

DissoMaster 2017-2

This update incorporates various changes including tax updates from the recently passed Tax Cuts and Jobs Act (TCJA). All TCJA personal income tax changes sunset after 2025.

While DissoMaster Classic 2017-2 includes most TCJA changes, **DissoMaster Classic will not be updated to version 2018-1**. In particular, Classic 2017-2 does not include the new and important pass-through business income deduction, which is discussed in the change list. Your subscription already includes DissoMaster, which will import DissoMaster Classic case files, as well as free DissoMaster training by calling 800-953-4357.

Below is a list of significant TCJA-related changes and comments. Please be sure to read them given the scope of these changes.

Absent from the list is the repeal of deductibility and taxability of spousal support paid or received. Those changes do not begin until 2019 and will be reflected in version 2018-1, which will include tax year 2019.

Also absent from the change list below is mortgage interest. The maximum amount of acquisition debt permitted to generate itemized interest deductions for new loans is reduced, and deductible home equity interest is repealed — but the way you enter them in DissoMaster is the same.

With the reduction in eligible itemized deductions and the near doubling of the standard deduction, there will be far fewer cases using itemized deductions going forward.

In the change list below, all figures are annual and apply to 2018 unless noted otherwise.

DissoMaster 2017-2 TCJA CHANGES

1. Changes in individual tax rates and brackets.
2. Personal and dependent exemptions are now \$0.

3. Standard deduction nearly doubles. Additional standard deductions for senior and blind continue.
4. Charitable contributions: 50% cap raised to 60%.
5. New itemized deduction cap on state tax is \$10K (\$5K MFS). This cap applies to the sum of (1) property tax plus (2) the higher of state income tax or sales tax.
6. Medical expense floor returned to 7.5%-of-AGI for 2017 and 2018.
7. Miscellaneous itemized deductions repealed.
8. Overall phaseout of itemized deductions repealed.
9. Individual Alternative Minimum Tax (AMT) reduced, thus fewer AMT cases.
10. Child Tax Credit increased to \$2K per kid (\$1,400 refundable).

11. New Family Tax Credit (uncommon special user entry required)

There is a new \$500-per-dependent credit (Family Tax Credit) for certain dependents ineligible for the \$2,000 CTC. DissoMaster calculates this for a child too old for the \$2,000 credit. To add the credit for other dependents, use the Nontaxable income line.

As always, be sure to provide birth dates for children both to figure credits and to order them for child support allocation.

12. Deduction on pass-through income (special user entry required)

(a) This is a significant new deduction that will be straightforward in some cases but complex in others, particularly higher-income cases, described below. It may involve many factors that are not otherwise relevant to support software. We are providing here some general information, but consulting your forensic may be very important in many of your cases to properly determine this deduction.

(b) Beginning in 2018, taxpayers may deduct up to 20% of “Qualified Business Income” (QBI) from pass-through entities, including **sole proprietorships, S-**

corporations, LLCs, and partnerships. The deduction may be limited or excluded based on a number of factors.

A party's compensation such as guaranteed payments for partner services and S-corp wages doesn't count as QBI. See new IRC Section 199A.

(c) DissoMaster Version 2017-2 includes a new entry line — located above itemized deductions — to enter the QBI deduction. (DissoMaster Classic does not include this line.)

While we will build additional tools for this, the factors used for the QBI deduction are complex. Some provisions apply to doctor and lawyers but not engineers and architects. Other provisions apply equally to both. Many pass-through entities are expected to re-characterize all or a portion of their business to utilize the deduction. We can expect technical corrections and IRS regulations and guidance to clarify many of the QBI issues that are currently under intense scrutiny and discussion within the accounting community.

(d) There are different rules depending on the individual's taxable income. A highly simplified overview follows for estimation purposes:

Case 1: Individual's taxable income before the QBI deduction is below a threshold of \$157.5K or \$315K (MFJ).

The deduction is 20% of QBI.

Example:

Pat has QBI of \$100K. With other income, Pat's taxable income before QBI deduction is \$150K. The taxable income of \$150K before the new deduction is under the threshold no matter the filing status.

Result: QBI Deduction = 20% x \$100K = \$20K.

Case 2: Individual's taxable income is above \$207.5K or \$415K (MFJ). (Increase of \$50K and \$100K, respectively.)

Here, there are potential limitations to the 20%-of-QBI, including:

(1) The QBI Deduction is limited to 50% of the allocable share of the entity's wages paid. Or, if larger, 25% of these allocable wages plus 2.5% of certain business assets. Allocable wages are the party's share of wages paid by the entity.

(2) There are limitations based on taxable income reduced by certain capital gains and dividends.

(3) For many but not all trades that rely on the "reputation or skill of one or more employees" the QBI Deduction is \$0 above the taxable income threshold listed in Case #2. These trades include, but are not limited to, the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, and financial and brokerage services. Other fields, such as engineers and architects, are not subject to the limitation.

(4) For taxable income between the threshold in Case 1 and the threshold in Case 2, any limitation phases in.

(e) For cases with deductible spousal support, the QBI deduction changes taxable income. After entering the deduction, recheck taxable income before the deduction and adjust the deduction if necessary. Taxable income is shown in the Cash Flow tab as well as in the tax reports.

The DissoMaster team welcomes your comments and suggestions.