Sweeping Tax Law Revision Affects Nearly Everyone

This article is the first in a five-part series regarding the Tax Cuts and Jobs Act *signed into law December 22, 2017*

As you undoubtedly know, President Trump signed the *Tax Cuts and Jobs Act* three days before Christmas. This law, contained in over 500 pages, represents a sweeping reshuffling of tax policy reminiscent of tax laws signed by President Ronald Reagan in 1981 and 1986 and President George W. Bush in 2001.

The *Tax Cuts and Jobs Act* affects the following aspects of tax policy:

FEDERAL ESTATE AND GIFT TAXES:

- Increased the combined gift and estate tax exemption from $5.49 million to $11.20 million.

What it means to you:

- The increased exemption will allow you to make larger lifetime gifts (typically to children, in trust or outright) to reduce potential federal and Massachusetts estate taxes, without triggering a federal gift tax (there is no Massachusetts gift tax).
- The increased exemption should trigger a review of your estate plan to make sure that any provisions tied to the federal estate tax exemption amount still reflect your intentions.

FEDERAL INCOME TAX ON INDIVIDUALS:

- Reduced income tax rates with seven tax brackets
- Reduced maximum tax rate of 37% from 39.6%
- Increased standard deduction, while eliminating the personal exemption
- Long-term capital gains rates remain the same
- New $750,000 limit on the mortgage interest deduction (new loans)
- Eliminated home equity loan interest deduction
- New $10,000 deduction limit on the total of local property tax and state income tax
- Doubled child tax credit to $2,000 and increased phaseout
- Increased Alternative Minimum Tax (AMT) exemption
- $10,000 annual allowance for tax-free distributions from 529 College Savings Accounts for K-12th grade private school tuition payments

What this means to you:

- There is so much complexity in the changes at the individual level on income taxes that an individualized analysis is needed. You should schedule an appointment with your tax accountant or tax attorney to apply the changes in the law to your individual situation so you can adjust your tax planning in 2018.

FEDERAL INCOME TAX ON BUSINESSES:

- Reduced maximum tax rate to 21% from 35%
- Repealed the corporate alternate minimum tax
- New cap on interest deductions

What this means to you:

- It is anticipated that the reduced corporate tax rate will influence corporate investments in capital, personnel, research and development and expansion. Consequently, it wouldn't hurt to consult with your investment advisor to review your investment portfolio to assess the likely impact these changes may have on your current investment portfolio and, possibly, target new investment opportunities.

"PASS-THROUGH" ENTITIES (INCLUDING LLCS, PARTNERSHIPS, AND TRUSTS AND ESTATES):

- New 20% deduction for pass-through income, subject to a phase out of the deduction for personal services professionals such as lawyers, consultants and accountants.

What this means to you:

- If you are one of the estimated 40 million Americans who claimed pass through income, you may have opportunities to realize increased net income due not only to this new deduction but also from new rules regarding depreciation of capital investments. You should consult with your tax and/or corporate advisor to both understand and take advantage of these new options.

As noted above, the *Tax Cuts and Jobs Act* contains over 500 pages of new law. It is impossible to cover all the complexities in an email alert such as this. Please be assured that we will be preparing specific articles in the first quarter of 2018 on the impact this new law will have on our clients. Look for us to provide suggestions about how to take advantage of the changes that are relevant to you and your family, your business, and your investments.

Individual Income Tax Provisions

This article is the second in a five-part series regarding the Tax Cuts and Jobs Act *signed into law December 22, 2017*

MOST TAXPAYERS WILL BENEFIT FROM LOWER TAX BRACKETS AND HIGHER STANDARD DEDUCTIONS

When the *Tax Cuts and Jobs Act* ("The Act") was signed into law on December 22, 2017, American taxpayers were promised tax reductions beginning in 2018. This article will focus on the individual tax provisions of The Act.

