How Tax Reform Will Affect Your Business

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General Business Deductions, Credits, Etc.

Depreciation and fixed assets:

- Section 179 deduction: Expense up to $1 million and the phase-out threshold amount is increased to $2.5 million.
  - Expanded to include the following improvements to nonresidential real property: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.

- Bonus depreciation: 100% first-year deduction for qualified property acquired and placed in service on or after September 28, 2017 through December 31, 2022. Bonus depreciation phases out from 2023 through 2026.
  - New and used property!

General Business Deductions, Credits, Etc.

Depreciation and fixed assets:

- Luxury automobile depreciation: Maximum amount of allowable depreciation on passenger automobiles placed in service after December 31, 2017 is increased to:
  - $10,000 for the first year the vehicle is placed in service
  - $16,000 for the second year
  - $9,600 for the third year
  - $5,760 for the fourth and later years in the recovery period
  - Please note the additional first-year depreciation under Code Section 168(k) (Bonus depreciation) cannot be combined.
- Farm equipment: The recovery period for new farming equipment and machinery is going to be shortened from 7 years to 5 years under new provisions.

General Business Deductions, Credits, Etc.

- Interest expense deductions: The allowable deduction for interest expense will be limited to 30% of adjusted taxable income (EBITA through 2021, EBIT thereafter). Businesses with less than an average of $25 million annual gross receipts for the prior three years are exempt from the limitation. Contact me to discuss other limitations and exceptions.

- Net operating loss (NOL): The NOLs generated in years prior to 2018 can offset 100% of taxable income. The NOLs generated in 2018 and after are limited to 80% of taxable income (determined without regard to the NOL deduction). The two-year carryback rule was repealed, and now it can be carried forward indefinitely.
  - The NOL two-year carryback rule is still allowed for farming businesses.

General Business Deductions, Credits, Etc.

- Domestic Production Activities Deduction (DPAD): The DPAD is repealed starting after December 31, 2017 for Non-corporate taxpayers and repealed after December 31, 2018 for C-corporations.

- Entertainment expenses: Deductions for entertainment expenses now are *disallowed* (nondeductible). Entertainment is considered to be activities undertaken for amusement or recreation.

- Meals expenses: In general, taxpayers will still be able to deduct 50% of meal expenses associated with business operations. For amounts incurred after December 31, 2017 and before December 31, 2025, meal expenses associated with providing employees with *de minimis* fringe benefit for the convenience of the employer will also be subject to the 50% deduction limit. After December 31, 2025, the *de minimis* fringe benefit meal expense will not be deductible.

General Business Deductions, Credits, Etc.

- Lobbying expense deduction: Deduction for lobbying expenses carried in associated with local government/legislative bodies will be eliminated under the new tax bill.

- Like-kind exchanges: The Act repeals like-kind exchanges except for real property not held primarily for sale. In general, exchanges in process as of December 31, 2017 will be allowed.

- Family and Medical Leave Act (FMLA): A tax credit will be allowed for up to 25% of wages paid under FMLA.

- Cash method of accounting: Under the new provision, the cash basis method can be used by taxpayers with annual average gross receipts under $25 million for the three prior tax years.

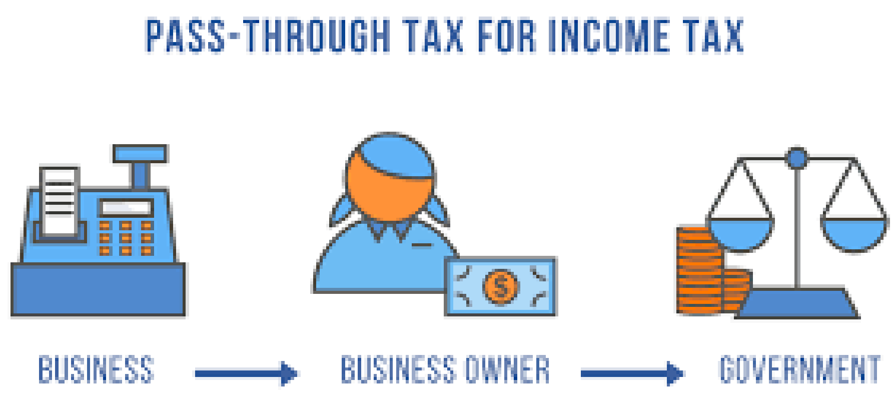
General Business Deductions, Credits, Etc.

