THE OWNER OPERATOR'S GUIDE TO

The Tax Cuts and Jobs Act of 2017

Prepared by

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Tip: Click on any of the chapters below to skip ahead to that section.

TABLE OF CONTENTS

INTRODUCTION

On December 20, 2017, the United States Congress passed the largest reform to the Internal Revenue Service Tax Code since the early 1980's and it was signed into law by President Trump on December 22, 2017. This legislation will impact ATBS clients starting in 2018 and through at least December 31, 2025, when certain tax reform provisions are set to "sunset" or expire. Although the legislation was expected to simplify the tax filing process, many of the changes have added significant complexity to the tax code and filing process. ATBS has compiled this guide to try and help you understand what the new tax law could specifically mean to you. Below is a summary of certain key parts of the legislation that will impact many of our clients.

"PASS THROUGH" ENTITIES

Under previous tax law, the net income or loss of a sole-proprietorship, partnership, and S-corporation was not subject to tax at the entity level. The entity's net income or loss was passed through and reported by the owners (sole-proprietorships), partners (partnerships), and shareholders (S-corporations) on their personal income tax returns. This resulted in the pass through income effectively being taxed at the personal tax rate of each owner, partner, and shareholder.

Under the Tax Cuts and Jobs Act, a significant change was made that adds a 20% deduction for taxpayers who have "Qualified Business Income" ("QBI") from a sole-proprietorship, partnership, or S-corporation. The term QBI is generally defined as the amount of net income from a qualified trade or business. There are limitations, thresholds, and exclusions relating to the calculation of the deduction and you should seek a highly competent tax preparer in determining this amount. Since this is a new section of the Internal Revenue Code, many tax preparers are continuing to work through the impact of this provision on taxpayers who have pass through entities. Following are tables that provide (1) a calculation of ordinary business income from a trade or business under two entity options (2) a presentation of a single taxpayer's federal income tax return under the two entity options and (3) a calculation of the tax liability for the single taxpayer under the two entity options. This information may be useful as small business owners/operators consider the best choice of entity and the impact this law may have on their tax liability.

The information below provides examples of two trucking businesses. One business is formed as an S-corporation and the other business is operated as a sole proprietorship.

In Table 1, both trucking businesses generate $150,000 in revenue, have per diem expense of $12,000, and incur reasonable and necessary expenses totaling $90,000. The S-corporation's owner, who drives the tractor, pays themselves $40,000 which is deemed, in this example, a reasonable wage. The S-corporation pays the employer's portion of Social Security and Medicare taxes ($3,060) as required by law. Based on the two examples below, the S-corporation generates net income of $4,940 and the sole proprietorship generates net income of $48,000.

TABLE 1

Entity Structure	S-Corporation	Sole Proprietor
Gross Revenue	$150,000	$150,000
Salary Expense	($40,000)	N/A
Social Security and Medicare Tax Expense	($3,060)	N/A
Per Diem Expense	($12,000)	($12,000)
Other Expenses	($90,000)	($90,000)
Qualified Business Income (Net Income)	$4,940	$48,000

In Table 2, the taxpayers recognize wages and the applicable amounts of pass through income on their personal tax returns. The sole proprietor gets a deduction of ($3,391) for the self-employment taxes paid on the $48,000 of pass through income while the S-corporation does not. The single taxpayers, in this example, take the standard deduction of ($12,000), and also get a QBI deduction applicable to pass through entities – ($988) for the S-corporation and ($9,600) for the sole proprietorship. As a result, the single taxpayers report taxable income of $31,952 if their business is structured as an S-corporation and $23,009 if their business is structured as a sole proprietorship resulting in $8,943 more taxable income when the business is structured as an S-corporation.

TABLE 2

Single Taxpayer's Tax Return Line Items Under Each Entity Structure:	S- Corporation	Sole Proprietor
Wages	$40,000	N/A
Schedule C Income	N/A	$48,000
Schedule E Income	$4,940	N/A
Deduction for Self-Employment Taxes	N/A	($3,391)
Standard Deduction	($12,000)	($12,000)
Qualified Business Income Deduction	($988)	($9,600)
Taxable Income	$31,952	$23,009

Table 3 summarizes the single taxpayer's total tax liability under the two different business structures. The taxpayer's total tax liability is $6,704 when the business is structured as an S-corporation. This compares to the taxpayer's total tax liability of $9,353 when the business is structured as a sole proprietorship. Under this example, the single taxpayer's total tax amounts to a significant savings – $2,649 – when their business is structured as an S-corporation as compared to a sole proprietorship.