INCOME TAX RATE REDUCTIONS

Individuals compute their federal income tax using the tax brackets applicable to their filing status, i.e., single, married filing jointly, married filing separately and head of household. Under prior law, the seven tax brackets culminated with a maximum tax bracket of 39.6% imposed on taxable income in excess of $470,700 for the "married filing jointly" category of taxpayers. Under the new tax law, the seven brackets cover different income amounts and have new tax rates, culminating in a maximum tax bracket of 37% imposed on taxable income in excess of $600,000 for the "married filing jointly" category of taxpayers. The new tax brackets are listed below.

For Married Individuals Filing Joint Returns, and Surviving Spouses

Taxable Income Is More Than	But Not More Than	Tax Is
0	$19,050	10%
$19,050	$77,400	$1,905 plus 12% of the excess over $19,050
$77,400	$165,000	$8,907 plus 22% of the excess over $77,400
$165,000	$315,000	$28,179 plus 24% of the excess over $165,000
$315,000	$400,000	$64,179 plus 32% of the excess over $315,000
$400,000	$600,000	$91,379 plus 35% of the excess over $400,000
$600,000		$161,379 plus 37% of the excess over $600,000

For Single Individuals (Other Than Heads of Households and Surviving Spouses)

Taxable Income Is More Than	But Not More Than	Tax Is
0	$9,525	0%
$9,525	$38,700	$952.50 plus 12% of the excess over $9,525
$38,700	$82,500	$4,453.50 plus 22% of the excess over $38,700
$82,500	$157,500	$14,089 plus 24% of the excess over $82,500
$157,500	$200,000	$32,089 plus 32% of the excess over $157,000
$200,000	$500,000	$45,689.50 plus 35% of the excess over $200,000
$500,000		$150,689.50 plus 37% of the excess over $500,000

In the final analysis, the new tax brackets drop most taxpayers' overall tax liability by 3-4%.

When you compare 2017 to the new 2018 brackets, it appears as though only the Married Filing Jointly filers with incomes above $400,000 will be taxed at a higher rate. But this higher rate only applies to a small portion of their income. The bulk of their income falls into lowered brackets, so their overall tax liability is still lower.

INCREASE IN STANDARD DEDUCTION AND LOSS OF PERSONAL EXEMPTIONS

In an attempt to simplify the tax code, The Act increases the standard deduction for all taxpayers. In 2017, the standard deduction for married filing jointly taxpayers was $12,700. Under the new tax law, the standard deduction is now $24,000.

For single filers or married filing separately, the standard deduction was $6,350 in 2017, and rises to $12,000 under the new law. For heads of households, the 2017 standard deduction was $9,350; under the new law it rises to $18,000.

Personal exemptions – which were generally allowed for the taxpayer, the taxpayer's spouse and any dependents, are eliminated by the new tax law. The new tax brackets and other changes to the individual tax code are temporary, unless Congress votes to extend the law beyond Dec. 31, 2025.

Example 1: Married Taxpayers, No Children, with No Itemized Deductions

	Tax Year 2017	Tax Year 2018
Adjusted Gross Income	$100,000	$100,000
Less: Standard Deduction	($12,700)	($24,000)
Less: Personal Exemptions	($8,100)	0
Equals Taxable Income	$79,200	$76,000
Federal Tax	$11,284	$8,739

The decrease in tax is attributable to the reduction of taxable income because the standard deduction increased to $24,000 (from $12,700). The higher standard deduction more than offsets the elimination of personal exemptions. In addition, much of the couple's taxable income now falls into the new 12% tax bracket instead of the old 15% bracket.

Example 2: Married Taxpayers, No Children, Total Itemized Deductions of $18,000		
	Tax Year 2017	Tax Year 2018
Adjusted Gross Income	$100,000	$100,000
Less: Standard Deduction	($18,000)	($24,000)
Less: Personal Exemptions	($8,100)	0
Equals Taxable Income	$73,900	$76,000
Federal Tax	$10,156	$8,739

Note that the tax for 2018 is the same in both examples. The increase in the standard deduction means that the taxpayers in Example 2 above, no longer derive any benefit from itemizing their deductions, so they no longer need to itemize. Elimination of the need to itemize is viewed by Washington as part of tax simplification.

