



TAX REFORM SUMMARY

Northeast Equipment Dealers Association and other associations are providing this summary of the tax reform legislation and the amendment they secured for equipment dealers.

FOR IMMEDIATE RELEASE: Dec. 20, 2017, Kansas City, Missouri: Just announced, Congress passed the unified version of the Tax Cuts and Jobs Act. The bill speedily made its way through both chambers with limited amendments. The President is expected to sign this legislation into law soon. Below is a summary of the tax reform legislation, including the amendment that the Western Equipment Dealers Association (WEDA) worked to secure on behalf of dealers across the country.

“Overall, dealers stand to benefit from the reforms to the individual and business income tax code,” said Curt Kleoppel, President, Equipment Dealer Consulting and WEDA Chief Financial Officer. “Despite the tax code being made simpler for many individual filers, there are very specific changes to business deductions that dealers should pay careful attention to.”

The following changes will be effective for the 2018 tax year through 2025.

Personal Income Tax Rates and Provisions

While the primary changes in this tax reform relate to corporate tax rates, there are significant changes to individual rates, as well. The legislation retained the seven-bracket tax structure, but widened the bracket widths

Federal Income Tax Rates	
Taxable income	Income tax
<i>Single Individuals</i>	
Not over \$9,525	10% of the taxable income
Over \$9,525 but not over \$38,700	\$952.50 plus 12% of the excess over \$9,525
Over \$38,700 but not over \$82,500	\$4,453.50 plus 22% of the excess over \$38,700
Over \$82,500 but not over \$157,500	\$14,089.50 plus 24% of the excess over \$82,500
Over \$157,500 but not over \$200,000	\$32,089.50 plus 32% of the excess over \$157,500
Over \$200,000 but not over \$500,000	\$45,689.50 plus 35% of the excess over \$200,000
Over \$500,000	\$150,689.50 plus 37% of the excess over \$500,000
<i>Married Individuals Filing Joint Returns</i>	
Not over \$19,050	10% of the taxable income
Over \$19,050 but not over \$77,400	\$1,905 plus 12% of the excess over \$19,050
Over \$77,400 but not over \$165,000	\$8,907 plus 22% of the excess over \$77,400
Over \$165,000 but not over \$315,000	\$28,179 plus 24% of the excess over \$165,000
Over \$315,000 but not over \$400,000	\$64,179 plus 32% of the excess over \$315,000
Over \$400,000 but not over \$600,000	\$91,379 plus 35% of the excess over \$400,000
Over \$600,000	\$161,379 plus 37% of the excess over \$600,000

Key Provisions Affecting Final Individual Taxable Income

- **Standard Deduction** doubled to \$12,000 for individuals or \$24,000 for married couples.
- **Itemizing**
 - **SALT (State and Local Tax) Deduction** limits the state and local tax deduction to a combined \$10,000 for income, sales, and property taxes;
 - **Home Mortgage Interest Deduction** is maintained for one home up to \$750,000;
 - **Charitable Deduction** is maintained.
- **Capital Gains** rates are largely left unchanged.
- **Sec. 1031 Like-Kind Exchanges** are maintained for real property transactions.
- **Retirement Savings Provisions** around 401(k)s and IRAs are maintained.
- **Health Insurance**
 - **Individual Mandate** is repealed beginning January 1, 2019;
 - **Medical Expense Deduction** is maintained for expenses exceeding 7.5 percent of AGI in 2018, and 10 percent beginning in 2019;

- **Health Savings Accounts** tax treatment is maintained.
- **Child Tax Credit** is expanded to \$2,000 per child (phase-out begins at \$400,000 income).
- **Alternative Minimum Tax** is retained on personal filings, but raises the exemption on the alternative minimum tax from \$86,200 to \$109,400 for married filers, and increases the phase-out threshold to \$1 million.
- **Estate Tax relief** is granted by doubling the exemption amounts (\$11 million for individuals; \$22 million for couples) through 2025; reverting to current amounts thereafter.
- **Stepped-up basis** is maintained.

