



Washington Tax Brief

January 24, 2018

More Helpful Hints



Adjust your volume

- Be sure your computer's sound is turned on.
- Click this blue button. Slide the control to the left or right to fit your needs.



Ask your questions

- Feel free to submit content-related questions to the speaker by clicking this red button.
- Someone is available to assist with your technology and CPE-related questions.



Download your materials

- Access today's slides and learning materials by clicking this green 'Resources' button at any time during this presentation.
- If you need help accessing these materials, send a message through the Q&A application.



About the Washington Tax Brief

Webcast Series to Update You On:

- The regulatory and political environment for tax issues
- AICPA's advocacy efforts to:
 - protect your professional interests
 - support sound tax policy
 - promote effective tax administration
- Open to All AICPA Members
- Open to All State Society Staff and Committee Members



Today's Presenters



Eileen Sherr, CPA, MT
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Today's Agenda

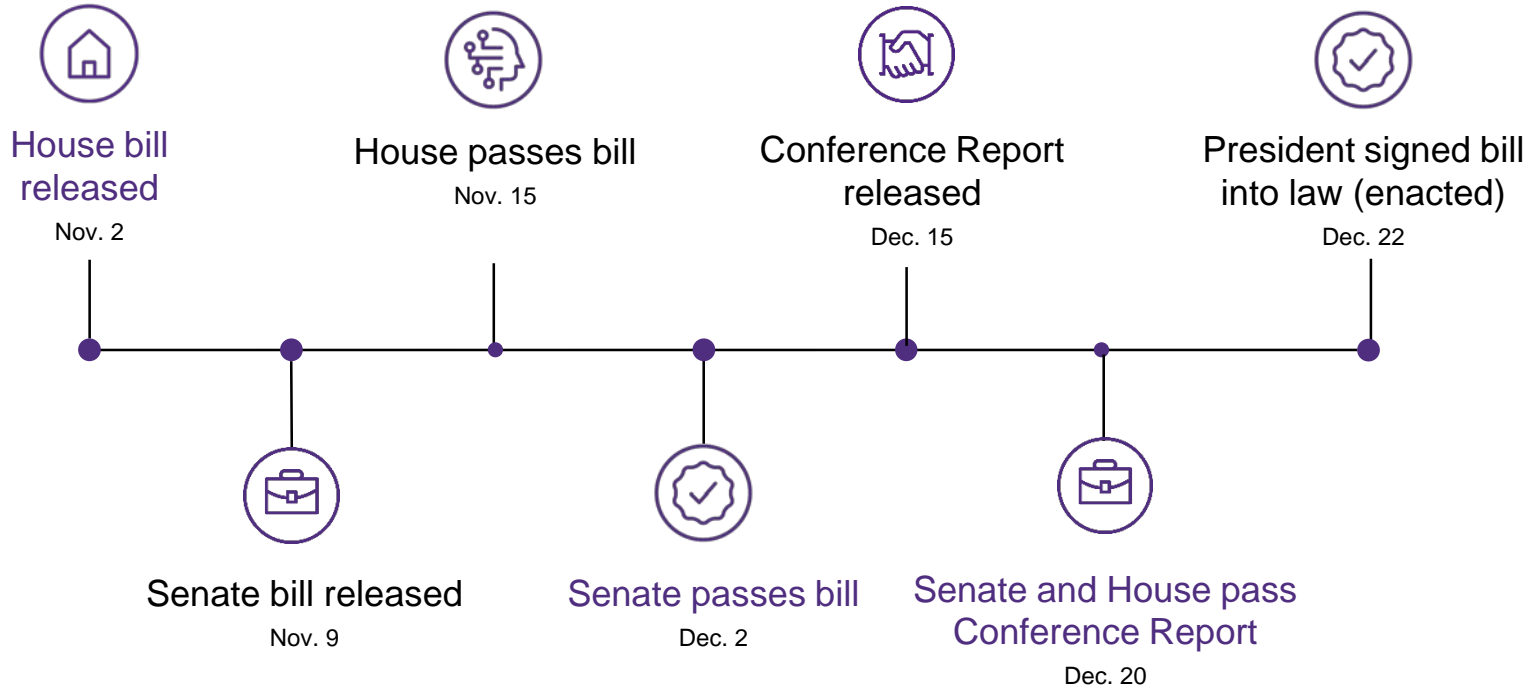
- **Tax Reform – How We Got Here and Where We Go Next**
- **Key Issues for 2018 Filing Season**
- **State Tax Implications of Federal Tax Reform**
- **Tax Reform and Financial Reporting Issues**
- **Emerging Issues**
- **Q & A**