ITEMIZED DEDUCTION LIMITATIONS

One of the most controversial sets of provisions is the new limitations on itemized deductions.

The rules concerning state and local taxes (SALT) and related deductions will be discussed in next week's article, but many other traditional itemized deduction rules have been changed.

Prior to The Act, individuals itemizing their deductions could deduct certain miscellaneous itemized deductions to the extent that these deductions exceeded 2% of adjusted gross income.

Miscellaneous itemized deductions include tax preparation fees, safe deposit box rentals, unreimbursed employee business expenses and most investment-related expenses such as IRA fees, broker advisory fees, etc. The Act eliminates these deductions for the years 2018 through 2025.

CHILD TAX CREDIT CHANGES

For the tax years 2018 through 2025, the child tax credit is increased from $1,000 to $2,000 per qualifying child under the age of 17.

Before The Act, the child tax credit phased out gradually for higher incomes, starting at $110,000 of adjusted gross income for married filers, and $75,000 of adjusted gross income for single filers. The child tax credit will now phase out starting at $400,000 of adjusted gross income for married filers, and $200,000 for all others.

EDUCATION DEDUCTION AND ABLE ACCOUNTS

Funds in a Code Sec. 529 college savings account may now be used for tuition at an elementary or secondary public, private or religious school, up to $10,000 per tax year. Prior to The Act, funds from these accounts were restricted to qualified expenses related to colleges, universities, vocational schools and other eligible post-secondary schools.

Under Code Sec. 529A, ABLE accounts allow persons with disabilities and their families to fund special tax-preferred accounts for disability-related expenses. In 2017, contributions to ABLE Act savings accounts were limited to $14,000 per tax year. In 2018, the limit went up to $15,000, and in addition, The Act now provides that the ABLE account's designated beneficiary may be permitted to contribute additional amounts up to specified limits.

ALIMONY DEDUCTIONS

Prior to The Act, alimony and separate maintenance payments were deductible by the spouse paying the alimony and includable in income of the spouse receiving the alimony. These rules will remain unchanged for taxpayers who are currently divorced and are paying or receiving alimony.

For any divorce or separation agreement executed after December 31, 2018, or executed before that date but modified after it, alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse.

In a bizarre bit of tax planning, individuals contemplating a divorce may want to consider how the timing affects them. The spouse who will likely be paying the alimony may want to accelerate their decision so that the divorce agreement is executed prior to December 31, 2018. Of course, the spouse who will probably be receiving alimony would be advised to delay and not sign any agreement until 2019.

REPEAL OF AFFORDABLE CARE ACT INDIVIDUAL MANDATE

The Affordable Care Act exacted a penalty, sometimes called a "shared responsibility payment," from individuals who were not covered by a health plan that conformed to specified requirements. The Act has essentially revoked this provision by permanently reducing the penalty to zero. **FT**

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State and Local Tax and Homeownership Provisions

Higher Standard Deduction May Offset SALT Limit

This article is the third in a five-part series regarding the Tax Cuts and Jobs Act *signed into law December 22, 2017*

The Tax Policy Center estimates that, of the approximately 46 million households that itemized deductions under the old law, about 19 million households will do so in 2018—meaning 27 million fewer households are likely to itemize deductions in 2018. This anticipated change is attributed to the nearly doubled new standard deduction covered in the previous article.

The *Tax Cuts and Jobs Act* ("The Act") dramatically affects the tax deductions attributable to homeownership as well as other restrictions on state and local tax ("SALT") deductions. This article will focus on these provisions as well as other rules affecting individuals.

