

Tax Cuts and Jobs Act: Simplification or Complication?



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Is the recent Tax Cuts and Jobs Act a simplification or complication?

The short answer is yes. But how can it be both simplification and complication you ask? Congress works in mysterious ways.

The flagship change of the Tax Cuts and Jobs Act (TCJA) is that it cuts corporate rates from 35 percent to 21 percent in order to bring the United States more in line with corporate rates in the rest of the world. This is supposed to stimulate the economy and increase job growth, which in turn is supposed to increase the individual income tax base to help pay for the corporate rate decrease. At the same time the TCJA is supposed to simplify the tax code for most Americans. Simplification

Depending on where you pull the statistics, approximately 40 percent of U.S. taxpayers will itemize when filing their 2017 income tax returns. The TCJA implements changes that should drop that number to approximately 10 percent.

So when you hear the politicians touting simplification, they are referring to this large drop in itemized filing. The TCJA accomplishes this with some of the following changes:

- Increase the standard deduction from \$6,500 to \$12,000 for single filers and \$13,000 to \$24,000 for married filing jointly
- Increase the child tax credit from \$1,000 to \$2,000 per qualifying child, and increase the phase-out of these credits from \$75,000 for single filers and \$110,000 for married filers to \$200,000 for single filers and \$400,000 for married filers
- Personal exemptions are suspended
- Home equity line interest deductions are suspended
- Charitable contributions for amounts paid for college athletic seating rights are suspended
- Miscellaneous itemized deductions are suspended
- Alimony deductions are suspended
- Itemized deduction limitation is suspended
- Casualty and theft losses are suspended
- Moving expense deductions are suspended

Complication

For those left in the 10 percent itemization bucket and those with small businesses (which is most likely a lot of the readership of this publication), things get more complex. The TCJA will be a tax cut for most; however, many taxpayers—particularly those with high wages—will end up with a tax increase. A few of the complex changes are as follows:

- The state and local tax deduction (income and property) is capped at \$10,000. This change is particularly tough on those in high income tax states. Many don't think of Kentucky as a high income tax state, but when you add in the local tax, taxpayers in Kentucky's two most populous counties of Jefferson and Fayette pay between 8 percent and 9 percent, which is not low in relation to many other states.

- The top individual tax rate is reduced to 37 percent from 39.6 percent, but the cap on the state and local deduction may still cause tax increases for some highly compensated Kentuckians.
- The complicated individual alternative minimum tax (AMT) is retained with higher exemption amounts.
- A new limitation is placed on “excess business losses.” This complex calculation is likely to hurt some small business owners and those with equine businesses by limiting the amount of currently deductible losses from those businesses.
- A new qualified business income (QBI) deduction is added which creates a potential 20 percent deduction for businesses that qualify. A recent Forbes article did a Q&A on how this deduction and the related limitations work. The printed article is 39 pages long.

Anytime the tax law is changed dramatically, there are “ripples” in the new law which cause unintended consequences. It’s likely to take years for a lot of those items to be completely sorted out which adds to the complication.

Many CPA firms will be running side-by-side 2018 versus 2017 comparisons with their 2017 tax preparation process to help taxpayers better understand the implications of the TCJA. Further, many taxpayers may want to make changes during 2018 to adjust to the new law.

Time will tell if the TCJA accomplishes its goals. However, one thing is for certain; the TCJA is the most sweeping tax legislation we’ve had in over 30 years.

As always, please consult with your tax adviser regarding the changes that might be applicable to your specific situation.

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