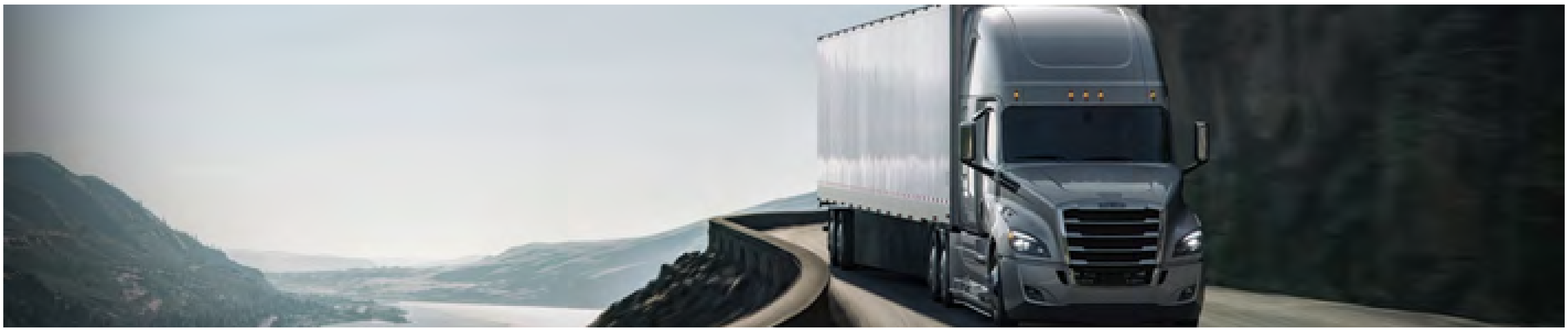

TABLE 3

Single Taxpayer's Total Tax Liability Under Each Entity Structure:	S- Corporation	Sole Proprietor
Federal Income Tax	$3,644	$2,571
Employer Portion of Social Security and Medicare Tax	$3,060	N/A
Self-Employment Tax	N/A	$6,782
Total Tax Liability	$6,704	$9,353

What this may mean for you: As an Owner Operator, you will receive the new pass through entity QBI 20% deduction no matter what business structure you operate under. For the average single sole proprietor owner operator this will save you approximately $2,000 in taxes starting in 2018 as shown in Table 8. However, ATBS owner operator clients making over $60,000 of ordinary income that would like to minimize their total tax liability, should consider being taxed as an S-corporation. This could result in a potential further tax savings of almost $2,649 as shown in Table 3. ATBS can provide you with analysis specific to your own personal tax situation.

DEPRECIATION AND SECTION 179 EXPENSING

Prior to the Tax Cuts and Jobs Act, business owners were required to depreciate capital assets in accordance with specific IRS rules depending on the type of assets. Generally, tractors were depreciated over three years and trailers were depreciated over five years. The Tax Cuts and Jobs Act changed these rules and extended the use of bonus depreciation. Through the year 2022, businesses are now allowed to immediately deduct 100% of the cost of eligible property in the year the property is placed in service. The amount of allowable bonus depreciation will be phased lower over a four year period: 80% in 2023; 60% in 2024; 40% in 2025; and 20% in 2026. Previously, bonus depreciation was only available for new property. This rule has been eliminated and bonus depreciation may be used for both new and used property.

Section 179 permits the immediate expensing of certain depreciable tangible personal property – like tractors and trailers – up to a maximum amount of $500,000. The Tax Cuts and Jobs Act expanded the definition of Section 179 property and increased the maximum amount that a taxpayer may expense to $1,000,000 and increased the phase out threshold to $2,500,000.

What this may mean for you: Independent contractors and business owners who own a single tractor or trailer will likely not see a significant benefit as a result of the changes made under the Tax Cuts and Jobs Act. Section 179 expensing and bonus depreciation was commonly used prior to the passage of tax reform. For larger operators and business owners, permitting bonus depreciation to be used for used equipment and the increase in the maximum amount of Section 179 expense is beneficial.

LIKE KIND EXCHANGES (SECTION 1031)

Prior to the enactment of the Tax Cuts and Jobs Act, owners of business use property that was traded for other similar ("like kind") property were able to defer the capital gains and reduce the basis of the acquired property. This effectively deferred the tax liability on the capital gains. Except for real estate, like kind exchanges have been eliminated under the Tax Cuts and Jobs Act. Effective January 1, 2018, all personal property – tractors, trailers, automobiles, and other equipment – no longer qualify for the deferral of tax under Section 1031.

What this may mean for you: The new rules enacted for bonus depreciation and the immediate expensing of capital assets (discussed above) should eliminate the negative impact that may result from the exclusion of personal property from the benefits of Section 1031.