Tax Reform - How We Got Here



The Path to Enactment



That's a total of 50 days from the House release to Trump's signature.

AICPA Activities on Tax Reform

- ▶ Submitted 5 comment letters to Congress during 50 day “Sprint to Passage”
- ▶ Provided extensive recommendations
- ▶ Testified on important issues
- ▶ Held meetings and conversations with staff and Members of Congress
- ▶ Built coalitions with similar organizations
- ▶ Partnered with state CPA societies



AICPA Tax Reform Advocacy Successes

- ▶ Expanded cash method
- ▶ Retained business interest expense deduction for small businesses (under \$25 million)
- ▶ Simplified inventory rules for small businesses
- ▶ Expanded UNICAP rules small business exception
- ▶ Preserved current deferred compensation rules
- ▶ Simplified kiddie tax



AICPA Tax Reform Advocacy Successes

- ▶ Removed computer/peripheral equipment from listed property
- ▶ Provided consideration of inflation index
- ▶ Allowed nonresident aliens as beneficiaries of ESBTs
- ▶ Repealed:
 - ▶ Pease phase-out of itemized deductions,
 - ▶ Technical terminations rule for partnerships,
 - ▶ Corporate AMT



Tax Reform – Where We Go Next



Current AICPA Tax Reform Advocacy Efforts

- ▶ Implementation of the new law
 - ▶ Code sections revised or added - 573
 - ▶ Identifying possible technical corrections
 - ▶ Identifying additional legislative proposals
 - ▶ Identifying and prioritizing needed Treasury/IRS guidance
- ▶ Working with state CPA societies on state tax implications and conformity issues with the federal rules and changes



IRS New Law Releases To Date

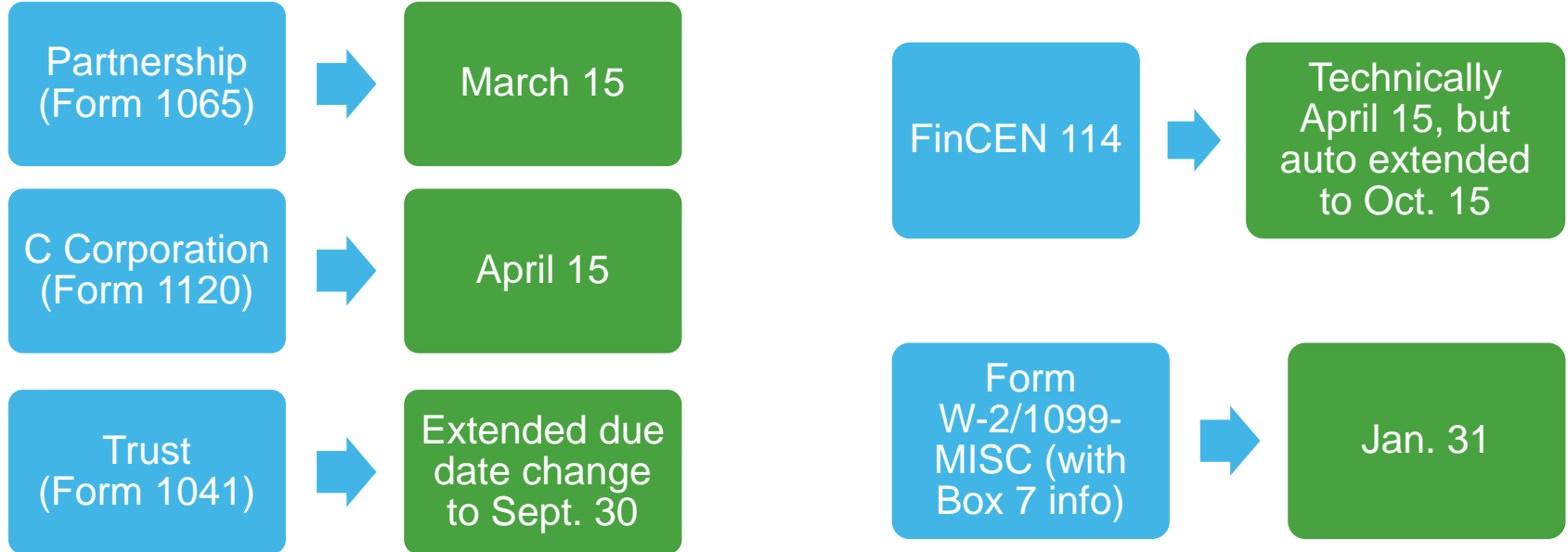
- New withholding tables issued ([Notice 1036](#)) – use by February 15, 2018
- [IR-2017-210](#) on deductibility of prepaid property taxes
- [Notice 2018-07](#) and [Notice 2018-13](#) on calculation of foreign deferred earnings
- [Notice 2018-08](#) on withholding on sales of publicly traded partnership interests by foreign owners
- [IRS FAQ](#) clarified that the last date to recharacterize a Roth conversion under IRC section 408A is Oct. 15, 2018
- **FILING SEASON STARTS JANUARY 29, 2018**