SALT PROVISIONS

Under prior law, taxpayers who itemized their deductions could deduct state and local income taxes,* real estate taxes (both foreign and local), and personal property taxes such as automobile excise taxes, without limitation. Of course, large deductions for SALT expenses were not deductible for alternative minimum taxes, so higher-bracket taxpayers often realized only a limited benefit from these deductions. (*Or sales tax in low- or no-income-tax states.)

Under The Act, the total deduction for SALT cannot exceed $10,000. In addition, no deduction is permitted for foreign income and foreign real estate taxes unless incurred in a trade or business or incurred in an income-producing activity.

The effect of these new rules is as follows.

	2017	2018
Adjusted Gross Income	$200,000	$200,000
Itemized Deductions:		
State Income Tax	$10,000	
Real Estate Tax	$5,000	
Excise Tax	$1,000	
SALT Deductions Limit		$10,000
Home Mortgage Interest	$10,000	$10,000
Charity	$5,000	$5,000
Total Itemized Deductions	($31,000)	($25,000)
Personal Exemptions	($8,100)	0
Taxable Income	$160,900	$175,000
Tax	**$31,397**	**$30,579**

The preceding chart refers to a married taxpayer couple with total income of $200,000, upon which they pay $10,000 in state income tax. In addition, they pay $5,000 in local real estate tax and $1,000 in excise tax on their cars. They also have non-SALT deductions of $5,000 in charitable contributions and $10,000 in home mortgage interest.

Despite the fact that taxable income has increased by $14,100, the total tax liability has decreased as a result of the decrease in tax rates.

RENTAL PROPERTY AND PROPERTY IN TRUSTS

Property tax on a rental or income property (such as a second home that is rented out for all or part of the year) would not be subject to the new $10,000 limitation on SALT. Taxpayers whose SALT deductions would exceed the $10,000 limit, due to property tax on a second or vacation home, may want to consider converting that property to a rental/income property during 2018. This way, the taxpayers would be able to benefit from the new law.

In addition, moving property into certain types of trusts can also provide tax benefits. If this is a possibility, taxpayers should consult with their advisors as there are many variables to consider.

HOME MORTGAGE INTEREST DEDUCTIONS

In view of the importance of homeownership to the economy, there is always concern when Congress tinkers with the home mortgage interest deduction. While this year was no exception, The Act did make changes in the home mortgage interest deduction. But these changes will affect only homeowners with very large "jumbo" mortgages. A jumbo loan is defined as a mortgage of more than $424,100 in most counties, and more than $636,150 in others.

Taxpayers itemizing their deductions are permitted to deduct qualified residence interest ("QRI"). For these purposes, QRI is interest incurred in purchasing a qualified residence in which the mortgage must be secured by the residence.

While the mortgage interest on a principal residence is still deductible, the amount of the acquisition indebtedness cannot exceed $750,000, reduced from $1,000,000 prior to The Act. In other words, the interest on only the first $750,000 of the indebtedness is tax-deductible. This new limitation does not apply to debt incurred before December 15, 2017; interest on those larger loans will still be deductible up to $1,000,000.

Under prior law, interest on home equity loans of up to $100,000--to wit, loans secured by a residence-- was deductible notwithstanding the fact that the loan proceeds were used for other purposes, such as tuition, consumer purchases and the like. This tax policy gave homeowners added incentive to use the equity in their homes as a cheap way of avoiding credit card or student loan debts with higher interest rates. Beginning in 2018 and through 2025, interest on home equity loans will not be deductible.

CHARITABLE CONTRIBUTIONS

Taxpayers itemizing their deductions are permitted to deduct their charitable gifts, with attention to the rules applicable to the type of property given, the identity of the donor, etc. The Act's increase in the standard deduction may have a significant impact on the tax benefit of charitable giving.

In the following example, a married couple filing a joint return has other itemized deductions of $13,000 and donates $10,000 annually to charity.

