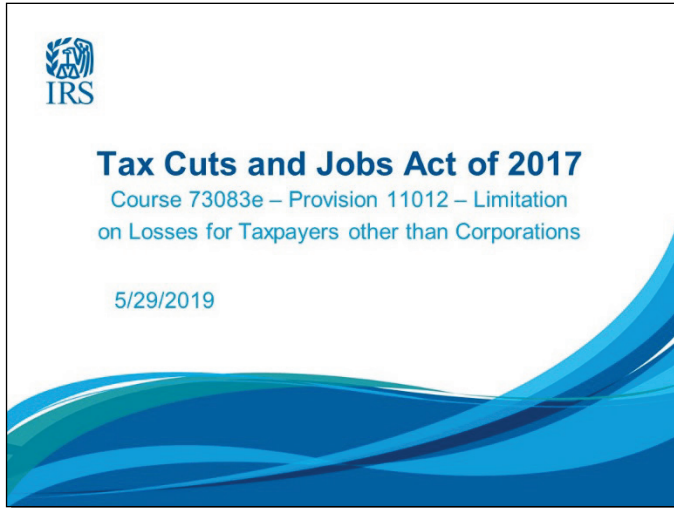


Tax Cuts and Jobs Act (TCJA)

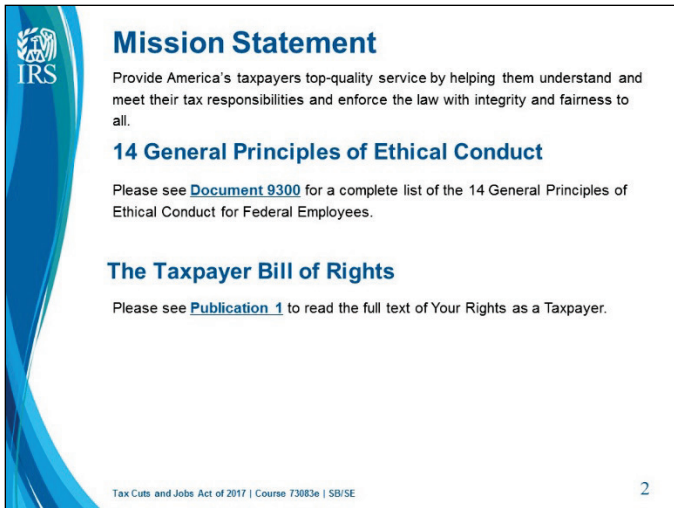
Limitation on Losses for Taxpayers other than Corporations

Provisions 11012

Slide 1 – Tax Cuts and Jobs Act of 2017



Slide 2 – Mission Statement, 14 General Principles of Ethical Conduct, The Taxpayer Bill of Rights



Slide 2 – New IRC § 461(I)

New IRC § 461(I)

§ 11012 - Limitation on Losses for Taxpayers other than Corporations – amended IRC § 461

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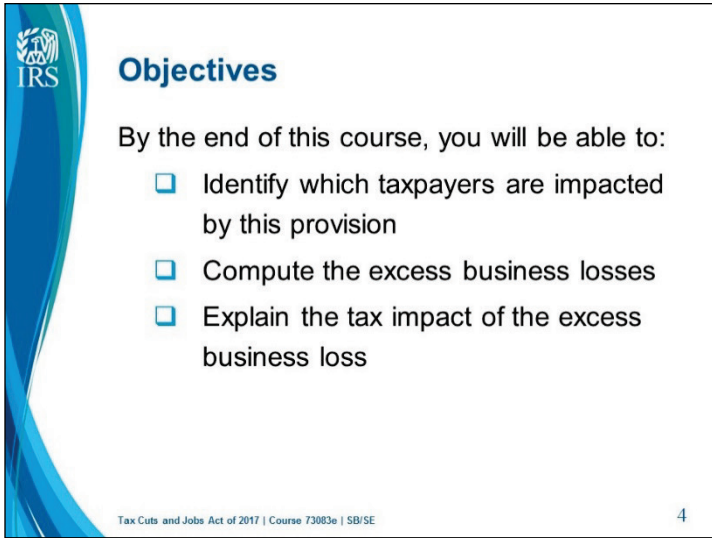
Slide 3 – Resources