Key Issues for 2018 Filing Season



Due Date Changes



Note: For 2018, April 15 deadlines are extended to April 17

Expired Provisions (as of Dec. 31, 2016)

- Exclusion of principal residence indebtedness income
- Deduction of mortgage insurance premiums as interest
- Above the line deduction for tuition and fees
- Energy tax incentives



ACA Update

IRS ACA website for Tax Pros

“For the upcoming 2018 filing season, the IRS will not accept electronically filed tax returns where the taxpayer does not address the health coverage requirements of ACA.”

Due date of 2017 Forms 1095-B and 1095-C

- [Notice 2018-06](#) (12/22/17)
 - For 2017 forms normally due to taxpayers by 1/31/18, automatic extension granted to 3/2/18.
 - Due date to IRS remains 2/28/18 (4/2/18 if electronically)
 - If need more time to IRS, use [Form 8809](#) to request it

550116

Form **1095-B** Health Coverage

Department of the Treasury Internal Revenue Service

Do not attach to your tax return. Keep for your records. Go to www.irs.gov/Form1095B for instructions and the latest information.

VOID CORRECTED

OMB No. 1545-0047

2017

Part I **Responsible Individual**

1. Name of responsible individual

2. Social security number (SSN) or other TIN

3. Date of birth (DOB) or other TIN (if not available)

4. Street address (including apartment no.)

5. City or town

6. State or province

7. County and ZIP or foreign postal code

8. Check after identifying origin of the health coverage (see instructions for coverage)

9. Second

Part II **Information About Certain Employer-Sponsored Coverage (see instructions)**