	Tax Year 2018	Tax Year 2019
Adjustesd Gross Income	$150,000	$150,000
Less: Other Itemized	($13,000)	($13,000)
Less: Charitable Donations	($10,000)	($10,000)
Standard Deduction	$24,000	$24,000
Taxable Income	$126,000	$126,000

In the above, example for both years, the new standard deduction of $24,000 exceeds total itemized deductions of $23,000 so that no tax benefit results from the charitable gifts.

By accelerating the 2019 gift into 2018, the following tax consequences result:

	Tax Year 2018	Tax Year 2019
Adjustesd Gross Income	$150,000	$150,000
Less: Other Itemized	($13,000)	($13,000)
Less: Charity	($20,000)	(0)
Standard Deduction	$24,000	$24,000
Taxable Income	$117,000	$126,000

Now the $33,000 of itemized deductions in 2018 exceeds the standard deduction of $24,000. So, the 2018 taxable income is reduced by $9,000 which, in this case, would have been taxed at the 22% rate. This simple tax planning technique saves the taxpayers $1,980 in 2018, without any tax increase in 2019.

The Tax Policy Center estimates that, compared to the 37 million households that claimed itemized deductions for gifts to non-profits in 2017, fewer than 16 million households will do so in 2018—a drop of 21 million households. **FT**

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Higher Estate and Gift Exemption Can Reduce Estate Taxes

By Dani N. Ruran, Esq.

This article is the fourth in a five-part series regarding the Tax Cuts and Jobs Act *signed into law December 22, 2017*

The new *Tax Cuts and Jobs Act* ("The Act") signed into law last December makes significant changes to the federal income tax laws for individuals and corporations. In addition, the changes it makes to the estate and gift tax exemptions provide important opportunities to reduce estate taxes.

EXEMPTION DOUBLES FOR ESTATES AND GIFTS

The Act increases the federal combined gift and estate tax exemption, and the federal generation-skipping transfer "GST" tax exemption, from the 2017 limit of $5.49 million to approximately $11.2 million in 2018. For married couples, the new exemption increases from $10.98 million to approximately $22.4 million. These exemption amounts will be subject to annual inflation adjustments until 2025. At that time, the exemption is scheduled to revert to the 2017 levels--with an inflation adjustment. On amounts above the exemptions, the gift, estate, and GST tax rates will remain at 40%.

The gift tax annual exclusion is the amount that a person may gift in each year during his or her lifetime to any individual, or to a qualifying trust for the benefit of one or more individuals, without using up any of his or her combined federal gift and estate tax exemption. Under an inflation adjustment permitted by previous law, the federal gift tax "annual exclusion" amount increases from $14,000 in 2017 to $15,000 in 2018. For example, this means a married couple may gift up to $30,000 each year to each child, or to a qualifying trust for each child, as annual exclusion gifts. Annual exclusion gifting helps reduce both federal and state estate taxes.

LIFETIME GIFTING CAN REDUCE ESTATE TAXES

The very large increases in the federal combined gift/estate exemption and the federal GST exemption present an important estate planning opportunity for individuals whose estates are likely to be above $11.2 million, or $22.4 million for married couples. For these individuals or couples, lifetime gifting to children and/or grandchildren even in excess of "annual exclusion" amounts will probably reduce federal estate taxes and possibly GST taxes. This is because appreciation in the gifted assets between the date of the gift and one's date of death is not included in the calculation of federal estate tax. There is no federal gift tax on gifted amounts as long the aggregate amount of the gifts does not exceed the combined gift/estate tax exemption of $11.2 million or $22.4 million for married couples.

Moreover, even individuals whose estates are under the new $11.2 million/$22.4 million exemptions but over $5.49 million—or $10.98 million for married couples--may wish to engage in lifetime gifting to reduce the federal estate tax, in case the exemption does revert back to the 2017 level, as scheduled in the year 2025.

