David Winters, CPA and Director of Tax for Simons Bitzer & Associates, highlights some of the benefits both businesses and individuals should experience this tax season. ***(Submitted photo)***

Understand changes in the tax code legislation

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In December, both houses of congress passed their version of tax reform, quite arguably the largest since the Tax Reform Act of 1986 passed during the Reagan Administration. On December 22, President Trump signed the version of the new law, knowns as the Tax Cust and Jobs Act ("TCJA"), that came out of conference committee a week earlier.

Republicans contend that this piece of legislation simplifies the tax code, and consequently the tax filing process for millions of Americans. Democrats dispute that by arguing that was nothing more than a tax cut for the wealthiest Americans. So, who really benefits from this tax overhaul? In my opinion, businesses and individuals.

There are still seven tax brackets for individual taxpayers. However, all but two of those brackets were lowered in the final bill with the top rate being reduced from 39.6% down to 37%. The amount of income that is taxed at which rate depends on the filing status (single, married filing joint, etc.) In theory, this means that almost everyone who pays tax will see a decrease in their tax liability, and thus, have more money in their pocket.

Another benefit for individual taxpayers is that the standard deduction nearly doubles to $12,000 for individual filers and $24,000 who are married and filing joint tax returns.

Additionally, the tax reform law increased the child tax credit ("CTC") from $1,000 per qualified dependent child to $2,000. This law also increases the refundable portion of the CTC to $1,400.

Other significant changes in the law that impact individuals include limiting mortgage interest deduction to interest paid on the first $750,000 of new debt, generally, a disallowance of deduction for interest paid on home equity loans, and limiting the State and Local Tax deduction, often referred to as the SALT deduction, to just $10,000. The SALT change may impact some Hoosiers but taxpayers in states with high income tax rates such as New York, Connecticut and California, will suffer most under this provision. The SALT change is probably one of the most unpopular provisions in this new bill and has been met with scrutiny at all levels.

Businesses will see a number of positive changes as well. Businesses that are organized as C Corporations prior to the new law were taxed using a graduated tax system with the lowest rate of 15% and the highest rate of 35%. These businesses are now taxed at a flat rate of 21%. This change was made to make US companies more competitive on the world state. According to the Tax Foundation, the average worldwide corporate tax rate was 22.5%, as of 2016. The change in the US rate allows businesses at home to be more competitive on the worldwide stage.

There is also a new 20% deduction of Qualified Business Income from pass-through entities. This deduction is taken at the shareholder level (i.e. on their 1040) subject to certain other limitations. This part of the legislation was intended to equate the tax cut for C Corporations to owners of S Corporations. This is a more complex calculation that cannot be adequately discussed in this article.

For more information on how you might be affected by TCJA, whether business or individual, we highly recommend that you seek advice from a tax professional. Call our office to schedule an appointment. (317) 782-3070.