



What Physicians Need to Know About the New Tax Reform Law

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In Conjunction with

HIPPOCRATIC FINANCIAL ADVISORS

An educational program presented by the

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Individual Tax Bracket Changes

Individual Tax Brackets lowered approximately 3% of Taxable Income over 7 Brackets

Single Tax Brackets			
2018 Brackets Under Old Law	Income Range Under Old Law	New 2018 Bracket	New 2018 Income Range
10%	0 to \$9,525	10%	\$0 to \$9,525
15%	\$9,525 to \$38,700	12%	\$9,525 to \$38,700
25%	\$38,700 to \$93,700	22%	\$38,700 to \$82,500
28%	\$93,700 to \$195,450	24%	\$82,500 to \$157,500
33%	\$195,450 to \$424,950	32%	\$157,500 to \$200,000
35%	\$424,950 to \$426,700	35%	\$200,000 to \$500,000
39.60%	\$426,700 and up	37%	\$500,000 and up

Married Tax Brackets			
2018 Brackets Under Old Law	Income Range Under Old Law	New 2018 Bracket	New 2018 Income Range
10%	0 to \$19,050	10%	0 to \$19,050
15%	\$19,050 to \$77,400	12%	\$19,050 to \$77,400
25%	\$77,400 to \$156,150	22%	\$77,400 to \$165,000
28%	\$156,150 to \$237,950	24%	\$165,000 to \$315,000
33%	\$237,950 to \$424,950	32%	\$315,000 to \$400,000
35%	\$424,950 to \$480,050	35%	\$400,000 to \$600,000
39.60%	\$480,050 and up	37%	\$600,000 and up

Individual Effective Tax Rates

Effective Tax Rates			
Income	Filing	Old	New
\$500k	Single	30.6%	30.1%
\$1 M	Single	35.1%	34.0%
\$500k	MFJ	28.4%	25.3%
\$1 M	MFJ	33.6%	31.1%

Changes to Individual tax deductions

- ▶ Personal exemptions eliminated
- ▶ Standard deduction increased to:
 - ▶ Single \$12,000 Single
 - ▶ Head of Household \$18,000
 - ▶ Married filing Joint \$24,000
- ▶ Limitation of itemized deduction for state and local income taxes and property taxes (SALT) to \$10,000
 - ▶ State charitable giving workarounds to SALT cap deduction will be contested by IRS on basis of quid pro quo – state tax credits given to taxpayer for charitable deduction reduces value of deduction dollar for dollar
- ▶ Sales tax deduction eliminated

More Changes to Individual tax deductions

- ▶ Mortgage interest deduction
 - ▶ Limited to \$750,000 of debt on primary or secondary home
 - ▶ No change for existing mortgages
 - ▶ Elimination of deduction for home equity indebtedness except for substantial home improvements
- ▶ Charitable contributions deductible up to 60% of AGI, previously only 50%
- ▶ Elimination of itemized deduction reduction
- ▶ Moving expenses eliminated
- ▶ Health Insurance Penalty eliminated in 2019

Individual
Miscellaneous
Itemized
Deductions
Subject to 2%
Floor
Eliminated

- ▶ Job (Work Related)
 - ▶ Unreimbursed mileage
 - ▶ Unreimbursed Meals & Entertainment
 - ▶ Unreimbursed Travel, parking
 - ▶ Employee home office
 - ▶ Dues and Licenses
 - ▶ Depreciation on computer & phone used for work
- ▶ Other Individual Activities
 - ▶ Tax Prep Fees
 - ▶ Investment Advisory Fees
 - ▶ Trustee Fees
 - ▶ Casualty limited to presidentially declared disaster
 - ▶ Job Search

Schedule A - example

SCHEDULE A (Form 1040)		Itemized Deductions		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Go to www.irs.gov/ScheduleA for instructions and the latest information. ▶ Attach to Form 1040.		2017	
Name(s) shown on Form 1040		Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.		Attachment Sequence No. 07	
DOCTOR AND				Your social security number 111-11-1111	
Medical and Dental Expenses	1 Caution: Do not include expenses reimbursed or paid by others. Medical and dental expenses (see instructions)..... STATEMENT. 2	1	42,000.		
	2 Enter amount from Form 1040, line 38 2 800,000.	2			
	3 Multiply line 2 by 7.5% (0.075).....	3	60,000.		
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-.....	4			0.
Taxes You Paid	5 State and local (check only one box):	5	2,387.		
	a <input type="checkbox"/> Income taxes, or				
	b <input checked="" type="checkbox"/> General sales taxes				
	6 Real estate taxes (see instructions).....	6	20,600.		
	7 Personal property taxes.....	7	1,700.		
	8 Other taxes. List type and amount ▶	8			
	9 Add lines 5 through 8.....	9			24,687.
					Limited to \$10K
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098. SEE, ST. 3	10	32,000.		
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address ▶	11			
	12 Points not reported to you on Form 1098. See instructions for special rules.	12			
	13 Mortgage insurance premiums (see instructions).....	13			
	14 Investment interest. Attach Form 4952 if required. See instructions.	14			
	15 Add lines 10 through 14.....	15			32,000.
				Limited to \$750K in debt (prior loans grandfathered at \$1M).	
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions. STATEMENT 4	16	12,000.		
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500.....	17			
	18 Carryover from prior year.....	18			
	19 Add lines 16 through 18.....	19			12,000.
				Increased to 60% of income.	
Casualty and Theft Losses	20 Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions.....	20			0.
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. ▶	21	21,000.		
	22 Tax preparation fees.....	22	3,000.		
	23 Other expenses—investment, safe deposit box, etc. List type and amount ▶	23			
	BROKER FEES 7,500.	23	7,500.		
	24 Add lines 21 through 23.....	24	31,500.		
	25 Enter amount from Form 1040, line 38 25 800,000.	25			
	26 Multiply line 25 by 2% (0.02).....	26	16,000.		
27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-.....	27			15,500.	
				All deductions eliminated.	
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount ▶	28			0.
				Limitation eliminated	
Total Itemized Deductions	29 Is Form 1040, line 38, over \$156,900? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input checked="" type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter.				
	30 If you elect to itemize deductions even though they are less than your standard deduction, check here.....				
				REDUCTION -14,586.	
				69,601.	

