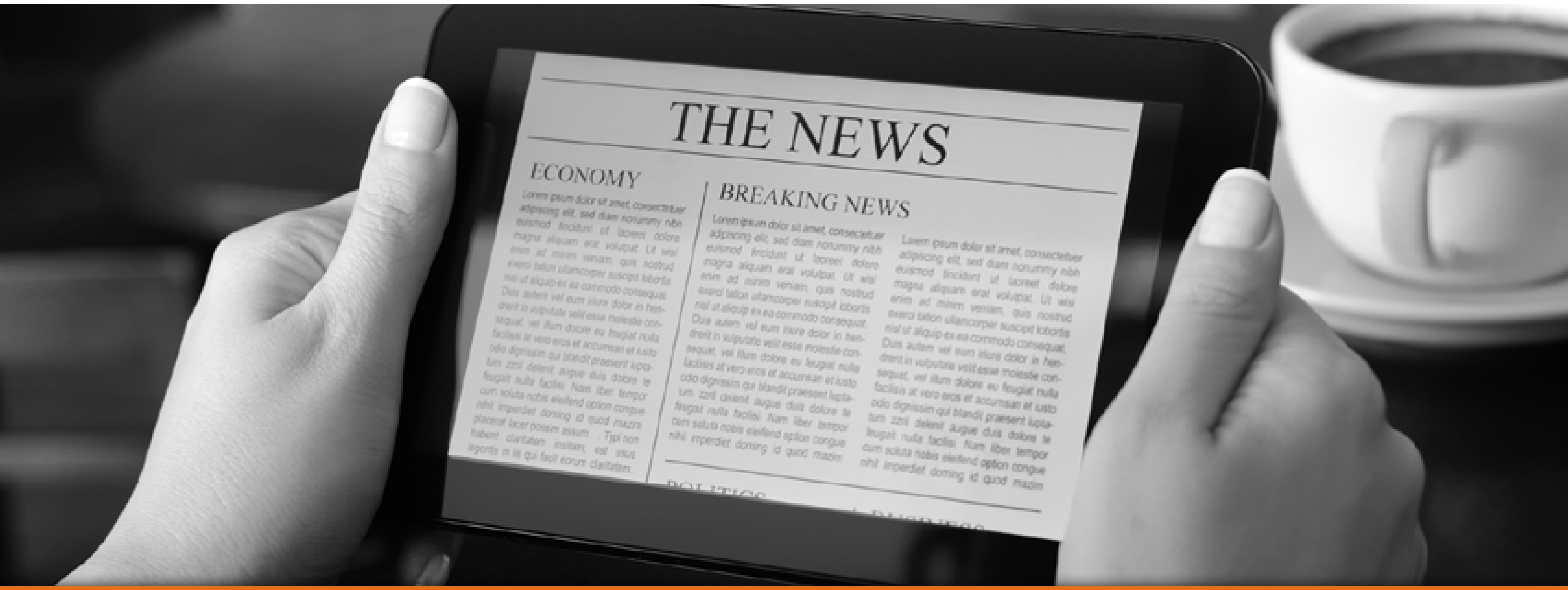
HOWARD



HOWARD ANNUAL UPDATE

2017

Dear Clients and Friends:

As 2017 comes to a close, there is much to reflect on in order to move forward. The American political frontier has shape shifted along with the new presidential administration, and so has the profile of our economy. 2016 was volatile year leading up the election, and 2017 saw the historical aftermath of the election unfold as a result. In the first year of the president's term, the market has averaged a return right around 10%, which is up from 2.5% in 2016, and is still trending upward as 2018 approaches. The new administration is currently pursuing tax and other regulatory policy reforms – the full effects of which are not yet fully known. Before we analyze the landscape further, we need a firm understanding of relevant facts that have come to light in the past year. Howard aims to share valuable insight that can help you prepare for the months ahead on your personal returns, as well as in businesses.

Contents

2017 Overview:

- 2017 has seen a significant amount of consideration regarding tax code reform. The proposed reforms consist primarily of policies that aim to simplify the tax code and adjust rates and deductions for many businesses and families. The prospective change has garnered a lot of attention and caused much uncertainty about the fairness of the reform and the actual relief it aims to provide to American taxpayers.
- During 2017, two prominent accounting standards come closer to their effective date. One standard changed how many businesses recognize and report revenue. The other standard changed the accounting practice for leases, and consequently the financial reporting layout of assets and liabilities.

