

Recent Developments in Federal Income Taxation

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To obtain today's outline and slides:
<https://tinyurl.com/outline-feb18-fwtu>

<https://tinyurl.com/slides-feb18-fwtu>

Selected Highlights of the Tax Cuts and Jobs Act

- **Individuals**
 - Reduced rates of tax on ordinary income [pp.18-20]
 - Increased standard deduction [p.21]
 - No personal exemption deduction [p.22]
 - Limited deduction for state and local property, income, and sales taxes [p.22]
 - Mortgage interest deductible on only \$750k of acquisition debt [p.22]
 - No deduction for interest on home equity loans [p.22]
 - No deduction for most personal casualty losses [p.23]
 - No deduction for miscellaneous itemized deductions [p.15]
 - Overall limitation on itemized deduction (§ 68) repealed [p.23]
 - Increased child tax credit [p.23]
 - No deduction for alimony [p.24]
 - Increased AMT exemptions and phase-out thresholds [pp.24-25]

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Selected Highlights of the Tax Cuts and Jobs Act

- **Business**
 - No deduction for entertainment [p.6]
 - New deduction for 20 percent of “qualified business income” for sole proprietors, partners, and S corporation shareholders [p.7]
 - Limited deduction of business interest expense [p.9]
 - Repeal of § 199 deduction for domestic production [p.9]
 - Increased limits and expansion of property eligible for § 179 [p.11]
 - 100 percent § 168(k) bonus first-year depreciation [p.11]

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Selected Highlights of the Tax Cuts and Jobs Act

- Accounting
 - Increased ability of C corporations to use cash method [p.3, A1]
 - C corporations, and partnerships with C corporation partners, can use cash method if average annual gross receipts over 3 prior years do not exceed \$25 million.
 - Applies even if inventory is material income-producing factor.
 - Change in accounting method treated as made with IRS consent.
 - Expanded exception to the UNICAP rules [p.4, D.1]
 - Available to taxpayers who meet the \$25 million gross receipts test (above).
 - Available to those who produce and those who acquire for resale
 - Revenue recognition by accrual method taxpayers [p. 4, D.2]
 - No later than recognized in “applicable financial statement”
 - Codification of deferral method for advance payments

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Selected Highlights of the Tax Cuts and Jobs Act

- Business Income and Deductions
 - No deduction for qualified transportation fringes [p.6, D.3]
 - Exception: qualified bicycle commuting reimbursement
 - Ability of employees to exclude transportation fringes not affected, except for bicycle commuting reimbursements
 - Credit for wages paid during period of family and medical leave [p.13, F.1]
 - Up to 25% credit 21% flat corporate tax rate
 - Available only for employees whose compensation does not exceed 60% of threshold for highly compensated employees.
 - NOL Changes [p. 14, H.1]
 - “Excess business losses” of noncorporate taxpayers disallowed
 - NOLs not carried back (only forward); capped at 80% taxable inc.
 - NOLs do not expire

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Selected Highlights of the Tax Cuts and Jobs Act

- Investment Gain and Income
 - Like-Kind Exchanges (Section 1031) [p.15, E.1]
 - Limited to real property for taxable years beginning after 2017

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Selected Highlights of the Tax Cuts and Jobs Act

- Compensation Issues
 - Meals provided at employer-provided eating facilities [p.16, A.2]
 - No more exception to 50% limitation on meals if meals qualify as a de minimis fringe (overrules *Jacobs* case) for amounts paid after 2017
 - Deduction of meals at employer-operated eating facilities disallowed entirely after 2025.
 - Moving expenses in connection with work not deductible; reimbursements not excludable by employees. [p.17, A.4]
 - Qualified equity grants by private corporations [p.17, C.1]
 - No more unwinding Roth IRA conversions [p.18, D.1]

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Selected Highlights of the Tax Cuts and Jobs Act

- Corporations
 - Expansion of eligible beneficiaries of electing small business trusts [p.25, D2]
 - 21% flat corporate tax rate [p.26, H.1]
 - Repeal of corporate AMT [p.27, H.2]
 - Reduced corporate dividend-received deduction [p.27, H.3]
 - 100% deduction unchanged
 - 80% deduction reduced to 65%
 - 70% deduction reduced to 50%

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Selected Highlights of the Tax Cuts and Jobs Act

- Partnerships
 - Three-year holding period for carried interests [p. 27, B.1]
 - No more technical terminations of partnerships [p. 29, D.1]
 - Legislative reversal of Tax Court's *Grecian Magnesite Mining* decision, which held that a foreign partner was not subject to U.S. tax on the sale of a U.S. partnership interest [p. 31, D.2.a]
 - Automatic § 754 election in certain circumstances [p. 32, E.1]

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Selected Highlights of the Tax Cuts and Jobs Act

- Exempt Organizations and Charitable Giving
 - Increased limit on deduction of certain charitable contributions [p. 34, B.1.a]
- Tax Procedure
 - Repeal of Affordable Care Act penalty [p. 35, A.2]
- Estate and Gift Taxation
 - Increased basic exclusion amount (\$11.2 million for decedents dying in 2018) [p. 36, B.1]