Business

Ridgefield Attorney Explains How New Tax Law Impacts Businesses

The new tax law will impact personal tax payers as well as businesses and corporations. Find out how.

By Wendy Ann Mitchell, Patch Contributor | Jan 7, 2018 4:10 pm ET

RIDGEFIELD, CT — *The following article was written by John Sweeney, Tax and Elder Care Attorney with Sweeney Legal, based out of Ridgefield, Conn.*

There are many big picture takeaways from the new tax law. It is clear that this was a corporate and rich man's bill and they disproportionately benefitted. It is also clear that the high tax "Blue" states will have a tax increase. It is also amazing that all the deficit hawks evaporated, and we are passing on some serious debt to our children. It also looks like this is going to be granddaddy of all tax loophole laws with businesses and people legally reducing their taxes with tax shenanigans.

Moreover, the law may encourage more offshoring. The law will seriously reduce governmental revenue, perhaps setting the stage for the deficit hawks to come roaring back to reduce spending. Finally, the law didn't simplify the tax code and you won't be able to do your taxes on a postcard.

Ah well, what is done is done. So here are some highlights of the new law which will affect most people. On the Individual Side of things, seven individual tax brackets are replaced with rates ranging from 10 percent to 37 percent. The standard deduction for taxpayer's doubles and the personal exemption is eliminated. Itemized deductions are primarily limited to home mortgage interest, state and local taxes, and charitable contributions. Deductions for state and local income, sales, and property taxes are limited to $10,000.

The home mortgage interest deduction for principal and second residences (home equity is eliminated) is limited to a $750,000 mortgage amount. Existing home mortgages are grandfathered. Current charitable contribution deduction rules are largely left in place. Alimony is no longer deductible by the payor after 2018. The alternative minimum tax is retained with increased exemption amounts. The individual mandate of the Affordable Care Act is repealed. Finally, the method for calculating inflation will be reduced increasing your taxes down the road.

For the Estate and Gift tax provisions, the estate, gift, and generation-skipping transfer (GST) taxes are retained. However, the exemption is doubled to about $11M ($22M per couple) for the period 2018 through 2025. The fair market value basis step-up is retained, and the gift tax remains in place. The portability provisions for the estate tax exemption are unchanged.

From a Corporate and Business perspective, the corporate tax rate is reduced from 35 percent to 21 percent. There is a deduction of 20 percent of qualified business income for some partnerships, S-Corporations, or sole proprietorships. This results in an effective top rate of 29.6 percent. There is now 100 percent first-year expensing of certain depreciable assets. There are now limitations for interest expense deductions. The corporate AMT is repealed, and net operating loss deductions are limited. There is a one-time repatriation tax of 15.5 percent on overseas earnings and profits and 8 percent on illiquid. We will now have a territorial tax system for the taxation with foreign income untaxed in the US.

There ultimately was no change made to the specific identification method for sale of stock. The contribution limits for IRAs and 401(k) plans remain unchanged. Moreover, all the current law provisions of the capital gains tax, net investment income tax, and Medicare surtax remain unchanged.

So, the law is going to prompt individuals to restructure some of their affairs. It may dent the housing market, especially the second home market. It will raise taxes on the high middle-income earners in Fairfield county.

From an estate tax perspective, this law will not prompt much change since current law remains in effect with a higher exemption....which then sunsets in 7 years.

From a Corporate perspective, this law will cause wholesale change. First, most professional service firms and small businesses will have to consider how to operate in the future to minimize tax. The thinking on pass through entities and C corporations has changed.

Second, most domestic corporations will see their tax bills plummet. Third, most international companies are dancing in the street being able to bring back foreign earnings at a 15 percent rate, rather than 35 percent. Finally, most international corporations are going to have go through restructurings to minimize global taxes under this new law.

For more information about how the new tax law impacts you, contact Sweeney Legal. (203) 216-6877, SweeneyLegal@gmail.com, www.legalsweeney.com.

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