

BUSINESS

Some answers on the new tax law



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People are asking us a lot of questions about the new tax law.

I want to share a few of the inquiries plus our answers.

Is interest on margin loans still deductible?

Yes. The new law didn't change the rules for taking this write-off.

Investment interest paid, such as margin interest, is deductible on Schedule A up to the amount of net investment income reported.

Note changes for other investment expenses, such as account management and IRA custodial fees.

These and the rest of the miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are axed beginning in 2018.

Can I deduct interest on a home equity loan used to remodel my home?

Yes. Debt secured by a first or second home and used to improve the place has always been considered acquisition indebtedness, so the new law's crackdown on home equity loans doesn't apply.

After 2017, you can no longer deduct interest on such debt used for other purposes, such as to buy

a car or pay off credit card debt.

What changes did the tax legislation make to the home-sale exclusion?

None. A proposal to extend the time you must own and occupy a residence to qualify for tax-free gains when you sell the home was dropped from the final law. As in the past, you can shelter up to \$250,000 of your gain ... \$500,000 if married ... provided you've owned and lived in the house for two of the five years before the sale.

What is the tax rate for a C corporation with \$30,000 of taxable income?

21 percent. All C corporations are now subject to a flat 21 percent income tax rate. The law didn't keep the 15 percent corporate rate on the first \$50,000 of taxable income.

Personal service corporations get the 21 percent rate too. The 35 percent flat rate is gone.

Can you explain the changes that were made to education tax breaks?

Sure. 529 savings plans can be used for primary and secondary education. Starting in 2018, up to \$10,000 per student, per year, can be withdrawn tax-free to help pay tuition for private and parochial elementary through high school education.

Rollovers are allowed from 529 plans to

ABLE accounts for the disabled.

There were several proposals in earlier bills that didn't make it into the final law, including: Doing away with the break for reduced tuition for family members of college employees; axing the above-the-line deduction for student loan interest; taxing tuition waivers and discounts of graduate students; enhancing the American Opportunity Tax Credit and prohibiting future contributions to Coverdell education savings accounts.

Can employees continue to use pretax funds for parking and transit passes?

Yes. Employees may use up to \$260 a month, but employers that offer such assistance as a perk can no longer deduct the expense. Bicycle commuters are completely out of luck. The law eliminates the \$20 per month, tax-free reimbursement of their expenses.

If you have any questions, please make sure to consult with your tax adviser.

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