DEDUCTIONS, EXEMPTIONS, AND TAX CREDITS

The Tax Cuts and Jobs Act significantly changes the deductions, exemptions, and tax credits that taxpayers can benefit from under prior law. To compensate for the changes, the Act significantly increased standard deduction amounts as shown in

Table 4. Below is a summary of certain deductions, exemptions, and tax credits that may impact our clients and what it may mean for you.

TABLE 4
Standard Deduction Amounts for 2018

Filing Status	Previous Tax Law	Current Tax Law
Married Filing Joint	$12,700	$24,000
Single	$6,350	$12,000
Head of Household	$9,350	$18,000

What this may mean for you: The increase in the standard deduction will likely benefit those taxpayers who do not itemize today. Generally, many individuals who itemize their deductions under existing tax law will likely not itemize in the future as their itemized deductions will not exceed the standard deduction.

TABLE 5
Tax Credit Amounts for 2018

	Previous Tax Law	Current Tax Law
Child Tax Credit – Qualifying Child	$1,000 per Qualifying Child	$2,000 per Qualifying Child (up to $1,400 is Refundable)
Child Tax Credit – Non Qualifying Child	$0	$500 per Non Qualifying Child (Nonrefundable)

What this may mean for you: Taxpayers with children will be able to take the increased amount of the child tax credit in 2018 for each qualifying child. The refundable portion of the child tax credit is $1,400 per qualifying child and this is now indexed to inflation. It should be noted that taxpayers will need to provide the child's social security number to receive the benefit of this credit.

TABLE 6
Personal Exemption Amounts for 2018

	Previous Tax Law	Current Tax Law
Personal Exemption	$4,050	Eliminated

What this may mean for you: Generally, individuals with a large number of dependents may be negatively impacted by the elimination of personal exemptions. However, the increase in the standard deduction and child tax credit may help to offset this change.

TABLE 7
Tax Deductions for 2018

	Previous Tax Law	Current Tax Law
Medical Expenses	Qualifying Expenses which Exceed 10% of Adjusted Gross Income are Deductible	Qualifying Expenses which Exceed 7.5% of Adjusted Gross Income are Deductible
State and Local Property Taxes and Income Taxes	Fully Deductible	Deductible up to $10,000
Mortgage Interest	$1,000,000 Limit	$750,000 Limit
Moving Expenses	Deductible	Not Deductible Except for Members of Armed Services
Miscellaneous Deductions – Including Tax Return Preparation Fees	Deductible Subject to 2% Floor	Not Deductible
Unreimbursed Employee Expenses – Including Per Diem for Company Drivers	Deductible Subject to 2% Floor	Eliminated

What this may mean for you: The Tax Cuts and Jobs Act generally changes certain specific aspects of every category of itemized deductions, typically listed on Internal Revenue Service form Schedule A. At least two specific itemized deductions – tax return preparation fees and per diem, impact company truck drivers.

Fees paid for the preparation of tax returns for personal taxpayers are no longer deductible as an itemized deduction on IRS's Schedule A. However, the fees paid for the preparation of tax returns for a trade or business are a reasonable and necessary business expense and, therefore, deductible for trades or businesses. This means owner operators can still deduct their accounting and tax fees on IRS's Schedule C. However, company drivers can no longer deduct tax return preparation fees.

Company driver per diem is considered an unreimbursed employee business expense. Prior to the enactment of the Tax Cuts and Jobs Act, this Schedule A deduction was a potentially huge tax savings for company drivers who itemized deductions. However, it appears that the Tax Cuts and Jobs Act has eliminated this deduction and it is no longer available to company drivers. This could increase the tax liability for the average single company driver making $47,500 by approximately $600 as shown on Table 8.

Note; If you work for a company that pays a portion of your wage as Per Diem reimbursement, this portion of your wage will still not be subject to FICA, Medicare or income taxes. You should choose to participate in a company driver Per Diem pay plan if it is offered so that you will not experience this potential tax increase.

Based on information currently available to ATBS, it appears that the per diem deduction is available to independent contractors who have a trade or business. This is a significant tax advantage to the independent contractor! If ATBS obtains any information contrary to our current understanding, we will communicate this information immediately to our clients.

ALIMONY AND CHILD SUPPORT

Prior to the passing of the Tax Cuts and Jobs Act, divorce payments that are classified as alimony or maintenance are generally deductible "above the line" by the spouse making the payments and includible in income by the spouse receiving the payments. As an above the line deduction, alimony is deducted from the paying spouse's gross income to arrive at adjusted gross income ("AGI").