We welcome the opportunity to be your trusted advisors! We warmly invite you to participate in the hearty conversations that are sure to result from the information shared in our annual update as a result of the changing business climate. As business owners ourselves, we understand the challenges associated with planning for your future success in business and in our personal lives. We look forward to serving our clients as you navigate through the opportunities and perils of modern American business.

howard-cpas.com Howard, LLP 214.346.0750
Main Office: 8350 Meadow Road, Suite 286, Dallas, TX 75231
Frisco/Plano Office (by appointment): 5700 Granite Parkway, Suite 200, Plano, TX 75024

For the first time in 30 years, it appears we will have a substantial re-write of the tax code. At this time, the Joint Conference Committee has completed the reconciliation process and a new compromise bill is pending final vote in both the House and Senate. We would encourage you to follow the news section of our website where we will soon be posting an in depth analysis of various sections of the final bill.

Below we have included a summary of the key provisions in the new law showing changes that will affect personal, corporate and estate/gift taxes in the new year. These provisions are largely applicable for tax years beginning in 2018.

Tax Brackets: Currently there are seven brackets (10, 15, 25, 28, 33, 35, and 39.6%)

- The House and Senate bills differed on both the number of brackets and rates. The final compromise bill follows the Senate bill, with the exception of the top rate. New rates are 10, 12, 22, 24, 32, 35, and 37%.

Standard Deduction & Personal Exemptions: Currently standard deductions are $12,700 for Married Filing Jointly (MFJ) and $6,350 for Single, and Personal Exemptions are $4,050 per person

- Both House and Senate bills eliminated the personal exemptions, but increased the standard deductions to $24,000 and $12,000 for MFJ and Single filers, respectively. It should come as no surprise that the compromise bill retained these amounts.

Medical Expenses: Currently deductible to the extent qualifying expenses exceed 10% of Adjusted Gross Income (AGI)

- The House bill included provisions to eliminate the medical expense deduction, but the Senate bill called for a lowering of the floor to 7.5% of AGI for 2017 and 2018. The compromise bill followed the Senate bill preserving the deduction for two years at the reduced threshold. This is one of the few provisions that will be in effect for 2017.

Home Mortgage Interest: Currently deductible on mortgages up to $1 million of indebtedness

- While the Senate bill included no changes to interest, leaving the qualifying debt at $1 million, the House bill lowered the amount of indebtedness for qualified interest to $500,000. The compromise bill split the difference and set the mortgage level at $750,000 for new mortgages, while leaving existing mortgages alone.

State and Local Tax Deductions: State Income or Sales, plus Property taxes are currently fully deductible for those who itemize their deductions

- Both House and Senate bills called for a repeal of the State Income and Sales tax deductions, and a limitation on property tax of $10,000. The final compromise bill allows taxpayers to deduct up to $10,000 in combined property, income and sales tax.

Education: Currently, 529 Plans can cover expenses for post-secondary education only

- Both House and Senate bills modified 529 Plans, allowing for up to $10,000 of K-12 expenses on a per-student basis per year. The compromise bill follows the proposals, expanding the 529 Plans.

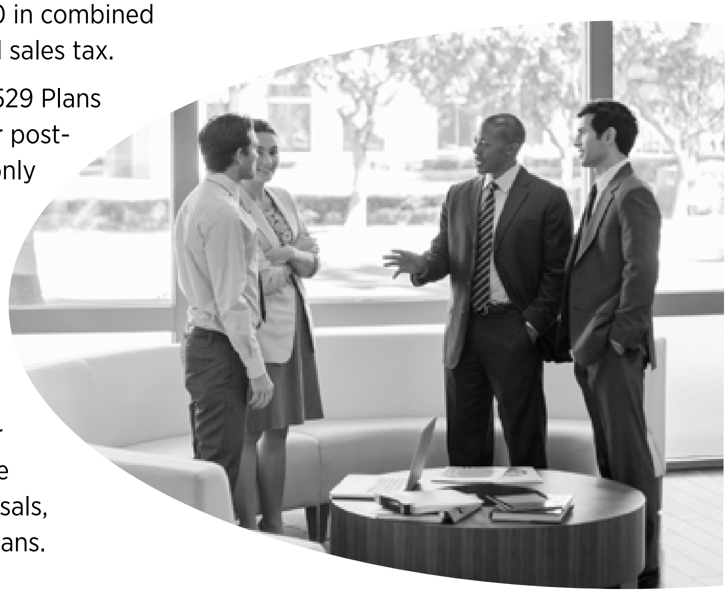
Pass-Through Income Deductions: Currently there are no deductions for pass-through income

- The House and Senate bills differed greatly on how to handle pass-through income. One called for a special tax rate, and the other a deduction for a percentage of the qualifying income. The final compromise bill allows owners of pass-through entities to apply a 20% deduction to their business income, with certain limitations based on wages paid from the business, for taxpayers with income above $157,500 for single taxpayers and $315,000 for married couples.

Child Tax Credit: Currently $1,000 per qualifying child, phased out for married with AGI above $110,000

- The House and Senate bills both called for an increase in the Child Tax Credit, but differed on the amounts and phase-out levels. The compromise bill increases the credit to $2,000 per child, with $1,400 of the credit refundable, and $500 for other dependents. The bill also raises the phase-out amount from $110,000 to $400,000 for married couples.