10. Coverage date

11. Coverage identification number (CIN)

12. Street address (including room or suite no.)

13. City or town

14. State or province

15. County and ZIP or foreign postal code

Part III **Issuer of Other Coverage Provider (see instructions)**

16. Name

17. Coverage identification number (CIN)

18. Contact telephone number

19. Street address (including room or suite no.)

20. City or town

21. State or province

22. County and ZIP or foreign postal code

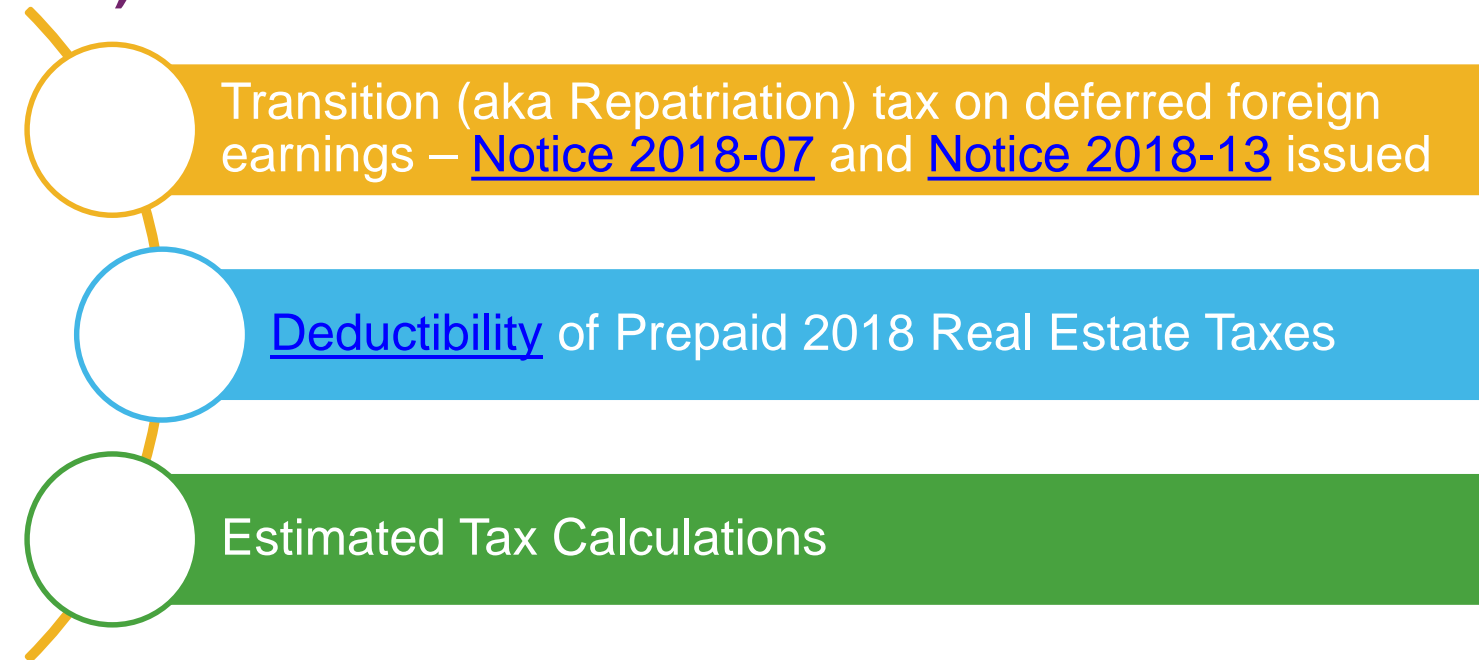
Part IV **Covered Individuals (Enter this information for each covered individual)**

(a) Name of covered individual (b) SSN or other TIN (c) DOB (d) EIN or other TIN (e) Coverage type (f) Months of coverage

Items from New Law to Affect 2017 (Current Filing season)

- Medical deduction limit 7.5% for 2017 and 2018
- New mortgages (binding contracts after Dec. 15, 2017 subject to \$750,000 limit)
- Tangible property purchases after Sep. 27, 2017

Items from New Law to Affect 2017 Returns (Current Filing Season)



Transition (aka Repatriation) tax on deferred foreign earnings – [Notice 2018-07](#) and [Notice 2018-13](#) issued

