Tax Cuts and Jobs Act - Summary

The Tax Cuts and Jobs Act (The Act) made the most significant changes to the tax laws in over 30 years. The Act significantly reduces both individual and corporate tax rates beginning in 2018.

The Act 1) reduces the deduction for personal and dependency exemptions to zero, 2) replaces the dependency exemption with an enhanced $2,000 child tax credit and a new $500 credit for other dependents, and 3) replaces personal exemptions with higher standard deduction amounts ($12,000 for single taxpayers and $24,000 for married taxpayers filing a joint return). Because of the increased standard deduction amounts, some taxpayers who have itemized in the past will no longer itemize.

While the Act eliminates the tax savings related to the dependency exemption deduction (the Act reduces the value of the dependency exemption to zero), the rules related to the parent eligible to claim the deduction remain in place. The eligibility to claim a dependency exemption is important in determining who may claim benefits such as the child tax credit.

The Act eliminates the deduction for miscellaneous itemized deductions including unreimbursed employee business expenses, tax preparation and investment advisor fees, and legal fees associated with claims for lost income. The reduction in overall allowed itemized deductions for higher income taxpayers has also been eliminated.

The Act increases the 100-percent deduction allowed for business assets in the year of purchase (commonly referred to as the §179 expense) to $1 million per year and expands the deduction to include certain leasehold improvements to commercial real estate. (Generally, the §179 expense is not allowed for purchases of real estate). The limitations on deductions related to the purchase of SUVs and automobiles used in a business remain in place under the Act.

Beginning in 2018, New Hampshire law allows for a maximum §179 expense deduction of $500,000 per year. Prior to 2018, the maximum §179 expense deduction allowed under New Hampshire law was $100,000.

The Act includes a new 20-percent deduction for qualified business income associated with an ownership interest in a partnership, S Corporation, or sole proprietorship. The purpose of this deduction is to provide pass-through entities with a tax rate reduction similar to the new reduced tax rates for corporations. The deduction has limitations based on wages paid, the taxable income of the individual owner(s), and the type of service provided to customers by a business. In some circumstances, it may be beneficial for single or multiple member LLCs to elect S Corporation status.