MOORE STEPHENS
DOEREN MAYHEW

How the Tax Proposals May Impact Your Business:

Debt Financing

If you've been following the U.S. tax reform process, you are probably aware of some of the tax rules that have been targeted for modification. The House of Representatives passed the Tax Cuts and Jobs Act on November 16, 2017. This Act provides for significant changes to the US taxation of both individuals and businesses. Some of the proposed changes are as follows:

- Reduction of individual tax brackets from 7 to 4;
- Increase of standard deductions, while eliminating many individual tax deductions currently allowed;
- Reduction of the corporate tax rate from 35% to 20%;
- Creates a 25% maximum tax rate on pass-through business income (for non-active partners or members), and (for active partners or members) assumes 70% of business income is compensation subject to ordinary rates while 30% is business income subject to the 25% rate;
- Extends Net Operating Loss carryover to an indefinite time period, while restricting the NOL carryover deduction to 90% of current taxable income; it eliminates the 2-year carryback rule;
- Eliminates the Section 199 manufacturing deduction;
- Eliminates Alternative Minimum Tax for individuals and corporations;
- Moves to a "quasi" territorial tax system;
- Allows full expensing of certain capital assets for five years; and
- Provides for deemed repatriation of currently deferred foreign earnings and profits at a rate of 14% for cash and cash-equivalent profits and 7% for illiquid holdings of reinvested foreign earnings.

It is important for business owners to not only understand the impact these proposed changes could have on them and their businesses, but to determine if they should implement any changes to their business operations or structure because of the U.S. tax reform. It should be noted that the Senate version passed by the Senate Finance Committee has some differences from the version passed by the House.

Debt Financing

The proposed Act limits the deductibility of net interest expense on future loans for business with gross receipts of $25 million or more. The proposed limit is the business interest income for the taxable year,

Contact: Moore Stephens Doeren Mayhew, 305 West Big Beaver Road, Troy, MI 48084-0231 U.S.A.
+1 (248) 244-3060 info@moorestephensdm.com www.moorestephensdm.com

plus 30% of adjusted taxable income for the year. A carryforward of 5 years would be permitted for the amount of deductions disallowed by this rule.

A business with currently accrued interest that may be limited under current rules may wish to consider making interest payments in the current year, to the extent allowed by the current thin capitalization rules of section 163(j) to prevent the 30% of adjusted taxable income limitation from reducing the deduction in future years. This would also receive a benefit by obtaining the deduction in 2017 when the higher corporation income tax rate (35%) is still in effect.

The above is just one example of actions taxpayers should consider in anticipation of, or because of the passing of the proposed Tax Act by the House. The international tax consultants at Moore Stephens Doeren Mayhew are available to discuss the proposed tax law changes, how they may impact your business, and actions you may want to consider in light of the upcoming tax reform.

Contact: Moore Stephens Doeren Mayhew, 305 West Big Beaver Road, Troy, MI 48084-0231 U.S.A.
+1 (248) 244-3060 info@moorestephensdm.com www.moorestephensdm.com