Business Income Tax Rates and Provisions

- **Corporate Rate** permanently reduced to 21 percent beginning in 2018.
- **Pass-Through Businesses Income** establishes a 20 percent deduction of qualified business income from certain pass-through businesses. Specific service industries, such as health, law, and professional services, are excluded. However, joint filers with income below \$315,000 and other filers with income below \$157,500 can claim the deduction fully on income from service industries. This provision would expire December 31, 2025.
- **Alternative Minimum Tax** for corporations is eliminated.
- **Interest Deductibility**
 - **Small Business Exemption** fully maintained for businesses with less than \$25 million in revenue. Farming businesses with income greater than \$25 million can retain interest deductibility if they use the Alternate Depreciation System for investments.
 - **Limitation on Deductibility with Floor Plan Interest Amendment***
Deduction limited to the sum of (1) business interest income; (2) 30 percent of the taxpayer's adjusted taxable income for the tax year; and

(3) the taxpayer's floor plan financing interest for the tax year. Any disallowed business interest deduction carried forward indefinitely (with certain restrictions for partnerships).

- **Definition of Floor Plan Financing Interest**

Interest paid or accrued on indebtedness used to finance the acquisition of farm equipment held for sale or lease to retail customers and secured by the inventory so acquired. Does not include construction machinery and equipment.

- **Trade-Off for Using Floor Plan Interest**

Full expensing disallowed if floor plan interest factored into deduction. Sec. 179 expensing still maintained if floor plan interest used.

- **Full Expensing** allows full and immediate expensing of short-lived capital investments for five years.
- **Sec. 179 Expensing** limits are increased to \$1 million per year with phase-out beginning at \$2.5 million, indexed for inflation after 2018.
- **Cost Recovery (Bonus Depreciation)** is allowed for used property, and is permitted at the 100 percent rate through 2022, and phased down by 20 percent each year thereafter.
- **Net Operating Loss** eliminates net operating loss carrybacks and limits carryforwards to 80 percent of taxable income. Farming businesses are still allowed a two-year NOL carryback.
- **Agricultural Cooperatives** receive a 20 percent deduction on pass-through income that will be calculated on the gross income of the cooperative beginning in 2018 in lieu of the domestic production activities deduction (section 199), which is repealed.
- **Cash Accounting** is maintained for farming businesses.
- **LIFO** accounting method is maintained.
- **Repatriation** enacts deemed repatriation of currently deferred foreign profits at a rate of 15.5 percent for cash and cash-equivalent profits and 8 percent for reinvested foreign earnings.

- **Territorial System** eliminates worldwide system and moves to a territorial system with base erosion rules.

***Floor Plan Interest Amendment:** The business interest deduction limitations as written in the original House Ways & Means bill was unduly burdensome for equipment dealers. Working with the House and Senate, WEDA successfully secured the floor plan interest language that accounts for the unique circumstances of farm equipment dealers.

“Special recognition is warranted for Representative Vicky Hartzler and Representative Jason Smith, both from Missouri, who were instrumental in obtaining this amendment,” said Eric Wareham, VP of Government Affairs, WEDA. “Also, a special thanks to Curt Kleoppel for his work on providing invaluable information and expertise to the House Ways & Means Committee members and staff during deliberation on this amendment.”

“This policy summary is provided to dealers as an overview of the tax reform legislation, not as tax advice,” said John Schmeiser, CEO, WEDA. “We recommend consulting your tax advisor or the team at Equipment Dealer Consulting for specific tax advice questions.”

For media inquiries or questions about the tax reform legislation contact Carolynn Sinclair, Marketing Communications Manager, WEDA at csinclair@westerneda.com or **800-661-2452**.

About Equipment Dealer Consulting, LLC

Equipment Dealer Consulting, LLC is a long-term partner of Western Equipment Dealers Association and was created to provide financial services for dealers. The accountants for Equipment Dealer Consulting, LLC have more than 90 years of combined experience in the farm, outdoor power, industrial and construction equipment businesses, as well as the hardware and building materials industries. The Equipment Dealer Consulting team members are licensed in Missouri, Kansas, Iowa, Oklahoma and Texas. They are also members of the Missouri Society of CPAs and AICPA.