:

	Case #1	Case #2	Case #3	Case #4	Case #5
Income tax:					
2017	$ 236	$7,016	$40,697	$117,071	$279,489
2018	<1,261>	4,739	36,179	103,629	273,304
Decrease	$1,497	$ 2,277	$ 4,518	$ 13,442	$ 6,185
% Decrease	See note	32%	11%	11%	2%

Note: The percentage decrease in Case #1 is not meaningful, as the tax moved from a small liability ($236) to a refund ($1,261).

Some of the major reasons for the tax decreases are:

Case #1: The increase in the child tax credit (from $2,000 to $4,000) more than offsets the tax impact of an increase in taxable income, resulting from loss of the personal exemptions deduction (from $16,200 to $0), net of an increase in the standard deduction (from $12,700 to $24,000).

Case #2: Just as in Case #1, the increase in the child tax credit is the main reason for the tax decrease.

Case #3: Even though taxable income increases by about $25,000, due to the loss of the personal exemption deductions and the limit on deducting state and local taxes (to $10,000 under TCJA), income tax before credits declined by about $500 as a result of tax rate and bracket changes, and the child tax credit increased from $0 – fully phased out in 2017 – to $4,000 in 2018 (because the phase-out range increased under TCJA).

Case #4: Taxable income increased by over $22,000, due to the loss of the deduction for state and local taxes exceeding $10,000, net of TCJA's elimination of the itemized deduction cutback for higher-income people. But, changes in rates and brackets resulted in an overall tax decrease.

Case #5: The same changes cited in Case #4 again were impactful, and the loss of a portion of the mortgage interest deduction (which TCJA limits to interest on up to $750,000 of new "acquisition indebtedness") increases taxable income. But, even though taxable income increases by over $58,000, tax decreases by about $6,000, due to changes in tax rates and brackets.

Overall observations about this analysis include:

- Each case analyzed shows a tax reduction from 2017 to 2018.
- The percentage reductions in tax generally decline at the higher income levels.
- Certain changes in assumptions could cause tax increases rather than decreases from 2017 to 2018.
- Changes in tax rates and brackets are likely to be major factors in the context of determining whether one can expect lower or higher taxes as a result of TCJA.
- Depending on income levels, family composition, and types of deductions, different people are likely to experience substantially different results in their pre- and post-TCJA tax liabilities.

For our readers who are interested in this topic, we hope our analyses have been educational. And, we invite you to discuss TCJA changes likely to impact you with us.

Doug Dean, *ddean@deandorton.com*
Matt Smith, *msmith@deandorton.com*

2017 Tax Return Pointers and Reminders

2017 federal and most state individual income tax returns are **due to be filed** by Tuesday, April 17, 2018.

Individuals who need additional time to file 2017 income tax returns may file for an **automatic extension** of time to file until October 15, 2018. The extension of time to file is not an extension of time to pay. Failure to pay tax shown on your return is subject to interest and to a 0.5% per month failure-to-pay penalty. You should make a good-faith effort to estimate the amount of tax due and report that amount on your extension form. Failure to do so may invalidate your extension and result in imposition of the failure-to-file penalty – a steep 5% per month of the balance due. You can underestimate the tax by up to 10% on the extension form without incurring penalties, but interest still applies.

As you're compiling your 2017 tax information, give some thought to what information you would need **if your return is selected for audit** and how you would access that information. Many of us rely upon online calendars and financial records stored electronically that simply may not be available when needed. The information may be on the hard drive of a computer that "died." It may be online with your bank but only available for, say, a year. It may be in your Outlook calendar at your former employer or that of your current employer, who may retain such information for only a limited duration. Or it may be in a program that is now completely out of date. Because the electronic world is changing faster every year and we rely on it to do more for us, we need to think proactively about how we'll retrieve that information, if needed, from our electronic information sources.

