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This time I am going to start with a story.

The story takes place more than 30 years ago. The hero of our story is a young dashing, that some may call ruggedly handsome, CPA. He was working for a good company even though their spokesperson was/is a clown. He was in a fairly good position in the accounting department for the real estate division. (If any of you saw the movie "The Founder" you know this famous company is not a hamburger company but a real estate company.) While he was in a place he should be, he realized the corporate world was just not the right fit for him and he decided to go off on his own and start a tax practice. Right as he severed all of his ties with his famous employer the President at that time announced he was going to completely overhaul the tax code so everyone could file their tax returns on a postcard. Our hero thought he was the biggest dummy to have ever walked the earth. Here he just left a good job with a good company and now his biggest concern because of what Washington said- and Washington never lies- was where his next meal was going to come from. What we got was the most complex tax law ever passed. The Tax Act of 1986 was so complicated that the IRS didn't even audit major parts of it until almost 20 years later because they couldn't understand it. Older tax professionals threw up their arms and said goodbye to their practices because it would be too hard to learn all of this new stuff and therefore people were looking for new CPA's in droves. And for our hero the rest is history as so many people came knocking his door that many had to be turned away. So as you see Paul Ryan and good old Donald holding up postcards in their photo ops on the new tax law remember the moral of the story - Beware of politicians with a postcard in their hands.

Breaking the Rules

One of my long time rules in my newsletter was to never go over any *proposed* tax law. It used to be so common to have tax proposals that you could never count on this final outcome until all the votes were in. After Obamacare, which was rules as a tax by the courts, we have had very little to write about in the area of tax law changes so I am starving for something new in a tax code that is in very much in need of change, I am going to go over the proposal before Congress. So here goes:

Tax Bracket A reduction of the number of tax brackets from 7 to 4 with the top tax bracket not kicking in till 1 million. There is also a phase out of the lowest tax bracket for anyone with income over 1 million (Oops!!! The postcard just got bigger).

Standard Deduction & Personal Exemption

Standard Deduction increased a lot. Personal exemption eliminated. I guess this is Trump's new method of birth control. This will help old farts like me that no longer claim their kids but to Gen Xer's that are starting their families this is just one of the many things you will be disappointed about in your government. A side note here- the very favorable tax filing states of head of household for single parent looks like it is about to be eliminated. There is a provision in the standard deduction that helps here but it is questionable it will survive since that would make the postcard bigger.

New Maximum Rate on Business Income

You should see this proposal and the formula it contains. It will make your head spin. It could change many of the way we set up business in the future. I also have to see how this plays out. The initial look thru is this will not be a good thing and will result in a lot more taxes paid by our business clients. The good news on this is very unpopular. What I can say with accuracy now-the post card in now 2 sided.

Increased Child Credit –and- New Family Tax Credit

Child tax credit would go to 1,600 from 1K as well as a $300 credit for non-child and $300 for family. Yep only Washington could come up with getting rid of personal exemption where most of your returns got a tax reduction of $1K on your return and make a big deal about getting $600 in return. The net is giving up $1000 to get $600. We should make a deal like that when we pay our taxes. And ok yes-there goes the postcard again- because if you make too much-you lose this credit.

Misc. Credits

There will be a credits that will disappear. The 2 that I have had in my practice is the Adoption and Electric Drive Motor Vehicles. There are others but I don't file any returns with those.

Education

Hope and Lifetime learning credits eliminated. The American Opportunity credit would go to 5 years with the 5th year being sharply reduced. So then we would have to go to your parents return to see if they ever took the credit on you before we can file to see if you can get the credit. Yea- that would make sense. Also the tax advantage to improve yourself thru education after you graduate would be eliminated.

Coverdell contributions are eliminated. 529's would allow elementary and high school expense. Student loan interest deduction would be gone as is the deduction for tuition. The break for savings bond interest used for tuition-gone. AND employer provided education assistance will now show up on your W-2 as taxable income

Schedule A Deductions

● Mortgage interest deduction-reduced AND now you can only deduct 1 residence. Also that should just be ducky for the real estate industry. And if second home markets were not already in the toilet- they soon will be.

● Property tax limited to 10k. – Gone. YES, GONE. Hey have these guys ever visited Illinois?

● Personal Casualty Loss – Gone

Schedule A Deductions (continued)

● State and Local Tax – Gone

● Sales Tax – Gone

● Tax Prep Expenses – Gone (Hey! Now we're getting personal here.)