[Deductibility](#) of Prepaid 2018 Real Estate Taxes

Estimated Tax Calculations

Proposed Changes Not Included in Final Law



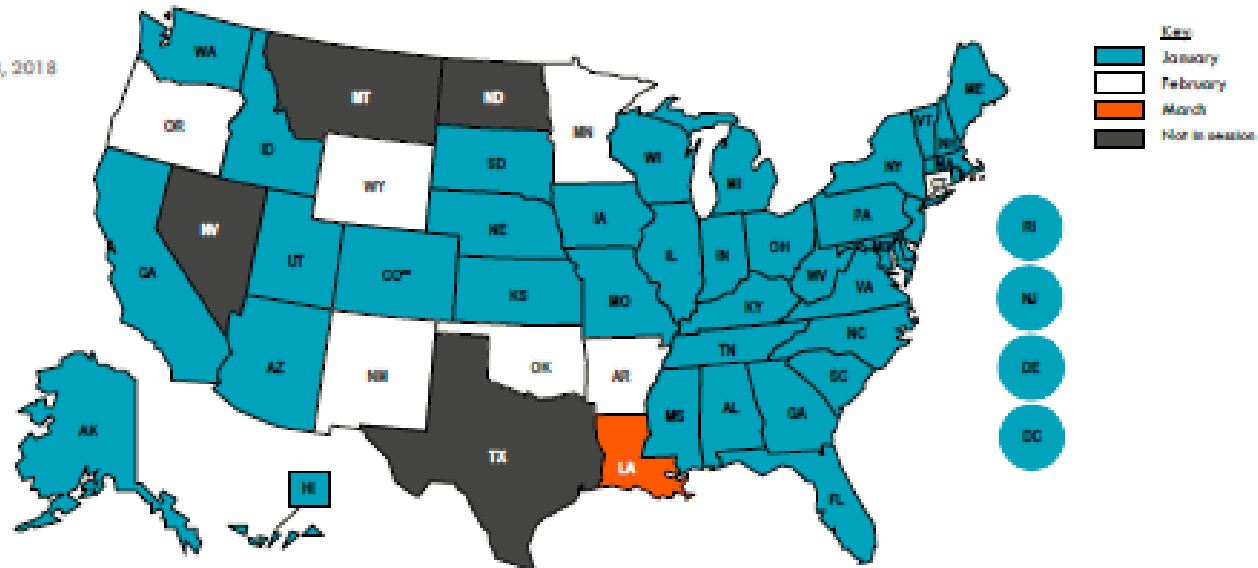
dreamstime.com

Additional standard deduction for elderly and blind retained	\$250 above-the-line teacher deduction retained	Exclusion for employer-provided dependent care assistance retained	Exclusion for adoption assistance programs retained	Sec. 121 exclusion of gain on sale of principal residence - rules unchanged
Required use of FIFO to determine basis of stock dispositions not included	Charitable driving remains at 14 cents/mile	Consolidation and modification of education provisions not included	Plug-in electric vehicle credit retained	Work Opportunity Tax Credit retained (but still set to expire after 2019)
Recovery period for real property stays at 27.5 and 39 years (but ADS period for residential rental property changed from 40 to 30 years.)				