Current tax law is very clear in requiring a contributor to have a timely written gift acknowledgment containing certain information in order for **charitable gifts of $250 or more** to be deductible. The charitable organization's letter must state the gift's date and amount and either (1) affirm that no goods or services were provided in connection with the gift, or (2) if such goods or services were provided, identify what they were and their value, and include a statement that the amount deductible is limited to the excess of the amount given over the value received. The deduction also is contingent on the contributor having the acknowledgement letter by the earlier of the filing date or due date (including an extension) of the return.

An impact of globalization is a greater incidence of U.S. persons having **financial accounts or owning other property outside the U.S.** Additional reporting requirements are imposed on certain owners of such assets. These reporting requirements may apply if:

- You have a beneficial interest in or signature authority over a foreign bank or investment account.
- You own an interest in a foreign corporation, partnership, or other business entity (not held in an investment account), a note, or other receivable due from a foreign borrower, or any other interest in any foreign financial asset.
- You have an interest in a foreign trust or estate, have ever created a foreign trust, or received a gift or bequest from a foreign person during the year.

The Kentucky individual income tax return includes a line to report **use tax** on purchases from out-of-state retailers. If you purchased items online or from a catalog and did not pay sales tax on those items, you would report the use tax on this line.

If you pay no or minimal state income tax, please note that you can choose to **deduct state sales tax** instead of state income tax as an itemized deduction. Consider whether you made any large purchases, such as vehicles, during 2017.

IRA and HSA contributions, if any, for 2017 must be made by April 17, 2018.

Kentucky residents are allowed to deduct after-tax payments they made for **health and long-term care insurance**, without regard to limits that apply for federal income tax purposes. Our clients for whom this may apply should provide us with their 2017 payments of these types.

You can check the status of your **2017 tax refund**, if you are due one, at *irs.gov/refunds*. To check your refund status, you will need your tax identification number, filing status, and refund amount from your return. For Kentucky refunds, visit *iitrefundstatus.ky.gov/TRFWeb/index.jsp*. Please note that due to rising rates of identity theft, refunds may be delayed.

TAX QUOTE

"Republicans say tax cuts, tax cuts, tax cuts. Democrats say spend, new programs, more money. You can't spend enough for the Democratic base, or cut enough for the Republican."

– Peggy Noonan
(from a compilation by Jeffrey L. Yablon,
a tax attorney with Pillsbury Winthrop Shaw Pittman LLP in Washington)

Elder Abuse: Financial Fraud

As the population of elderly Americans with retirement savings grows, so does the opportunity for financial fraud against this often vulnerable group. To compound the problem, technology allows fraudsters to share lists of seniors who have succumbed to fraud, so the same person can be scammed repeatedly.

Kentucky statutes require all citizens to report reasonable suspicion of financial exploitation against adults. Such exploitation can be difficult to detect; it sometimes is perpetrated by family members or close advisors against victims who may be unaware of the exploitation or embarrassed to report it.

Relatives and caregivers can take advantage of the elderly in multiple ways. For example, they may take money or other valuables, without permission, for themselves or to give away to others. They may "borrow" money without repaying it, misuse debit or credit cards, or cash pension or social security checks.

Signs of financial exploitation against the elderly include:

- Unpaid bills
- Lack of essential items like food and medicine
- Unusual bank account activity, including expenditures inconsistent with history, and large unexplained withdrawals
- Use of ATM withdrawals, if inconsistent with typical transaction activity
- Changes to wills or other legal documents, especially if they change fiduciaries or beneficiaries
- Missing valuable items (silver, electronics, art)

Current scams against the elderly, typically perpetrated by strangers, include:

- Prizes or sweepstakes: A victim is required to send money to cover taxes, shipping, or processing.
- Investments: Pressure to maximize returns makes seniors vulnerable to persuasion to invest in assets which promise unrealistically high rates of return.
- Charitable contributions: Fraudsters solicit donations to nonexistent charities or religious organizations.
- Repairs to home or automobile: Advance deposits may be required, but repairs may not be completed or may be performed at a substandard level.
- Health, funeral, life insurance: Fraudsters sell policies that duplicate current coverage, or are bogus.
- Loans and mortgages: Unscrupulous lenders give loans with very high interest rates and hidden fees.