In addition, Massachusetts residents whose estates may exceed $1 million—or $2 million for married couples who have established "credit shelter trusts" as part of their estate plans--may be able to reduce or eliminate the Massachusetts estate tax by engaging in lifetime gifting. There is no Massachusetts gift tax, so any amounts may be gifted during one's lifetime without incurring a Massachusetts gift tax. At death, the Massachusetts estate tax is calculated based on the value of the "adjusted taxable estate," which does not include the amount of lifetime gifts. Estates are taxed in Massachusetts only if they exceed the $1 million "filing threshold." Lifetime gifts that exceed "annual exclusion" amounts (currently $15,000) are included in the calculation of this $1 million threshold. So, if the sum of such lifetime gifts and the estate assets together exceed $1 million, there will be estate tax. The estate tax will, however, be calculated on the value of the estate assets only.

Even if individuals or couples want to limit lifetime gifts to the annual exclusion amounts--up to $15,000 per year per donee, or up to $30,000 per year per donee for gifts made jointly by married couples--such gifts should be considered as a way of reducing both Massachusetts and federal estate taxes.

REVIEW WILL AND TRUST FUNDING FORMULAS

People should review their existing wills and trusts to determine whether any gifts to be made after death under those documents are still appropriate, given the increased federal estate tax exemption. This review should include formulas used to create one or more subtrusts. For example, a will or trust may provide for the creation of a trust after death for the benefit of the deceased's children. These trusts are often set up to be funded with "the federal estate tax exemption" in effect at the time of death, with the balance of the assets passing to the deceased's spouse, or to a trust for the spouse's benefit. Now that the federal estate tax exemption is so large, such a formula may result in nothing being left for the surviving spouse.

We suggest contacting a qualified trust & estate attorney to discuss the new combined federal gift and estate tax exemption, including the new GST exemption. Taxpayers may wish to explore whether it makes sense in their own situation to make lifetime gifts to children, grandchildren, and/or other beneficiaries – either directly or to a qualifying trust for their benefit. Given these changes to the tax law, it also makes sense to have an attorney review current will or trust documents to ascertain whether the existing gift or trust funding formula needs revision in light of the increased gift/estate and GST exemptions.

On the face of it, the new higher exemptions are good news for people with sizeable estates. But it is important to review existing documents to make sure the new laws do not create unintended consequences.

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Business Tax Rate Drops with New Tax Law

This article is the fifth in a five-part series regarding the Tax Cuts and Jobs Act *signed into law December 22, 2017*

The *Tax Cuts and Jobs Act* provides a dramatic decrease in the tax rates applicable to C corporations, along with changes that may benefit other U.S. businesses, including S corporations, partnerships and other pass-through entities.

CORPORATE RATE REDUCTION

The tax law replaces the graduated tax rate schedule for corporations. Beginning at 15 percent for the first $50,000 of taxable income ranging up to 35 percent on taxable income in excess of $10,000,000. This graduated tax rate schedule is replaced with a flat corporate tax rate of 21 percent.

The examples in the corporate taxable income chart indicate the corporate rate reductions under the new tax law.

Corporate Taxable Income	Current Tax	New Tax
$50,000	$7,500	$10,500
$100,000	$22,250	$21,000
$250,000	$80,750	$52,500
$500,000	$170,000	$105,000
$1,000,000	$340,000	$210,000

These new rates are effective for taxable years beginning after 2017. In addition, these new rates are intended to be permanent. Finally, the tax law repeals the corporate alternative minimum tax.

EXPENSING OF DEPRECIABLE ASSETS (THE SECTION 179 DEDUCTION)

The tax law contains a series of amendments designed to increase the total write-off in the year depreciable property is placed in service. The Section 179 depreciation deduction increases from $500,000 to $1,000,000 with a $2.5 million phase-out. Bonus depreciation is increased to 100 percent retroactively to the effective date of Sept. 27, 2017.