2018 state regular legislative sessions: start



As of January 3, 2018



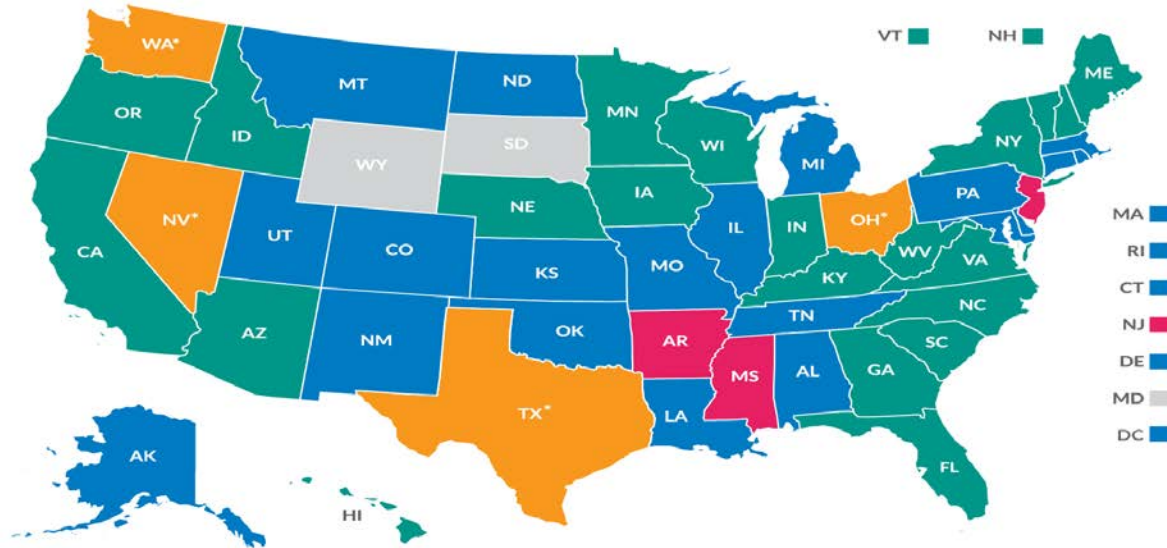
State Impact of Federal Tax Reform

Impacts

- State Budgets
- State Revenues
- Conformity to Federal Rules



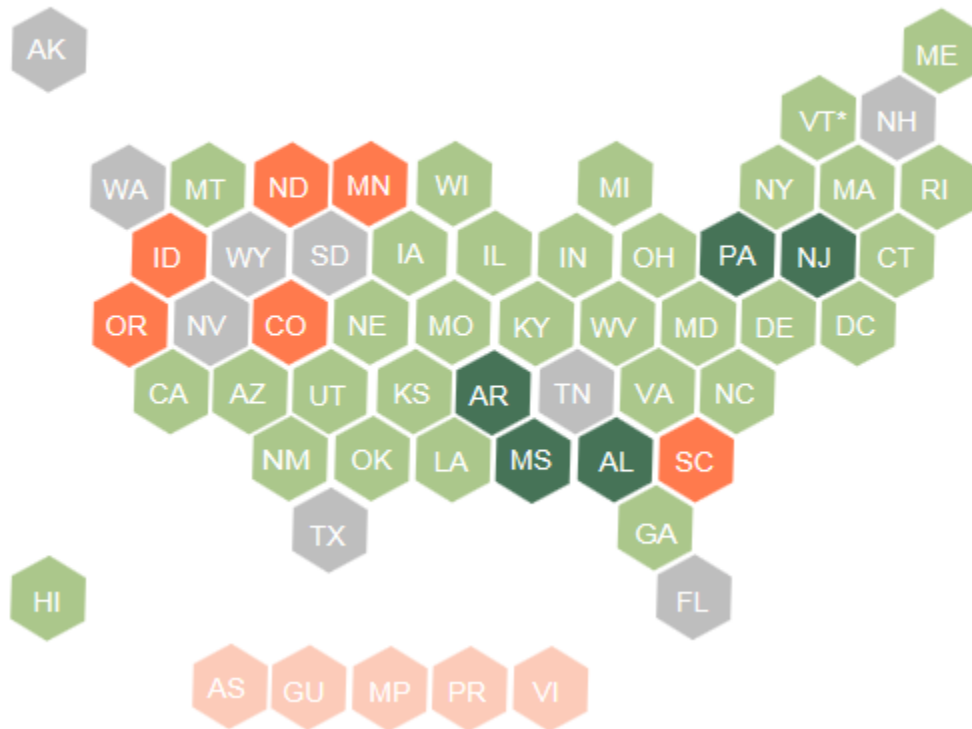
Does Your State's Corporate Income Tax Code Conform With the Federal Tax Code?