Other Changes to Individual Tax

- ▶ Alimony – agreements, including renegotiations, after December 31, 2018 will not be deductible to payer or taxable to recipient
 - ▶ Alimony agreements prior to December 31, 2018 will be grandfathered in
- ▶ State 529 Plans can now fund up to \$10,000 for K-12 qualified tuition expenses (but not home-schooling)
- ▶ AMT exemption raised to \$500k for single and \$1 million for MFJ. Calculation is now more complex – ask your tax preparer to explain

More changes to Individual Tax

- ▶ Estate Tax Exemption doubled to \$11,000,000 per Individual
- ▶ Children Under age 17 now get a credit of \$2,000 each. (previously \$1,000)
 - ▶ Phase out Increased to \$200,000 Single and \$400,000 Married Filing Joint.
- ▶ Dependent credit (other than child) is \$500 per qualifying dependent

Changes affecting business taxation

- ▶ Bonus Depreciation Increased to 100% of cost for property newly acquired as original use
 - ▶ Examples would be medical & computer equipment, leasehold improvements and furniture.
- ▶ Sec 179 Depreciation limitation increased to \$1M and description expanded (asset can be new to owner)
- ▶ Auto depreciation increased for the first 3 years by ~ \$24,000
- ▶ SUV \$25,000 deduction and Electric Vehicle tax credits remain.

Business taxation continued

- ▶ C Corp - Maximum Corporate Tax rate lowered from 35% to 21%
- ▶ C Corp – Alternative Minimum Tax Eliminated
- ▶ C Corp – Double taxation consideration remain
- ▶ Like-kind exchanges (1031) are limited to real property held for long-term investment

Business Entertainment Expenses

	Old Law Deductibility	New Law Deductibility
ENTERTAINMENT		
Client entertainment	50% deductible	100% non-deductible
Client outing (e.g. golf outing)	50% deductible	100% non-deductible
Food and beverage during outing	50% deductible	100% non-deductible
Skyboxes & Suites	Mix of 50% and 100% ND	100% non-deductible
Sporting or Music Events/Tickets	50% deductible	100% non-deductible
Food/beverage at Event (above)	50% deductible	100% non-deductible
Holiday party	100% deductible if non-discriminatory	100% deductible if non-discriminatory
MEALS		
Client meals	50% deductible	50% deductible
Meals at internal meetings	Mix of 100% & 50% deductible	50% deductible
Meal to celebrate deal closing	50% deductible	100% non-deductible
Meal with substantiation of business purpose other than entertainment	50% deductible	50% deductible
Meal with no substantiation of business purpose other than entertainment	50% deductible	100% non-deductible
Networking meal with non-client with substantiation of business purpose.	50% deductible	50% deductible
Networking meal with non-client with no substantiation of business purpose.	50% deductible	100% non-deductible
De minimis food & beverage	Mix of 100% & 50% deductible	50% deductible

20% Deduction for Pass-through Entities

- ▶ Sole proprietors, S corporation shareholders, and partners in a partnership will be entitled to a deduction equal to 20% of their allocable share of business income
- ▶ However, there are several limitations:
 - ▶ The deduction cannot generally exceed 50% of the taxpayer's share of the W-2 wages paid by the business or, in the alternative, 25% of the taxpayer's share of the W-2 wages paid by the business, plus 2.5% of the unadjusted basis (the original purchase price) of property used in the production of income.
 - ▶ Note: The W-2 limitations do not apply if a taxpayer earns less than \$157,500 (if single; \$315,000 if married filing jointly).
 - ▶ Certain personal service businesses (i.e., doctors, accountants, lawyers, etc.) are not eligible for the deduction unless their taxable income is less than \$157,500 (if single; \$315,000) if married

Year-end Tax Planning for Physicians

- ▶ Marital Status
- ▶ Retirement Planning
- ▶ Income Threshold for new 20% passthrough deduction
- ▶ Estimated Tax Payments
- ▶ Entity structures
- ▶ Divorce

For More Information:

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