NATIONAL ASSOCIATION FOR LATINO COMMUNITY ASSET BUILDERS

Tax Reform

What it Means for Small Business and the Latino Community

On December 22nd President Trump signed into law H.R. 1, known as the *Tax Cuts and Jobs Act of 2017,* which makes widespread changes to the Internal Revenue Code. Below are changes that will be relevant to members of the NALCAB Network and the communities they serve:

Small Business

- Reduces the corporate rate from 35 percent to 21 percent and creates a new maximum tax rate on pass through business income of 25 percent.
- Allows increased expensing of the costs of certain property
- Increases what's known as the Section 179 deduction that lets companies write off many types of equipment purchases up front rather than depreciate them over a period of years. Companies would be able to deduct $1 million in purchases, up from the current level of $510,000.
- Depreciation rules for larger equipment and property purchases are expanded. Previously, many investments in equipment or real estate must be depreciated over a period ranging from 2.5 years to decades, depending on what kind of property it is. The law generally allows for full up-front deductions of purchases each year for the next five years, subject to limitations on some purchases.
- Limits the deductibility of net interest expenses to 30% of the business's adjusted taxable income (non-operating expenses)
- Terminates the exclusion for interest on private activity bonds (interest paid on loans)

Standard Deduction

- The standard deduction for single taxpayers will increase from $6,350 to $12,000. Likewise, the standard deduction for married taxpayers filling jointly will increase from $12,700 to $24,000.
- *Charitable Donations* - by raising the standard deduction, many taxpayers will lose the benefit of itemizing, which may in turn reduce the financial incentive for smaller donors who will now be well below the threshold for the new increased standard deduction limit.

State and Local Tax Deduction (SALT)

- Taxpayers will now be limited to $10,000 for deductions of state and local taxes that include state income, sales, and property tax up.

- Reducing the SALT tax deduction may make high tax states less competitive by creating a larger tax burden for residents. In states like California and New York where property values are high, property taxes are naturally higher. High tax states also tend to offer more robust public services, such as public transit, which come with additional taxes.

Health Care

- Repeal of the individual mandate requiring all people to buy health insurance or pay a tax penalty. This repeal goes into effect in 2019. Without the requirement that all people – both healthy and sick – buy health insurance, there is concern that the insurance market will suffer from adverse selection, a situation in which only sick people seek out insurance. This could force health insurance premiums to increase and could make the overall cost of healthcare significantly more expensive.

Child Tax Credit

- The tax bill prohibits non-citizens filing taxes using an Individual Taxpayer Identification Number (ITIN) from claiming the newly increased Child Tax Credit, which allows parents to reduce their tax liability by up to $2,000 -- $1,400 of which can be refunded to those with tax bills under $2,000-- for every child under age 16.

- Under the new law, ITIN filers must provide a Social Security number for each child to claim the $2,000 tax credit. Under previous law non-citizens filing taxes using an ITIN could claim the child tax credit, which was up to $1,000 for every child under age 17.

- It is estimated that those making roughly $15,000 per year — would get a total of $1,875 in tax credits for two children, the equivalent of one and half months income.

Tax Incentives for Housing and Community Development

After intensive lobbying and advocacy, all four affordable housing and community development tax incentives - the Low-Income Housing Tax Credit, New Markets Tax Credit, the Historic Rehabilitation Tax Credit, and Private Activity Bonds - were saved. A little noticed provision for Opportunity Zones slipped into the final tax bill.

- The Low-Income Housing Tax Credit (Housing Credit) has been retained with no modifications as originally proposed in the Senate version. Private Activity Bonds (PAB), which were endangered in the House version are also retained. PAB provides critical funding for many multifamily housing deals to more than half of all Housing Credit developments and are paired with the "4%" Housing Credit.

  The corporate tax rate was reduced from 35% to 21% reducing the benefit of the tax credits for investors. Novogradac & Company estimate tax reform will reduce affordable housing rental housing production by approximately 235,000 homes over 10 years. Nevertheless, this is also an improvement from a proposed rate of 15% which would have made tax credits irrelevant.

- The New Markets Tax Credit, which support mixed use development, has been retained for three additional years.

- The Historic Rehabilitation Tax Credit or Historic Tax Credit (HTC) has been retained with a modification that requires that the credit be taken over five years. The HTC provides a

20% tax credit on the cost of rehabilitation for buildings listed or eligible for the National Register for Historic Places. An existing 10% tax credit for non-historic buildings placed into service before 1936 has been eliminated All tax credits received vigorous bipartisan support on both the House and the Senate side reflecting years of well-organized advocacy from national organizations including the ACTION which has over 2000 supporters.

- The Opportunity Zones program is new national community investment program that connects private capital with low-income communities across America. It is an effort to direct private investment into low- and moderate-income communities in exchange for a temporary tax deferral and other tax benefits. Opportunity Zones will be designated by governors in every state and U.S. territory.

  This program uses low-income community census tracts as the basis for determining areas eligible for Opportunity Zone designation. The chief executives of every U.S. state and territory have 90-120 days from December 22, 2017 to designate up to 25 percent of the total number of low-income census tracts in a state as Opportunity Zones. Treasury will be publishing guidance to states some time in February. For additional information on Opportunity Zones please reference the NALCAB brief titled Opportunity Zones.

Additional Resources

The IRS has several tools available to assist in the many stages of a business – from starting, operating, and closing a business.

- They have a **Tax Calendar** for business owners to view due dates and possible actions to be taken each month. It even has reminders and a list of documentation needed for more timely submission.

- The IRS has a **Small Business and Self-Employed Tax Center** on its website that provides many useful tools to answer additional questions.
  https://www.irs.gov/businesses/small-business-and-self-employed-tax-center

- To help supplement the IRS Small Business and Self-Employed Tax Center, the IRS has created a **Small Business Taxes Virtual Workshop** with 9 important lessons for your business.
  https://www.irsvideos.gov/Business/virtualworkshop