Note: States conform to the federal tax code on either a static or rolling basis. Static conformity means conforming to the Internal Revenue Code (IRC) as of a specific date, such as January 1, 2016. Rolling conformity means adopting IRC changes as they occur. *Gross receipts taxes are not comparable to corporate income taxes. Michigan taxpayers have the choice of rolling conformity or the tax code as of January 1, 2012. Maryland has rolling conformity unless the Comptroller finds a revenue impact of greater than \$5 million. Source: Bloomberg BNA

- Rolling Conformity
- Static Conformity
- No Conformity (State Calculation)
- State Levies Gross Receipts Tax*
- No Corporate Income Tax

Personal Income Tax: Starting Points



MAP LEGEND

- Federal Adjusted Gross Income
- Federal Taxable Income
- State Gross Income
- No Personal Income Tax

**VT- Vermont state income tax calculations will begin at federal AGI rather than federal taxable income starting in tax year 2018.*

Source: Federation of Tax Administrators as of January 2017

State Impact of Federal Tax Reform

Federal deduction for state taxes limited to \$10,000

- Law prohibited state income tax prepayments
- IRS Notice ([IR-2017-210](#)) on assessed prepaid property taxes
- Schumer letter to IRS – to reverse position



State Impact of Federal Tax Reform

States' responses

- Employer-paid payroll taxes (fed. tax deductible)
- State income tax credit for charitable contributions to state public purpose funds (fed. tax deductible)
- Possible legal challenges



State Impact of Federal Tax Reform

Decouple on provisions reducing state revenue

- Bonus depreciation
- Pass-through deduction
- Standard deduction
 - 12 states conform, some FTI starting point



State Impact of Federal Tax Reform

Conform on provisions raising state revenue

- Personal exemption eliminated
 - 10 states currently couple state to federal
- Alternative inflation measure (fed. chained CPI)
- NOL changes
 - 16 states add back fed. NOL
- Deemed repatriation
 - Depends on current state treatment of foreign earnings



State Impact of Federal Tax Reform

Conform on provisions raising state revenue

- Deductions eliminated or modified
 - Moving expenses
 - Mortgage interest
 - Casualty loss
 - Employee business expenses
 - Investment advisory fees
 - Interest expense limitation for businesses



State Impact of Federal Tax Reform

Other impacts on the states

- ACA individual mandate penalty to \$0 in 2019
 - May increase state healthcare spending
- Estate tax – federal exclusion \$11.2 million
 - Estate tax in 12 states and DC
 - If conform, reduces state revenue
- 529 Plans start to allow K-12 private school
 - May increase costs to states



State Impact of Federal Tax Reform

Other impacts on the states

- Income inclusion for contributions to capital by government entities
 - State incentives now federal taxable income
- Loss of tax exemption for refunding bonds
- [NCSL State Impact of Tax Reform](#)
- [Tax Foundation Center for State Tax Policy](#)
- AICPA is a resource to the state CPA societies



Tax Reform and Financial Reporting Issues



Financial Reporting

- ASC 740 applies
- Effects to be recognized in the quarter that includes December 22, 2017
- Effect on taxes currently payable/refundable for current reporting year:
 - Recorded after effective dates prescribed in statutes
 - Reflected in annual estimated tax rate (AETR) beginning in first interim period that includes enactment date



Financial Reporting

- Effect on taxes payable/refundable for a prior year are recognized as of the enactment date as tax expense (benefit) for current year (as discrete item, not part of AETR)
- Effect on deferred tax liabilities or assets, and any related valuation allowance, is recorded to **continuing operations** as of the enactment date as tax expense (benefit) for current year (as discrete item, not part of AETR)



Financial Reporting

- FASB to address:
 - Reclassification from accumulated OCI to retained earnings for stranded tax effects resulting from the Act
 - Transition disclosures
- [Accounting for the Tax Cuts and Jobs Act](#)
 - FASB considering whether to address five implementation issues -
- [Proposed Accounting Standards Update](#) issued 1/18/18



SEC Reporting

- [SEC Staff Accounting Bulletin 118](#)
- Addresses situations where the accounting under ASC 740 is incomplete for certain tax effects of the Act upon issuance of the financial statements
- Per FASB, may also be applied by private companies and not-for-profits



Emerging Issues



Emerging Issues



IRS Security Changes



Crowdfunding/
Sharing Economy



Partnership Audit
Regulations



Information
Reporting



Virtual
Currency



Disaster Relief

QUESTIONS



[AICPA Tax Policy and Advocacy - Website](#)