A child support payment is defined under the terms of the divorce or separation agreement as an amount payable for the support of a child or children. Child support payments are not treated as alimony. As a result, child support payments are not treated as a deduction by the spouse making the payments and the payments are not recognized as income by the spouse receiving the payments.

What this may mean for you: The Tax Cuts and Jobs Act states that for any divorce or separation agreement that is executed after December 31, 2018, or if an existing agreement that is executed before December 31, 2018 but modified afterward, alimony and separate maintenance payments are no longer deductible by the paying spouse and no longer included in income by the spouse receiving payments. There is no change in the tax treatment of child support payments.

AFFORDABLE CARE ACT PENALTY

Taxpayers were required to have health insurance that provided certain minimum essential coverage under the Affordable Care Act ("ACA" or "Obamacare"). This minimum level of health insurance coverage was typically referred to as the "individual mandate". If an individual did not obtain this health insurance coverage, they were required to pay a penalty or what was referred to as a "shared responsibility payment" when they filed their federal income tax return. The penalty was assessed for any month an individual did not have minimum essential coverage. The ACA penalty can range from $695 for a single individual to over $2,000 for a family.

Under the Tax Cuts and Jobs Act, after December 31, 2018, the shared responsibility payment is repealed.

What this may mean for you: Based on information provided to ATBS, it appears the IRS will not consider your 2017 and 2018 income tax returns complete unless you provide information about meeting your shared responsibility requirement or pay the penalty. However, after December 31, 2018, it appears the penalty will no longer be assessed, so this mandate goes away.

TAX BRACKETS AND RATES

The Tax Cuts and Jobs Act significantly changes the income brackets and tax rates for individual tax payers. Below is a summary of the income brackets and tax rates for each filing status.

Single Taxpayers for 2018

Previous Tax Law		Current Tax Law	
Taxable Income Bracket	**Tax Rate**	**Taxable Income Bracket**	**Tax Rate**
Not Over $9,525	10%	Not Over $9,525	10%
Over $9,525 But Not Over $38,700	15%	Over $9,525 But Not Over $38,700	12%
Over $38,700 But Not Over $93,700	25%	Over $38,700 But Not Over $82,500	22%
Over $93,700 But Not Over $195,450	28%	Over $82,500 But Not Over $157,500	24%
Over $195,450 But Not Over $424,950	33%	Over $157,500 But Not Over $200,000	32%
Over $424,950 But Not Over $426,700	35%	Over $200,000 But Not Over $500,000	35%
Over $426,700	39.6%	Over $500,000	37%

Head of Household Taxpayers for 2018

Previous Tax Law		Current Tax Law	
Taxable Income Bracket	Tax Rate	Taxable Income Bracket	Tax Rate
Not Over $13,600	10%	Not Over $13,600	10%
Over $13,600 But Not Over $51,850	15%	Over $13,600 But Not Over $51,800	12%
Over $51,850 But Not Over $133,850	25%	Over $51,800 But Not Over $82,500	22%
Over $133,850 But Not Over $216,700	28%	Over $82,500 But Not Over $157,500	24%
Over $216,700 But Not Over $424,950	33%	Over $157,500 But Not Over $200,000	32%
Over $424,950 But Not Over $453,350	35%	Over $200,000 But Not Over $500,000	35%
Over $453,350	39.6%	Over $500,000	37%

Married Couples Filing Joint Returns and Surviving Spouses

Previous Tax Law		Current Tax Law	
Taxable Income Bracket	**Tax Rate**	**Taxable Income Bracket**	**Tax Rate**
Not Over $18,650	10%	Not Over $19,050	10%
Over $18,650 But Not Over $75,900	15%	Over $19,050 But Not Over $77,400	12%
Over $75,900 But Not Over $153,100	25%	Over $77,400 But Not Over $165,000	22%
Over $153,100 But Not Over $233,350	28%	Over $165,000 But Not Over $315,000	24%
Over $233,350 But Not Over $416,700	33%	Over $315,000 But Not Over $400,000	32%
Over $416,700 But Not Over $470,700	35%	Over $400,000 But Not Over $600,000	35%
Over $470,700	39.6%	Over $600,000	37%

Married Couples Filing Separate Returns

Previous Tax Law		Current Tax Law	
Taxable Income Bracket	**Tax Rate**	**Taxable Income Bracket**	**Tax Rate**
Not Over $9,325	10%	Not Over $9,525	10%
Over $9,325 But Not Over $37,950	15%	Over $9,525 But Not Over $38,700	12%
Over $37,950 But Not Over $76,550	25%	Over $38,700 But Not Over $82,500	22%
Over $76,550 But Not Over $116,675	28%	Over $82,500 But Not Over $157,500	24%
Over $116,675 But Not Over $208,350	33%	Over $157,500 But Not Over $200,000	32%
Over $208,350 But Not Over $235,350	35%	Over $200,000 But Not Over $500,000	35%
Over $235,350	39.6%	Over $500,000	37%

What this may mean for you: Generally, most all taxpayers will benefit from lower tax rates in 2018. Employees should see the benefit of the lower tax rates throughout the year as withholdings should be lower and take home pay will be higher. Independent contractors will also see improved cash flow as estimated tax calculations should generally result in lower quarterly tax payments.

