# DissoMaster Version 2017-2

DissoMaster 2017-2 incorporates tax updates from the Tax Cuts and Jobs Act (TCJA). Most TCJA personal income tax changes sunset after 2025; changes re spousal support deductibility are “permanent”.

This updated instruction set (2/15/2018) includes general changes and additional information and examples on the TCJA’s qualified business income deduction, including taxable income limitations.

While DissoMaster Classic 2017-2 includes most TCJA changes, **DissoMaster Classic will not be updated to 2018-1**. Classic 2017-2 does not include the new pass-through business income deduction discussed below. Cases with this deduction should use DissoMaster 2017-2. DissoMaster imports DissoMaster Classic case files. To assist in your transition to DissoMaster, free training is available at (800) 953-4357.

Below is a list of significant TCJA-related DissoMaster changes and comments. *Absent from the list is the permanent repeal of deductibility and taxability of spousal support paid or received. Those changes begin in **2019** and will appear in version 2018-1, which will include tax year 2019.*

*Before then,* you can preview the expected support changes due to non deductibility by pressing the B-key to project if California conforms to the change, or the RDP key if California doesn’t conform. To view correct net spendable income and taxes as well, if California conforms, instead use the Taxes tab to control deductibility and taxability.

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to generate itemized interest deductions for new loans is reduced by TCJA, and deductible home equity interest is repealed if not used for acquisition debt — but the way you enter them in DissoMaster is the same.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 CHANGE LIST**

1. Changes in individual tax rates and brackets. (Listed in Tax Data tab.)

2. Personal and dependent exemptions are now $0. The Child Tax Credit remains tied to dependent exemptions.

3. The standard deduction nearly doubles. Additional standard deductions for senior and blind continue.

4. Charitable contributions: 50% cap raised to 60%.

5. Itemized deduction cap on state tax is now $10K ($5K MFS). This applies to property tax plus 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 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 nontaxable income.

    As always, 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. We provide here some general information;

consulting your forensic will often be important. Also, rules and interpretations will change over time.

(b) Beginning in 2018, taxpayers may deduct up to 20% of “Qualified business income” (QBI) from pass-through entities, including many **sole proprietorships**, **S-corporations, LLPs, LLCs and partnerships** with pass-through income**.** No deduction is available for C corporations or LLCs taxed as C corporations. The deduction may be limited or excluded based on a number of factors. Guaranteed payments for partner services and S-corp wages don’t count as QBI. Nor do capital gains, interest income and dividends. See new IRC Section 199A.

(c) DissoMaster Version 2017-2 includes a new entry line — located above itemized deductions — to enter the QBI deduction.

While we will build additional tools for this, the factors used for the QBI deduction are complex. E.g., some provisions apply to doctors and lawyers but not engineers and architects. Pass-through entities may reorganize to acquire the deduction. Technical corrections and/or IRS regulations and guidance will clarify many of the QBI issues 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 the lower of (1) QBI or (2) taxable income before the QBI deduction and net of capital gains.

**Example 1:**

Pat has $100K QBI and $150K taxable income, including spousal support paid or received in 2018, before the QBI deduction.

Result: QBI deduction = 20% x $100K = $20K.

**Example 2:**

In this example, Pat's taxable income becomes the limiting factor.

Pat, filing Single, has QBI of $100K, pays $10K spousal support in 2018 and claims a $12K standard deduction. Pat's taxable income is $78K (= $100K - $10K - $12K), which is less than QBI.

Result: QBI deduction = 20% x $78K = $15,600.

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

Here, there are additional limitations to the 20%-of-QBI/TI, including:

(1) **Wage and asset limits.** The QBI deduction is limited to 50% of the party's allocable share of the entity's W-2 wages paid. Or, if larger, 25% of allocable W-2 wages paid plus 2.5% of the allocable acquisition cost of depreciable business property. Again, the QBI deduction cannot exceed 20% of the QBI or 20% of taxable income net of capital gains, whichever is lower.

**Example 3:**

Pat's taxable income and QBI are $400K and $300K, respectively. Pat's allocable share of the entity's wages paid and assets described are $50K wages paid and $100K qualified assets.

Result: QBI deduction is limited to the greater of $25K (=50%x$50K) or $15K (=25%x$50K + 2.5%x$100K). The $25K is not limited by 20% of QBI or 20% of taxable income net of cap gains in this example. QBI deduction = $25K.

(2) **Specified service trade or business.** 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 $207.5K/$415K taxable income levels. 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. Practicing engineers and architects are not subject to the limitation.

**Example 4:**

Robin practices law and has taxable income of $500K.

Result: Being in a specified service business and over the taxable income limits, Robin's total QBI deduction is $0.

(3) Farmers have other limitations based on cooperative dividends.

**Limitation phase-in.** For taxable income between $315K to $415K (MFJ) or $157.5K to $207.5K (other statuses), any limitation phases in. This includes limitations based on wages, assets or specified trade.

(e) For 2018 cases with deductible spousal support, the QBI deduction changes AGI and therefore 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.

(f) QBI, wages paid and qualified assets count only if domestic.

The DissoMaster team welcomes your comments and suggestions.