Resources

- Section 11012 of H.R. 115-97
- IRC § 461(I)
- New Form 461 and Instructions
- Publication 536
- Anticipated Proposed Regulations and/or Other Guidance

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Slide 4 – Objectives



Slide 4 features the IRS logo in the top left corner. The main heading is "Objectives" in blue. Below it, a text line reads "By the end of this course, you will be able to:". This is followed by a bulleted list of three objectives, each preceded by a blue square icon. The footer contains the text "Tax Cuts and Jobs Act of 2017 | Course 73083e | SB/SE" and the number "4".

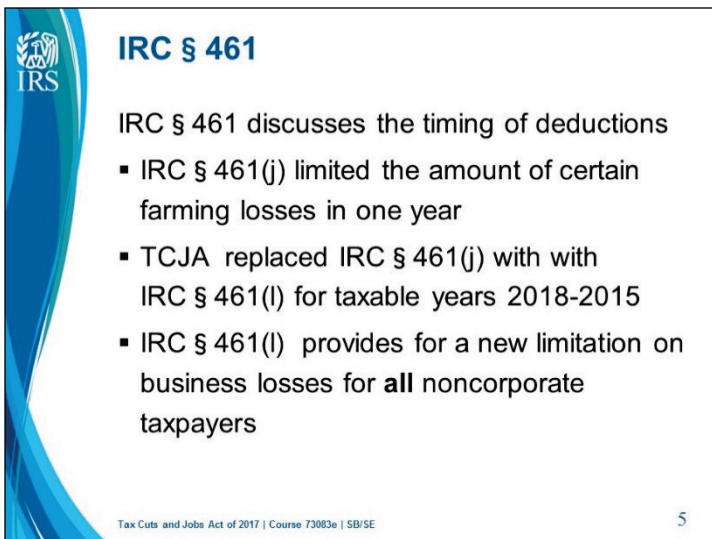
Objectives

By the end of this course, you will be able to:

- Identify which taxpayers are impacted by this provision
- Compute the excess business losses
- Explain the tax impact of the excess business loss

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Slide 5 – IRC § 461



Slide 5 features the IRS logo in the top left corner. The main heading is "IRC § 461" in blue. Below it, a text line reads "IRC § 461 discusses the timing of deductions". This is followed by a bulleted list of three items, each preceded by a blue square icon. The footer contains the text "Tax Cuts and Jobs Act of 2017 | Course 73083e | SB/SE" and the number "5".


IRC § 461

IRC § 461 discusses the timing of deductions

- IRC § 461(j) limited the amount of certain farming losses in one year
- TCJA replaced IRC § 461(j) with with IRC § 461(l) for taxable years 2018-2015
- IRC § 461(l) provides for a new limitation on business losses for **all** noncorporate taxpayers

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Slide 6 – IRC § 461




IRC § 461

- Starting with tax years beginning after December 31, 2017, and before January 1, 2026
- A taxpayer is only allowed a deduction for business losses equal to the amount of business gains plus \$250,000 in a tax year – or \$500,000 for taxpayers filing a joint return
- The excess is called an “Excess Business Loss”

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Slide 7 – IRC § 461 (I)



IRC § 461(I)

- The threshold amount (\$250,000 or \$500,000 for joint returns) is to be adjusted for inflation
- IRC § 469 rules (passive activity losses) apply first.
- The “Excess Business Loss” is treated as “Other Income” on the Form 1040 Schedule 1 line 21.
- This loss disallowed is treated as a NOL carryover to the following year

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Slide 10 – IRC § 461 (I)

IRC § 461(I)

SCHEDULE 1
(Form 1040)

Additional Income and Adjustments to Income

OMB No. 1545-0074
2018
Attachment Sequence No. 01

Department of the Treasury
Internal Revenue Service

▶ Attach to Form 1040.
▶ Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040: _____ Your social security number: _____