● Alimony Payouts – also gone. This may reduce the divorce rate but could increase the murder rate. And oh do you think they are going to give up taxing the alimony income? Guess again.

● Moving Expense Deduction – Gone. For all of you that moved, just imagine what your W-2 will look like. If you move everybody is going to hate me when I tell them what they will owe in taxes.

● Medical Expenses – Gone. (This must be because Obamacare is working so well?)

● Employee Business Expenses – all gone. Yep; If you're an employee, all of those business meals, travel, car miles etc. will now be 100% out of your pocket.

● Dependent Care – Gone. Yep, that 5k you took before for your daycare, gone.

If your jaw has not hit the floor yet - you're not paying attention.

Also: If you want to exclude the gain on a sale of a residence, you now have to live and own it as your residence for 5 of the last 8 years - not 2 of the last 5.

Also: Gone are exclusions for Achievement awards - now that gold watch is 100% taxable.

Good News, *maybe*?

- Estate Tax – gone after 2023. (I guess Trump is figuring on getting re-elected?)
- Alternative Minimum Tax – Gone, with any unused credit getting used in 2019 to 2022.
- There are also is a list of changes to businesses and corporations that I will not go into now, as I have used almost the entire newsletter on Proposed tax law changes.

What do I think is going to happen?

The only thing I have seen Washington do well over the past decade or so is nothing. So would I be surprised if nothing happened or something so minor it would not ever be worth mentioning in this newsletter-no I would not. I do see 2 major losers in all of this-real estate and education. I guess the republicans don't want to be known as the education or landlord's administration. I am not sure I can come up with anything that will be a big winner. What I really think is there is going to be a whole lot of wheeling and dealing and we will end up with something a lot worse than what we have now because after all when was the last time the government ever fixed anything.

I Told You So

I am about out of space and time for this newsletter. I do have a bunch of stupid thing the IRS has tried to do but just can't get into that this time. There is something I warned you about a couple of years ago. A district court in Wisconsin has ruled the parsonage allowance is unconstitutional. As I have said in past newsletters, we have a lot of clergy in our practice. And while my sources have told me there is a lot of legal wrangling yet to go - it may be time to get any of your action groups involved with this before it is too late.

And like I Said

Remember when I said education may be one of the biggest losses on the new tax law. The claims court has already struck a blow. The court has ruled getting a PHD no matter how it is done does not qualify for education expenses deduction. Yes there are certain restrictions to get that deduction anyway but it was their opinion a PHD will never rise above those restrictions.

Marital Bliss

In the absence of IRS out takes I am going to finish with 2 cases involving divorce. The first deals with a couple that while married ran a business together. After the wife filed for divorce the sister of the husband sued the husband (most have been a fun family to be around for Thanksgiving) for a variety of improper practices in the business. After the divorce was final which contained a clause where both parties were liable for 1/2 of all outstanding liabilities and debts, the sister's case was settled for 600k. Of the 600k the ex-wife had to pay 1/2. So what did she do? Why claimed a 300k loss on her tax return. Before you start thinking-why didn't I do that in my divorce? There is a law that says anything in a divorce settlement can't be deducted and yes the IRS won easily here.

Marital Bliss

There have been some changes in tax law that can cause returns to be audited by the IRS long after the normal 4 years have passed. The most recent are estate returns that a claim to what is called a portability election. In short this is an election to extend the estate exclusion to your spouse. The only problem is the court has said because of the nature of that election (which is a VERY valuable election that could be worth millions of $$) the IRS can go back and audit the first return. So if you outlive your spouse by say 25 years guess what you better have tucked away somewhere with all the support.

And Finally

This one I just don't get. 2 doctors were getting divorced. If you judge how good a doctor is by how much they make there must have been 2 really good doctors an millions of $ was at stake in this case. The wife's attorney entered into several financial transactions with his client and the bottom line of all those financial transactions was to hide some of his client's assets. Obviously the attorney was sleeping thru his forensic accounting classes in college the ex-husband found out about it. The good doctor brought suit against the attorney and won a half million dollar settlement. The attorney, never knowing when to quit, deducted both his legal expenses and the 500k payment to the good doctor on his tax return. Enter IRS which disallowed both. Enter tax court that upheld the decision of the IRS and added a negligence penalty on the 500k deduction. This brings so many questions to mind as to why this attorney would never consider doing this and while the narrative doesn't say there was a romantic involvement- I do hope she was worth it.

OK that is all for now

Have a Happy Thanksgiving and see you next month.

-Tom & Dorothy