SUMMARY

What does all this mean? It's a mixed bag and every person's tax situation is different depending on their personal circumstances. However, following are some general guidelines from the ATBS analysis.

Virtually all taxpayers will benefit from reduced tax rates in their specific tax brackets.

The average single sole proprietor owner operator netting $60,000 from their business will pay approximately $2,000 LESS in taxes as a result of the Tax Cuts and Jobs Act. This is predominantly due to the new 20% deduction for Qualified Business Income for pass through entities and lower income tax rates.

The average single company driver making $47,500 will pay approximately $600 MORE in taxes as a result of the Tax Cuts and Jobs Act. This is predominately due to the elimination of the itemized non-reimbursed employee expenses or per diem deduction for company drivers. If your company offers a per diem pay option, it most likely makes sense to participate in that pay structure to eliminate this issue.

Table 8 on the next page shows expected future tax liability for; Company Drivers, Owner Operators as Sole Proprietor, Owner Operators as an S Corp. and Owner Operators as a C Corp. It also shows the difference between the old and new tax laws as well as filing Single and Married Filing Jointly (MFJ). The assumptions used are;

1. Tax scenarios for both owner operators and company drivers are based on average miles driven and average income from ATBS benchmarks.
    - Average net income before tax and per diem for Owner Operator is $60,000
    - Average W2 wage for Company Driver is $47,500
2. Per diem deduction for Owner Operator is $12,000. No per diem deduction for Company Driver after 2017
3. S Corp pays the driver $40,000 as employee
4. C Corp distributes excess income as a dividend

TABLE 8
Future Tax Liability

	2018	2017	2018	2017	2018	2017	2018
	Company Driver	**Company Driver**	**O/O Sole Prop/LLC**	**O/O Sole Prop/LLC**	**O/O S-Corp**	**O/O S-Corp**	**O/O C-Corp**
QBI (Before Per Diem and Wages)			$60,000.00	$60,000.00	$60,000.00	$60,000.00	$60,000.00
Per Diem Deduction		-$10,800.00	-$12,000.00	-$12,000.00	-$12,000.00	-$12,000.00	-$12,000.00
Wage Deduction					-$40,000.00	-$40,000.00	-$40,000.00
SE Tax Deduction (ER FICA)			-$3,391.09	-$3,391.09	-$3,060.00	-$3,060.00	-$3,060.00
Taxable Income			**$44,608.91**	**$44,608.91**	**$4,940.00**	**$4,940.00**	**$4,940.00**
Qualified Business Income (QBI)			$48,000.00		$4,940.00		
QBI Deduction (20%)			-$9,600.00		-$988.00		
Adjusted Taxable Business Income			**$35,008.91**	**$44,608.91**	**$3,952.00**	**$4,940.00**	**$4,940.00**
Total Business Tax - SE Tax			$6,782.18	$6,782.18			
Total C-Corp Income Tax (21%)							$1,037.40
Individual Taxable Income							
Wages	$47,500.00	$47,500.00			$40,000.00	$40,000.00	$40,000.00
Pass-Through Income	$0.00		$35,008.91	$44,608.91	$3,952.00	$4,940.00	
C-Corp Short-Term Dividend							$4,940.00
Total Ind. Income	**$47,500.00**	**$36,700.00**	**$35,008.91**	**$44,608.91**	**$43,952.00**	**$44,940.00**	**$44,940.00**
Total Tax Liability							
Single Taxpayer Tax Liability	**$7,703.25**	**$7,112.50**	**$9,352.75**	**$11,447.27**	**$6,703.74**	**$7,774.75**	**$10,919.70**
MFJ* Taxpayer Tax Liability	**$6,072.75**	**$5,223.75**	**$7,883.07**	**$9,421.02**	**$5,073.24**	**$5,748.50**	**$9,289.20**

*MFJ = Married Filing Jointly

ABOUT ATBS

American Truck Business Services (ATBS) is the largest tax, consulting, and bookkeeping firm in the transportation industry, with 20 years of experience working with owner-operators and independent contractors. Since 1998, ATBS has helped over 150,000 clients earn more money, reduce stress, and drive a richer life.

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