Many agencies are charged with protecting seniors. Federal agencies include the FBI, Postal Service, and Secret Service. State and local police may be involved in investigating consumer fraud. State social service agencies are charged with protecting seniors. In Kentucky, this includes these agencies, among others: Cabinet for Health and Family Services, various Ombudsman programs, Kentucky State Police, Area Agencies on Aging, Office of the Inspector General, and Office of the Attorney General.

Elizabeth Z. Woodward, *ewoodward@deandorton.com*

Tips to avoid becoming a victim of elder financial abuse:

- Do not provide your SSN over the phone, unless you initiated the call and know the party you call can be trusted.
- Do not click on any links in an email from an unknown sender.
- Do not give others access to your computer or provide security information. If someone contacts you requesting such information and claims to be from your bank or credit card company, for example, hang up and call a verified number for the organization.
- Check your credit report regularly to ensure that fraudulent new accounts have not been set up in your name.
- Secure your smartphone and your computer with strong passwords.
- Shred documents showing your personal information and lock your mailbox; do not leave your wallet in your car.

More Updated Amounts for 2018

In our Winter 2017 Newsletter, we reported that the **FICA limit** for 2018 would increase to $128,700. The Social Security Administration later issued a corrected amount, $128,400.

Federal estate, gift, and generation-skipping taxes now apply to cumulative taxable transfers exceeding $11,180,000 per person as a result of the Tax Cuts and Jobs Act signed into law late last year.

For 2018, the **standard mileage rate** for business miles is $0.545. For medical or moving use, the rate this year is $0.18 per mile, and for charitable use it is $0.14 per mile.

Publications and Events

Tax Cuts and Jobs Act Articles
If you are interested in learning more about how the Tax Cuts and Jobs Act may affect your specific business industry or investments, such as real estate, visit *deandorton.com/taxcutsandjobsact*.

Higher Education: Current Issues and Trends
Our College and University Industry Team is holding its fourth annual Higher Education: Current Issues and Trends program on March 23 at The Olmsted in Louisville. The program, which will provide up to seven hours of complimentary CPE, focuses on regulatory, financial management, and technology issues. Visit *deandorton.com/higher-education-registration* to register.

Thoroughbred Business Year in Review
Our Equine Industry Team's annual Thoroughbred Business Year in Review for 2017 compares broodmare, yearling, and weanling sale prices, stud fees, sales proceeds, cost of ownership, and more to data from previous years, analyzing industry trends. Visit *deandorton.com/publications* to access this publication online. If you would like a hard copy, please email Shannon Abbott at *sabbott@deandorton.com*.

Best Places to Work

For the fourteenth consecutive year, we have been named one of the "Best Places to Work in Kentucky" by the Kentucky Society for Human Resources Management State Council and the Kentucky Chamber of Commerce. This competition, which is based on confidential survey results, is a multi-year initiative designed to motivate companies in the Commonwealth to improve their workplace environments. We are pleased to be one of only a very few companies on the list every year of the program's existence.

People News

We welcome the following new team members:

Austin Andrus joined our Accounting and Financial Outsourcing team in Lexington. He earned his Bachelor degree in Accounting with a minor in Spanish from Asbury University.

Jon Blanchard, a CPA, joined our Tax team in Lexington. He has nine years of experience as a tax and financial analysis professional. Jon earned Bachelor degrees in Accounting and Management from the University of Kentucky.

Lindsey Conner joined our office support team in Lexington. She has held various administrative and operational jobs since 2007. Lindsey earned her Bachelor degree in International Relations from the University of Kentucky.

Joe Daugherty, a CPA, joined our Tax team in Lexington. He has nine years of private and public tax and accounting experience. Joe earned his Bachelor degree in Accounting from Morehead State University and his Master degree in Accountancy from the University of Kentucky.

Heidi Hillard joined our Technology team in Lexington in a business development role. She has more than 10 years of sales and client relationship experience. She earned her Bachelor degree in Marketing from Trevecca Nazarene University in Nashville.

Daniel Paz joined our Technology team in Lexington. He has worked in various IT roles since 2003. Daniel earned his Bachelor degree in Technical Management from DeVry University.

