

TAX REFORM UPDATE

JANUARY 2018

President Donald Trump signed the “Tax Cuts and Jobs Act” (P.L. 115-97) into law on December 22, 2017. The bill is over 1,000 pages and very complex. Like many others, the AVMA continues to work through the different provisions to better understand how they intersect and how they will ultimately impact veterinary medicine. It is important to note that state laws and regulations will intersect with the federal tax legislation as well.

Since it has been 30 years since the nation’s last overhaul of the tax code, this legislation will surely stimulate profession-wide conversations about the best business structures to take advantage of the changes included in the final bill. **AVMA is in the process of collaborating with tax experts that have specific expertise related to veterinary practice to assist in identifying conversations veterinarians should have with their tax professionals.**

In the meantime, please see below a summary of provisions that may be of interest to veterinarians and business owners.

TIMING AND DURATION

The bill contains a mix of permanent and temporary provisions, in large part to stay within budgetary parameters. Most of the provisions take effect January 1, 2018 and many expire after December 31, 2025; however, this varies among the different provisions.

PROVISIONS IMPACTING INDIVIDUALS

The bill reduces the top individual income tax rate to 37 percent, down from 39.6 percent in current law, and maintains seven tax brackets, but modifies them as well as the rates that apply to each. The new individual tax rates are as follows:

- 10 percent:** income up to \$9,525 for individuals and up to \$19,050 for joint returns
- 12 percent:** over \$9,525 to \$38,700 for individuals and over \$19,050 to \$77,400 for joint returns
- 22 percent:** over \$38,700 to \$82,500 for individuals and over \$77,400 to \$165,000 for joint returns
- 24 percent:** over \$82,500 to \$157,500 for individuals; over \$165,000 to \$315,000 for joint returns
- 32 percent:** over \$157,500 to \$200,000 for individuals; over \$315,000 to \$400,000 for joint returns
- 35 percent:** over \$200,000 to \$500,000 for individuals; over \$400,000 to \$600,000 for joint returns
- 37 percent:** over \$500,000 for individuals; over \$600,000 for joint returns

DEDUCTIONS

The bill makes several changes to allowable deductions. The bill:

- limits the state and local property tax deduction (known as “SALT”) to \$10,000 per year.
- eliminates the personal exemption deduction, which was formerly \$4,050 per person.
- doubles the standard deduction to \$12,000 for single filers and \$24,000 for those filing jointly
- increases the child tax credit to \$2,000 per qualifying child under the age of 17.
- maintains the deduction for qualified tuition and related expenses, as well as the Student Loan Interest Deduction, which permits taxpayers repaying student loans to deduct as much as \$2,500 in interest paid on student loans if they have a modified adjusted gross income of less than \$80,000 or \$165,000 if married filing jointly.
- reduces the mortgage interest deduction. For homes purchased after December 15, 2017, the limit on indebtedness will be reduced from \$1 million to \$750,000. No deductions will be allowed on home equity loan interest.
- maintains the medical expense deduction, but lowers the threshold from 10 percent to 7.5 percent of ones adjusted gross income for tax years 2017 and 2018.

PROVISIONS IMPACTING VETERINARY PRACTICES

- **Pass-throughs:** The law allows pass-through businesses that meet certain conditions to deduct up to 20 percent of “qualified business income,” with some restrictions.
 - The bill sets formulas to calculate the applicable percentage of qualified income based on W-2 wages. These restrictions are intended to deter high-income taxpayers from attempting to convert wages or other compensation for personal services to income eligible for the deduction under the provision.
 - However, the taxpayer is exempt from this limitation if their taxable income does not exceed \$157,500 for an individual or \$315,00 if married filing jointly.
 - Importantly, “specialized service” trades or businesses may only use this deduction if their taxable income is less than the new thresholds established in the agreement: \$157,500 for an individual or \$315,000 if filing jointly. The IRS defines “specialized service” trades or businesses as “any trade or business involving the performance of services in the fields of health, law, accounting, performing arts, consulting, athletics, financial services... or any trade or business where the principle asset of such trade or business is the reputation or skill of 1 or more of its employees.” At this time, it appears to include veterinarians.
- **Cash accounting:** The agreement increases the threshold to allow cash method of accounting if the annual gross receipts for the three-year period prior to the tax year do not exceed \$25 million.
- **Expensing:** Full expensing of new and used equipment would be permitted for five years. The agreement increases the maximum amount businesses can expense to \$1 million and expands the benefit to include improvements to nonresidential property, such as roofs; heating, ventilation, and air-conditioning; fire protection and alarm systems; and security systems. After 2022, the 100 percent allowance would be phased down by 20 percent each year. Also, Section 179 expensing, which doubles the amount eligible for the special small business investment write-offs, would be made permanent.

OTHER PROVISIONS

- The bill maintains charitable deductions, but increases the limit from 50 percent of taxable income to 60 percent of taxable income.
- The bill permanently repeals the health insurance individual mandate tax in the Affordable Care Act beginning in 2019.