Additional Income	1-9b	Reserved	1-9b
10	10	Taxable refunds, credits, or offsets of state and local income taxes	
11	11	Alimony received	
12	12	Business income or (loss). Attach Schedule C or C-EZ	
13	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here: <input type="checkbox"/>	
14	14	Other gains or (losses). Attach Form 4797	
15a	15b	Reserved	
16a	16b	Reserved	
17	17	Rental real estate, royalties, partnerships, S corporations, etc.	
18	18	Farm income or (loss). Attach Schedule F	
19	19	Unemployment compensation	
20a	20b	Reserved	
21	21	Other income. List type and amount ▶ ELA - \$20,000	20,000.00
22	22	Combine the amounts in the far right column. If you don't have any adjustments to income, enter here and include on Form 1040, line 6. Otherwise, go to line 23 . . .	

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Slide 11 – Example 1

Example 1

In 2018, Sparrow had \$500,000 of personal interest income, \$1,000,000 of gross income and \$1,400,000 of expenses from a Schedule C retail business (nonpassive). He has no other income or expenses. His excess business loss is \$150,000:


Interest Income	\$ 500,000
Schedule C income(loss)	(400,000)
Excess Business Loss	<u>150,000 *</u>
Adjusted Gross Income	\$250,000

*(\$1,400,000 - (\$1,000,000 + \$250,000)).

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Slide 12 – Example 2



Example 2


Using the same facts except that Sparrow's net loss from Schedule C is (\$1,000,000). Now his excess business loss is \$750,000 and his AGI is the same:

Interest Income	\$ 500,000
Schedule C income(loss)	(1,000,000)
Excess Business Loss	<u>750,000</u>
Adjusted Gross Income	\$250,000

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Slide 13– Example 3



Example 3


Using the same facts in Example 2 except that Sparrow's interest income is only \$50,000. Now his excess business loss is the same but his AGI is negative:

Interest Income	\$ 50,000
Schedule C income(loss)	(1,000,000)
Excess Business Loss	<u>750,000</u>
Adjusted Gross Income	(\$200,000)

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Slide 14 – Partnership and S Corporations




Partnerships and S Corporations

- This section does not apply directly to Partnerships/ S corps
- It is applied at the partner or shareholder level.

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Slide 15 – What does Attributable to a Trade or Business mean?



What does Attributable to a Trade or Business mean?

As defined in IRC § 162

- Includes Wages
- The primary purpose for engaging in the activity must be for income or profit
- The activity must be conducted with continuity and regularity

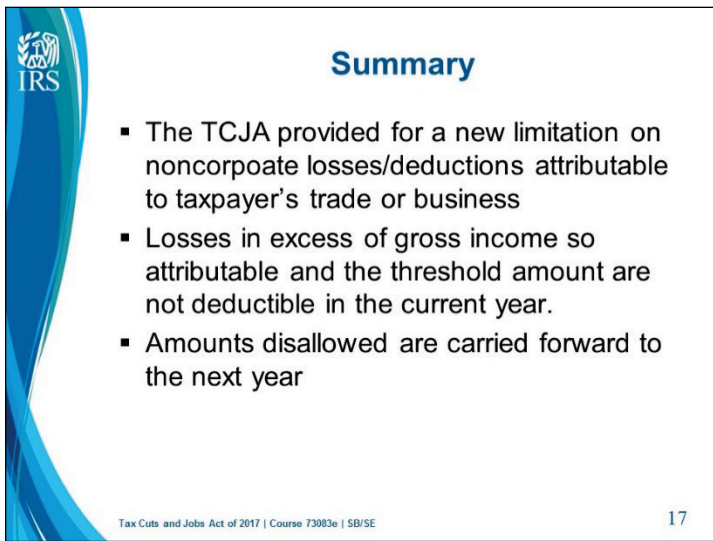
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Slide 16 –Are there any questions?



Slide 17 – Summary




Slide 18 – Objectives

 **Objectives**

You are now able to:

- Identify which taxpayers are impacted by this provision
- Compute the excess business losses
- Explain the tax impact of the excess business loss



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