The other new rapid write-off rules are applicable to property placed in service after Dec. 31, 2017. With these changes, nearly all qualifying new assets can be fully expensed in the year of purchase instead of over many years.

DEPRECIATION OF PASSENGER AUTOMOBILES INCREASED

There are several depreciation rules that accelerate the amount of an asset's cost that can be expensed in the year of acquisition. Depreciation of passenger automobiles, however, has been subject to rules that limit the amount of depreciation that can be deducted in any year for an automobile used in business.

While these rules are still in effect, the amount of depreciation that can be claimed in a year has been greatly increased. See the following depreciation chart.

Year in Service	Depreciation Maximum
1	$10,000
2	$16,000
3	$9,600
Subsequent Years	$5,760 per year

LIKE-KIND EXCHANGES

Under the previous like-kind exchange rules, no gain or loss is recognized on the exchange of like-kind properties used in a business or held for investment purposes. Property eligible for a tax-free exchange included real property, personal property and intangible property provided the property was not held for resale.

Under the tax law, the tax-free exchange rules are limited to exchanges of real property only.

FRINGE BENEFITS AND ENTERTAINMENT DEDUCTIONS

After many attempts at limiting the "3 martini lunch," the tax law eliminates any deduction for an entertainment activity even if directly related to taxpayer's trade or business. For example, the law had previously denied a deduction for an entertainment facility such as a country club. However, if a taxpayer incurred expenses entertaining a client at his club and could demonstrate that the expense was directly related to its business, the expenses, subject to a 50 percent limitation, were deductible. Under the act, no deduction is permitted for entertainment expenses even if directly related to taxpayer's trade or business.

An employer who provides meals to its employees at an eating facility that qualifies as a de minimis fringe benefit, will be able to deduct 50 percent of such.

In another change to the fringe benefit rules, an employer who provides transportation as a fringe benefit such as parking can no longer deduct these costs. The employee will continue to be able to exclude such benefit from income, and in the spirit of tax simplification, bicycle commuting reimbursements are deductible by the employer but not excludable by the employee.

Finally, the Act provides a general business credit during 2018 and 2019 for wages paid as family and medical leave, such as maternity leave. Eligible employers can receive a credit equaling 12.5 percent of such wages paid to qualifying employees. If this FMLA compensation exceeds 50 percent of the compensation normally paid to the employee, the employer receives an additional .25 percent credit for each percentage point above 50 percent. In other words, if the employer pays 60 percent of the employee's normal wages during maternity or other FMLA leave, the employer can claim a 15 percent credit. The maximum credit is 25 percent.

PASS-THROUGH ENTITIES

Pass-through entities are those entities in which the income is taxed at the owner level. These entities include S corporations, partnerships, Limited liability companies and sole proprietorships. The income of these business are included in the income of the owner and subject to tax at the owners' individual tax rate.

With the decrease in the corporate tax rate to 21 percent, the pass-through entity structure, whereby income would be taxed at the highest individual rate of 37 percent, would make such tax scheme unworkable.

Accordingly, The Act creates a new deduction equal to 20 percent of the pass-through entity's qualified business income. This new deduction will result in a tax rate paid by the individual owner of the pass-through entity more in line with the 21 percent corporate tax rate. This provision is subject to many limitations and calculations too numerous and specific to discuss here.

The deduction reduces taxable income but does not reduce adjusted gross income. In addition, taxpayers who utilize the expanded standard deduction will still be able to claim this special deduction.

ACCOUNTING METHOD CHANGES

Under prior law, taxpayers who produced property or otherwise maintained inventories were required to use the accrual method of accounting, i.e., taxpayer was required to include receivables in taxable income. For tax years beginning after Dec. 31, 2017, the cash method of accounting may be used by taxpayers that satisfy a $25 million gross receipts test. This particular provision does not necessarily save money for the corporations; it just simplifies matters—which is one of the goals of The Act. **FT**

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