

Deduction for Meals and Entertainment

	2017 Expenses (<u>Old Rules</u>)	2018 Expenses (<u>New Rules</u>)
Entertaining Clients	50% deductible	No deduction for entertainment expenses
Business Meals	50% deductible	50% deductible
Cost of Food While Entertaining Clients	50% deductible	50% deductible if separately purchased or cost listed as separate line item

Deduction for Qualified Business Income



Centerpiece of New Tax Law

FEDERAL CORPORATE INCOME TAX RATE REDUCED



PREVIOUSLY



NOW

Basics of Deduction for Qualified Business Income

- Not an itemized deduction
- Based on **net** business income, after other expenses deducted
- Limited to **non**-specified service businesses – however, exception allows specified service business owners to take deduction up to income limits
 - For single taxpayers, limit is taxable income of **\$157,500**
 - For joint returns, limit is taxable income of **\$315,000**
 - Partial deduction available up to **\$207,500** for singles and **\$415,000** for joint

Basics of Deduction for Qualified Business Income

Specified service businesses are those in following fields:

- any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, **brokerage services**, investing and investment management, trading, dealing in certain assets, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees.

2nd Set of Exceptions for Non-Specified Service Business Income (including RE brokerage)

- These exceptions are for business owners with taxable income over limits:
 - For singles, limit is taxable income of **\$157,500**
 - For joint returns, limit is taxable income of **\$315,000**
 - Partial deduction available up to **\$207,500** for singles and **\$415,000** for joint
- 20% deduction is limited to the greater of:
 - 50% of the W-2 wages paid by the business, or
 - Sum of 25% of the W-2 wages paid by the business, plus 2.5% of the original basis of depreciable property in the business
 - Thus, in order to receive 20% deduction, business must pay wages or own property or both

Example 1: Amy Agent (single)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Net commission income	\$67,000	\$67,000
Personal exemption	\$ 4,150	- 0 -
Standard deduction	<u>\$ 6,500</u>	<u>\$12,000</u>
Taxable income	\$56,350	\$55,000
Business income deduction (20%)	- 0 -	\$11,000
Tax	\$ 9,826	\$ 5,620

Overall tax savings compared with prior law = \$4,206

Tax savings attributable to 199A deduction = \$2,420

Example 2: Barry Broker (single)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Net brokerage income	\$200,000	\$200,000
Personal exemption	\$ 4,150	- 0 -
Standard deduction	<u>\$ 6,500</u>	<u>\$12,000</u>
Taxable income	\$189,350	\$188,000
Business income deduction (20%)	- 0 -	\$22,936*
Tax	\$46,000	\$34,510

Overall tax savings compared with prior law = \$11,490

Tax savings attributable to 199A deduction = \$ 7,340

*Note: Barry's deduction is limited because his taxable income is higher than phase-out amount of \$157,500.

Example 3: David Developer (married)

	<u>Prior Tax Law</u>	<u>New Tax Law</u>
Salary from S corporation	\$80,000	\$80,000
Net income passed through	\$370,000	\$370,000
Personal exemptions (4 x \$4,150)	- 0 -**	- 0 -
Itemized deductions	<u>\$31,100**</u>	<u>\$35,000</u>
Taxable income	\$418,900	\$415,000
Business income deduction (20%)	- 0 -	\$65,000*
Tax	\$113,498	\$ 75,379

Overall tax savings compared with prior law = \$38,119
Tax savings attributable to 199A deduction = \$21,250

*Note: David's income is higher than \$415K threshold, but since income is not from personal service, he still gets partial deduction based on \$80K wages paid and depreciable property in business worth \$1.8 million.

**Note: At their income level, their personal exemptions are phased out and their itemized deductions are limited under the prior law.