Bryan Rogers joined our Technology team in Lexington. Bryan has over six years of technology work experience.

Kyle Rogers joined our Technology team in Lexington, with a focus on IT audit. He earned his Associate degree in Computer Engineering Technology from Spencerian College and has over 13 years of IT work experience.

Shawn Stevison returned to Dean Dorton's Healthcare Consulting Services team. In addition to being a CPA, Shawn holds other credentials, including Certified in Healthcare Compliance (CHC), Chartered Global Management Accountant (CGMA), and Certified in Risk Management Assurance (CRMA). She earned her degree in Accounting at the University of Louisville, and she has over 17 years of relevant work experience.

Ryan Walker, a CPA, joined our Assurance Services team in Lexington. He has served in audit and assurance roles since 2009. Ryan earned Bachelor and Master degrees in Accounting from the University of Kentucky.

We welcome the following team members who are starting their professional accounting careers with us:

Alex Crawford (a former intern with us) earned his Bachelor degree in Accounting from the University of Kentucky; **Katie Durham** earned her Bachelor degree in Accounting from the University of Kentucky; **Joey George** earned his Bachelor degree in Business Administration and participated in the Certificate of Accounting Program at Bellarmine University;

DEANDORTON

DEAN DORTON ALLEN FORD, PLLC
106 West Vine Street • Suite 600 • Lexington, KY 40507

PRESORTED
FIRST-CLASS
U.S. POSTAGE
PAID
LOUISVILLE, KY
PERMIT NO. 513

People News, continued

Keith Levin earned his Bachelor and Master degrees in Accounting from the University of Kentucky; **Jon Tennent** earned his Bachelor degree in English from Grove City College in Pennsylvania and Master degree in Information Science, with a concentration in Accounting, from the University of Kentucky; **Olivia Thompson** earned her Bachelor degree in Accounting & Finance from the University of Kentucky; **Dome Vongvises** (former intern) earned his Bachelor degree in Accounting from the University of Kentucky; and **Estelle Withrow** (another former intern) earned her Bachelor degree in Accounting from Eastern Kentucky University.

Interns working with us this season are University of Kentucky students **Rose Georges**, **Mary Maze**, and **Cameron Myers**; University of Louisville students **Yvonne Howard** and **Bentley Meuris**; Eastern Kentucky University student **Coby Cumbow**; Murray State University students **Hunter Spoonamore** and **Sarah Williamson**; Indiana University Southeast student and returning intern, **Julianne Kramer**; and recently graduated Asbury University alumnus, **Zach Braun**.

We recognize the following activities and accomplishments of our team members:

Jon Tennent successfully completed all four sections of the CPA exam, and **Madison Embry** earned her CPA certification. Congratulations to each of them.

Justin Harris was elected Chair of the Kentucky Rural Health Association's Governance Committee.

Melissa Hicks was elected Treasurer of the Lexington Humane Society.

Elizabeth Woodward was elected Vice Chair and Treasurer of the Blue Grass Airport Board of Directors.

Allison Carter joined the Finance Committee of GleanKY.

Jen Shah spoke at the Thoroughbred Owners of California Tax Planning Webinar.

Hunter Stout and **Brian Perry** presented on accounting, financial reporting, and tax considerations for the construction industry at the Kentucky Small Business Development Center's Minority and Women Contractor Training Program.

Allison Carter, **David Richard**, and **Jason Miller** spoke at an Association of Independent Kentucky Colleges and Universities Business Officers meeting.

Erica Horn spoke at the following events: Kentucky Society of CPAs Kentucky State Tax Conference ("Kentucky Tax Law Update"), Manufacturers' Education Council Ohio Tax Conference ("The New Majority: The Shift from Cost of Performance to Market-Based Sourcing"), and Kentucky Guild of Brewers' Education Conference and Trade Show ("Behind the Brews: Taxes? What Taxes?").

John Herring won the United States Tennis Association's No-Cut Coach Starfish Award, which recognized his time and effort to ensure that young tennis players experience the fun of representing their high school tennis teams.