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The Tax Reform Bill- Overall Thoughts:

- Congress passes the bill, then the IRS begins issuing guidance on some of the grey areas through various means: Internal Revenue Bulletins, Letter Rulings, and most commonly Rev Procs. These give us further guidance on how the IRS interprets the regulations.
- We don't have any guidance on the items yet, everyone is interpreting them as best they can, will be interesting to see how the next few months play out.
- Haven't really had much change since the Affordable Care Act passed in 2010 and created some new taxes. Some would argue we haven't had this kind of wholesale change since 1986 during the Reagan era.
- The goal was simplification. This is not simple. Certainly are not going to be doing your taxes by mailing in a postcard.
- Read an estimate that the bill will increase the number of Americans who owe nothing in tax from 44% to 47.5% mostly due to the increase standard deduction and Child tax credit.
- Overall I believe that it is good for business. Questions remain on if it will pay for itself.
- Important to consider the economic impact on patients.
- Most patients will have more money to spend, may see an increase in elective procedures such as whitening or adult orthodontics.
    - Stock Market is already receiving the reform in a positive way

Changes that could affect you:

- Tax Rates went down in every bracket for individuals, which taken by itself is good.
    - Examples:
        - The 25% bracket became a 22% bracket.
            - Meaning if you have $1,000 of income in this bracket you pay $220 rather than $250.
        - They also expanded the size of the tax brackets to include more income at lower rates.
        - The top tax bracket now begins at $600,000 (joint) rather than $470,700 and the top rate is 37% rather than 39.6%.
- Increased the standard deduction to $24,000 joint and $12,000 single. Roughly doubled it, meaning everyone regardless of charitable contributions or mortgage interest will have this deduction available. A large reason for the increase in those who will pay nothing.
- No more personal exemptions.
    - Old rule: Roughly $4,000 deduction available for each person in your household you claimed. Married couple with 3 children about $20,000 in personal exemptions.
    - Idea being increased standard deduction would compensate for this.

- **Child Tax Credit Increased to $2,000 and income phase-out drastically increased.**
    - Old Rule: $1,000 per child unless joint income exceeded about **$120k** then 0
    - New Rule: Phase outs begin at **$200k** for singles and **$400k** for married couples.
    - This will really affect a lot of our younger dentists starting families who didn't previously get the credit.
- **Section 179 Expensing**
    - Old Rule: could expense $500,000 of equipment placed in service that year rather than take over 5-7 years.
    - New Rule: increased limit to $1,000,000 of equipment placed in service.
    - May affect some larger practices or those considering additional locations requiring large equipment purchases. This code section is often used near the end of the year to make purchases to lower your tax bill because the date placed in service during the year does not matter. If it is in your office and in use on December 31 you are allowed the full deduction.
    - Expanded the items that qualify to include (prior it was basically furniture & equipment):
        - Roofs
        - HVAC
        - Alarm & Security Systems
- Most dental practices operate as flow-through entities, S corporations, partnerships or single-member LLCs. The net incomes of these businesses are taxed at the business owner's individual tax rates.
    - There is a special provision for flow-through entities for owners whose taxable income is below $315,000 (phases out at $415,000) that allows them to exclude 20% of the flow through income from taxable income. Dentistry is one of the professions that was specifically excluded from this provision for taxpayers over $415,000 of taxable income. Most of the other professions were also personal service companies (accountants are included).
    - This is one area that we believe we need a lot of further guidance from the IRS on how it will be interpreted. To give a basic example, if you had $200,000 of income from a LLC and your taxable income as a family is $315,000; You would be able to exclude 20% of $200,000 from income ($40,000 saving $9,600 in tax). We've never had a provision like this in the tax law, so much for doing your return by post card.
- C Corporations are now subject to a flat 21% corporate income tax. Really was aimed at bringing money back into the U.S. and not for smaller companies like Dental Offices but they may still benefit. Top rate was 35%.
    - Don't see a lot of C Corporations anymore, but some older entities are still set up this way. Does not solve the issue of double taxation, but reduces its affect.

Lost or Limited Deductions:

- Congress needed a way to offset some of the lost revenue from these decreased tax brackets and they did so by reducing some deductions.
    - Domestic Production Activities Deduction repealed
        - Affects those with Cerec machines and those manufacturing dentures and other appliances
    - State and Local Taxes (including property taxes) capped at $10,000
        - Old Rule: Uncapped.
        - Really affects those living in states with higher income taxes (California for example) and those with high Property Taxes.
    - Entertainment Expenses no longer deductible

        - Old rule: entertainment for a business purpose was deductible. Example: playing golf with a referring dentist to discuss patients he has sent and ones he plans to send in the future. May hit specialists harder than general dentists
        - Business Meals are still 50%.
    - 80% deduction for university athletic seating rights is repealed.
        - Old Rule: Donations to athletic foundations that entitled individuals to season tickets were 80% deductible.
        - We see more of these donation forms than any other
    - Moving expenses no longer deductible.
        - Old Rule: move more than 50 miles away for a new job, un-reimbursed expenses were deductible.
    - Home Mortgage Interest Deductibility limited to interest paid on $750,000 outstanding loan (for loans entered into after 12/15/17).
        - Old Rule: $1,000,000
    - **Unreimbursed Employee Business Expenses are no longer deductible**
        - Old Rule: If you itemized your deductions and your expenses exceeded 2% of your AGI you were able to deduct these expenses.
        - Some examples: Continuing education, licenses, dues, Business use of cell phone, mileage.
        - Note: Still deductible if you are a 1099 independent contractor.
        - This could affect W-2 associates who pay many of their own expenses. May be more advantageous to be a 1099 contractor.
- After listing out all of these items that were either limited or repealed, you can see how each individual's situation will differ. The question for most becomes did the decrease in tax rates outweigh the deductions that I lost, and I believe for most it will, but only by evaluating each individual situation can you say for sure.

What Has Stayed the Same?

- Student Loan interest is still deductible up to $2,500 in a year with same income phase outs.
    - Individuals: $80,000 ($0)
    - MFJ: $160,000 ($0)
    - Wish they would increase the phase-out amounts here but unfortunately very few dentists are able to deduct their student loan interest.
- No changes to Lifetime Learning Credit (up to $2,000) which affects education after first 4 years of college (in other words dental school).
    - Individuals: $65,000 ($0)
    - MFJ: $130,000 ($0)
    - Normally see this as a useful credit when dental students are married and the other spouse is working. It is a nonrefundable credit so you must have tax to offset.
- Retirement Plans Remained largely unchanged
    - Currently you can contribute $18,500 to a 401k if under 50, $24,500 if over 50 annually.
    - There was talk of reducing this all the way down to $2,400. Didn't happen.
    - Defined Benefit Plans, 401k profit share, SEP, & IRAs remained largely unchanged.
- Capital Gain Rates & Dividends remained unchanged
- The Alternative Minimum Tax remains even though there were discussions about repealing it (Corporate AMT was repealed). This is a very complicated calculation but if you are paying AMT you know about AMT and you hate AMT. They did increase exemption so it should affect less people.