[AICPA Tax Advocacy Comment Letters - Website](#)

[AICPA Tax Practitioner LinkedIn Group](#)

Upcoming AICPA Webcasts/Courses

aicpa.org/taxreform

- **Getting to the Heart of Tax Reform: Individual Tax and Estate Planning Strategies**
 - [Webcast -- January 31st @ 1PM ET \(4 CPE credits\)](#)
 - Self-Study Online (5 CPE credits)
- **Tax Reform's Impact on Corporate and Pass-Through Entities**
 - [Video Webcast -- January 30th @ 1PM ET \(4 CPE credits\)](#)
 - Self-Study Online (5.5 CPE credits)
- **Tax Reform's Impact on International Business**
 - [Webcast -- January 25th @ 1PM ET \(4 CPE credits\)](#)
 - Self-Study Online (5.5 CPE credits)
- **Live group training also available**

AICPA Tax Reform Resource Center

The latest news, advocacy, exclusive videos, resources and learning in one place.

The screenshot shows the AICPA Tax Reform Resource Center website. At the top, there is a blue header with the text "Tax Reform Resource Center". Below the header, a paragraph states: "The AICPA Tax Reform Resource Center is your home for comprehensive coverage on tax reform. This page is your go-to for news, resources, videos, podcasts, learning, and AICPA advocacy positions. Bookmark this page and visit often for updates." The main content area features three columns of featured articles or videos. The first column has a photo of the US Capitol and is titled "AICPA Responses to the Tax Legislation", with a sub-headline: "While several provisions are welcome changes, the AICPA is disappointed by CPAs not being included in the new treatment of pass-throughs." The second column has a photo of a scale of justice and is titled "AICPA Comments for Conference Committee", with a sub-headline: "On Dec. 6, 2017, the AICPA submitted comments to the Conference of the House and Senate-passed versions of the Tax Cuts and Jobs Act. Learn more: JCT, HVMC and SFC documents." The third column has a green background and is titled "Exclusive Tax Reform Webcasts", with a sub-headline: "Individual Income Tax Changes and Planning Strategies (1/2, 1/12, 1/23), International Business (1/5, 1/17, 1/25), Corporations and Pass-Through Entities (1/9, 1/18, 1/30)". At the bottom of the page, there is a navigation bar with buttons for "Recent Videos", "Tax Reform FAQs", "News", "Tax Policy & Advocacy", "Resources", and "Events".

Resources: Tax Season Resources for CPAs

- Annual Tax Compliance Kit
 - Engagement letters
 - Organizers
 - Checklists
 - Practice guides
- Additional Resources
- Updates
- News

aicpa.org/busyseason

Tax Season Resources for CPAs

This page is provided to you by the Tax Section, Personal Financial Planning Section, and Private Companies Practice Section as your central hub for resources, updates, and news that you need during filing season. Bookmark this page and check back often for updates to help you on the journey to a successful tax season.

Interested in joining Tax, PFP, and/or PCPS? [Learn more](#) about these premium resources and other benefits of section membership.

Key Tax Season Resources	Tax issues for 2018 tax season	Practice Management	IRS Practice & Procedure	News & Updates	Related Resources												
<table border="1"><thead><tr><th>Key Tax Season Resources</th><th>NON - MEMBER</th><th>AICPA</th><th>TAX</th><th>PCPS</th><th>PFP</th></tr></thead><tbody><tr><td>Annual Tax Compliance Kit - Comprehensive toolkit to help practitioners comply with tax laws; contains engagement letters, organizers, checklists, and practice guides.</td><td></td><td></td><td>X</td><td></td><td></td></tr></tbody></table>						Key Tax Season Resources	NON - MEMBER	AICPA	TAX	PCPS	PFP	Annual Tax Compliance Kit - Comprehensive toolkit to help practitioners comply with tax laws; contains engagement letters, organizers, checklists, and practice guides.			X		
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Thank you

Join us for our next Washington Tax Brief on June 6, 2018