(continued on page 4)



ACCOUNTING & REPORTING UPDATE

2017 has proven to be thought-provoking for both our audit team members and clients alike, as we navigate the implementation of the far-reaching revenue recognition and lease accounting standards that were adopted in 2016. We have spent considerable effort to stay abreast of the many proposed changes to accounting standards as they relate to your businesses' financial outcomes. Following are some of the most significant changes discussed in 2017:

- **Revenue Recognition:** The standard was released in a previous year, however, clarifications were issued in 2016 and will affect entities of all types once fully implemented. The standard aims to align the requirements of U.S. GAAP with international reporting standards by requiring more detailed financial disclosures and redefining how we evaluate contracts to determine the appropriate point to recognize revenue. Many industries will be unchanged; however, long-term revenue contracts may result in modifications in amounts previously recognized as revenues. The standard presents obstacles in the application itself, and in preparing to present comparative financial data for year-ends beginning after December 15, 2017.
- **Leases:** This standard is expected to be fully implemented by December 15, 2019 and will affect every entity that enters into a long-term lease agreement (longer than 12 months) and even existing long-term lease agreements. The standard requires long-term leases to be recorded as assets, with an offsetting liability for the present value of the remaining lease obligation. Rather than recognizing lease expense, entities will now record a combination of depreciation and interest expense on the operating statement. The standard is accompanied by increased disclosure requirements, and the potential to affect debt covenants, treatment of related party leases, and renewal options as well as many other items. Due to its complex application, the standard is currently up for review by the standard setting body after receiving several inquiries regarding transition efforts and proper application.
- **Other Changes:** There were additional changes made during the year that could be significant but that have a narrower application in terms of who might be affected:
  - Clarifying the definition of a "business" when evaluating transactions as acquisitions/disposals of a business versus as an asset
  - Clarifying when a non-profit entity should consolidate a for-profit entity
  - Simplifying the thresholds for determining impairment of goodwill
  - Increased transparency in financial reporting regarding the net cost of benefits that employers provide to their employees; Affects all employers that offer defined post-retirement plans and other benefits to employees
  - Refinements to unify the approach for reporting stock compensation

The Howard assurance team is always available to address your questions or concerns regarding new standards, or updates to pre-existing standards that may be relevant to your unique circumstances.

(Year-End Tax Planning continued)

Alternative Minimum Tax: AMT adds a second tax system, with a 28% maximum rate after adding back certain deductions allowed under the regular tax code

- The House bill called for a full repeal of the AMT, while the Senate bill preserved AMT, but increased the individual exemption threshold. The final compromise bill follows the Senate bill, keeping the AMT in place. It should apply to fewer people than before due to the increase in the exemption.

Affordable Care Act: Currently there is a penalty for failure to purchase qualifying health insurance

- While the House bill did not change current law, the Senate bill called for a full repeal of individual mandate. The compromise bill followed the Senate bill to eliminate the penalty for failure to purchase medical coverage.

Corporate Tax Rate: Currently the top federal tax rate is 35%

- Both House and Senate bills called for a 20% rate, but differed on the implementation between 2018 and 2019. The compromise bill set the rate at 21%, effective in 2018. The increase in the rate from the earlier proposals was done to reduce the overall cost of the bill.

Repatriation of Foreign Earnings: No current repatriation in the tax code

- House and Senate bills both included provisions for a one-time repatriation of foreign earnings, taxed at a special tax rate. The compromise bill set the final rate at 7.5% for physical assets, and 14.5% for cash transferred back to the US from foreign subsidiaries.

Estate Tax: Currently there is a lifetime exemption of $5.49 million per individual, $10.98M per couple

- Both House and Senate bills included provisions to double the exemption amounts, but differed on the timing, with one calling for a full repeal in 2024. The compromise bill doubles the exclusion to about $11 million, or $22 million per couple, with a sunset provision in 2026.

As you can see from the above, there are many areas of the tax code that will be significantly different in 2018. If you have questions about how provisions of the new law will affect you, please consult the Howard tax team and we will be happy to walk through your specific situation.

2018 TAX DEADLINES

Individual Returns:
April 17, 2018
Extended to October 15, 2018

Partnership Returns:
March 15, 2018
Extended to September 17, 2018

Trust and Estate Income Tax Returns:
April 17, 2018
Extended to October 1, 2018

C Corporation Returns:
April 17, 2018
Extended to October 15, 2018

S Corporation Returns:
March 15, 2018
Extended to September 17, 2018

Howard, LLP Notice: this publication is intended to communicate general information for discussion purposes only, and you should not, therefore, interpret the statements to be tax, accounting or other professional advice or rely on the statements for any purpose.