*Dear Client:*

The following is a summary of important tax developments that have occurred in the past three months that may affect you, your family, your investments, and your livelihood. Please call us at 903-509-0000 for more information about any of these developments and what steps you should implement to take advantage of favorable developments and to minimize the impact of those that are unfavorable.

*Healthcare bill moves through Congress.* On May 4, the House of Representatives passed along party lines the American Health Care Act (AHCA), the Republican plan to repeal and replace the Affordable Care Act (ACA, also known as Obamacare), as amended. The House-passed bill would need to be reconciled with the Senate's version of health reform legislation.

The AHCA would repeal virtually all of the ACA tax provisions, including the following. (Except as otherwise provided, the repeal would go into effect in 2017).

- . . . The penalty on individuals who don't carry adequate insurance, retroactively effective beginning in 2016.
- . . . The employer shared responsibility penalty (i.e., the penalty that applies to certain employers who don't offer health care coverage for its full-time employees, or offers minimum essential coverage that is unaffordable or does not provide minimum value). The repeal would be retroactively effective beginning in 2016.
- . . . The premium tax credit that makes health insurance premiums more affordable for certain low-income taxpayers. The repeal would be effective in 2020 (and a modified, age-based tax credit would be provided pending its repeal).
- . . . The 3.8% net investment income tax (NIIT) on certain higher income individuals.
- . . . The 0.9% additional Medicare tax on certain higher income individuals, effective 2023.
- . . . The higher floor beneath medical expense deductions. Under current law, the floor is 10% (effective in 2013 for taxpayers under age 65 and in 2017 for taxpayers 65 and older). The AHCA would reduce the floor to 5.8% for all taxpayers beginning in 2017.
- . . . The small employer health insurance credit, effective 2020.
- . . . The dollar limitation (currently $2,700) on health Flexible Spending Account (FSA) contributions.
- . . . The disallowance of any deduction for compensation in excess of $500,000 for certain health insurance executives.

The 40% excise tax (the so-called “Cadillac” tax) on high cost employer-sponsored health plans, would be delayed until 2026, but would not be repealed.

On July 13, the Senate leadership released its healthcare draft bill, the Better Care Reconciliation Act of 2017 (BCRA), as amended, for consideration. It left many of the provisions of the House-passed bill intact, but notably retained the ACA's premium tax credit, albeit in modified form. and did not call for the repeal of the ACA's 3.8% NIIT, the 0.9% additional Medicare tax, or the disallowance of any deduction for compensation in excess of $500,000 for certain health insurance executives.

*Still time to make expensing election on amended returns.* The tax law's expensing rules allow a business to elect to currently deduct the cost of business machinery and equipment—up to a dollar limit—instead of recovering its cost via depreciation over a number of years. The Protecting Americans from Tax Hikes Act of 2015 (the PATH Act) made a number of important improvements to the expensing break. The main changes were that the $500,000 annual expensing limitation and $2 million investment ceiling amount were retroactively extended and made permanent (they were to have expired after 2014). Additionally, the PATH Act made the following changes to the expensing break, effective after 2015: the $500,000 annual expensing limitation and $2 million investment ceiling amount was made subject to inflation indexing; expensing of qualified real property was made permanent without a complex carryover limitation that applied under prior law; the $250,000 expensing limitation that applied to qualifying real property under prior law was eliminated; and certain air conditioning and heating units became newly eligible for expensing.

Noting that there has been taxpayer confusion about making an expensing election for tax years that begin after 2014, the IRS announced that, for any tax year that begins after 2014, a taxpayer may make an expensing election for any expensing-eligible property without the IRS's consent on an amended Federal tax return for the tax year in which the taxpayer places in service the expensing-eligible property.

*IRS releases next year's inflation adjustments for health savings accounts (HSAs).* Eligible individuals may, subject to statutory limits, make deductible contributions to an HSA. Employers, as well as other persons (e.g., family members), also may contribute on behalf of an eligible individual. A person is an "eligible individual" if he is covered under a high deductible health plan (HDHP) and is not covered under any other health plan that is not a HDHP, unless the other coverage is permitted insurance (e.g., for worker's compensation, a specified disease or illness, or providing a fixed payment for hospitalization).

The IRS has released the annual inflation-adjusted contribution, deductible, and out-of-pocket expense limits for 2018 for HSAs. For calendar year 2018, the limitation on deductions is $3,450 (up from $3,400 for 2017) for an individual with self-only coverage. It's $6,900 (up from $6,750 for 2017) for an individual with family coverage under a HDHP. Each of these amounts is increased by $1,000 if the eligible individual is age 55 or older. For calendar year 2018, an HDHP is a health plan with an annual deductible that is not less than $1,350 (up from $1,300 for 2017) for self-only coverage or $2,700 (up from $2,600 for 2017) for family coverage, and with respect to which the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed $6,650 (up from $6,550 for 2017) for self-only coverage or $13,300 for family coverage (up from $13,100 for 2017).

*IRS's private debt collection program kicks off.* IRS announced that beginning in April, 2017, it would start sending letters to notify "a relatively small group of individuals" with overdue federal tax that their accounts had been assigned to one of four private collection agencies (PCAs). The assignments were authorized by legislation enacted in 2014. PCAs are authorized to discuss payment options, including setting up payment agreements with taxpayers. But, as with cases assigned to IRS employees, any tax payment must be made, either electronically or by check, to the IRS. The IRS also warned taxpayers to be wary of scammers posing as PCAs and to keep in mind that a legitimate PCA will only be calling about a tax debt that the person has had—and has been aware of—for years and had been contacted about previously in the past by IRS.

*Reissued proposed regulations explain new partnership uniform audit rules.* A law enacted in 2015 (The Bipartisan Budget Act of 2015, signed into law on Nov. 2, 2015) eliminated the TEFRA unified partnership audit rules (so-called because they were introduced in the Tax Equity And Fiscal Responsibility Act of '82) and the electing large partnership rules, and replaced them with streamlined partnership audit rules. Under the new centralized partnership audit regime, any adjustment to items of income, gain, loss, deduction, or credit of a partnership for a partnership tax year (and any partner's distributive share thereof) generally is determined, and any tax attributable thereto is assessed and collected, at the partnership level. The applicability of any penalty, addition to tax, or additional amount which relates to an adjustment to any such item or share is also be determined at the partnership level. The new rules generally are effective for returns filed for partnership tax years beginning after Dec. 31, 2017, but taxpayers can elect to apply them earlier. Additionally, certain small partnerships can elect out of the new partnership regime.

Proposed regulations on the new partnership uniform audit rules were issued in January of this year, but were withdrawn by the IRS for further review and approval after President Trump instituted a "regulatory freeze." Now the IRS has reissued the proposed regulations explaining the new partnership uniform audit rules. These regulations would have a substantial impact on affected partnerships.

We hope that you found this information valuable, please don't hesitate to call us at 903-509-0000 with any questions about your personal tax situations.

Sincerely,

Jerry Nelson & Associates, P.C.