- Inventory: Under the new provision, taxpayers with annual average gross receipts under $25 million for the three prior tax years may treat inventory as non-incidental materials and supplies.

- Uniform Capitalization (UNICAP): Under the new provision, the $10 million average annual gross receipts test increased to $25 million for the three prior tax years. Therefore, any producer or reseller who meets the $25 million gross receipts test is exempt from uniform cap rules under IRC §263A.

Pass-Through

- Qualified business income deduction: The Act introduced a 20% deduction of “qualified business income” (QBI) from pass-through income sources such as partnerships, S-corporations and includes sole proprietorships.
  - The 20% deduction is not allowed in computing adjusted gross income (AGI), rather it is allowed as a deduction reducing taxable income.



Pass-Through

- For taxpayers with taxable income above $157,500 ($315,000 for joint filers) Phase Out of QBI - Full phase out is $207,500 ($415,000 for joint filers)
  - Specified service businesses that apply:
    - Trades or businesses involving the performance of services in the fields of health, law, consulting, athletics, financial or brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners
  - Wage and capital limit:
    - Deduction for QBI cannot exceed the greater of:
      - 50% of your allocable share of the W-2 wages paid with respect to the qualified trade or business
      - The sum of 25% of such wages plus 2.5% of the unadjusted basis immediately after acquisition of tangible depreciable property used in the business (including real estate).

S-Corp Example
Single Owner
Builds and sells product

Officer earns	125,000	2017	2018
1 Employee Earning	50,000	Married	Married
Wages		125,000	125,000
Pass-Through Income		**200,000**	**200,000**
1/2 SE Tax		0	0
Standard Deduction		(12,700)	(24,000)
Dependency Exemption		(7,290)	-
Taxable Income (b/f QBID)		305,010	301,000
Allowable QBID		-	**(40,000)**
Taxable Income (a/f QBID)		305,010	261,000
Regular Tax		75,870	51,219
Additional Medicare Tax		-	-
NIIT		-	-
SE Tax		-	-
Total Tax		75,870	51,219
Estimated tax savings			(24,651)
Taxable Income (b/f QBID)			301,000
QBI			200,000
Tentative Deduction			40,000
Phase Out of QBI			N/A
50% of Wage Reduction			87,500

S-Corp Example
Single Owner
Builds and sells product

Officer earns	125,000	2017	2018
1 Employee Earning	50,000	Married	Married
Wages		125,000	125,000
Pass-Through Income		**375,000**	**375,000**
1/2 SE Tax		0	0
Standard Deduction		(12,700)	(24,000)
Dependency Exemption		0	-
Taxable Income (b/f QBID)		487,300	476,000
Allowable QBID		-	**(75,000)**
Taxable Income (a/f QBID)		487,300	401,000
Regular Tax		138,202	91,729
Additional Medicare Tax		-	-
NIIT		-	-
SE Tax		-	-
Total Tax		138,202	91,729
Estimated tax savings			(46,473)
Taxable Income (b/f QBID)			476,000
QBI			375,000
Tentative Deduction			75,000
Phase Out of QBI			415,000
50% of Wage Reduction			87,500

Sole Proprietor
Schedule C
Builds and sells product

1 Employee Earning 50,000	2017	2018
	Married	Married
Wages	-	-
Schedule C Income	**500,000**	**500,000**
1/2 SE Tax	(14,582)	(14,656)
Standard Deduction	(12,700)	(24,000)
Dependency Exemption	0	-
Taxable Income (b/f QBID)	472,718	461,344
Allowable QBID	-	**(25,000)**
Taxable Income (a/f QBID)	472,718	436,344
Regular Tax	132,427	104,099
Additional Medicare Tax	1,905	1,905
NIIT	-	-
SE Tax	29,164	29,312
Total Tax	163,496	135,317
Estimated tax savings		(28,179)
Taxable Income (b/f QBID)		461,344
QBI		500,000
Tentative Deduction		25,000
Phase Out of QBI		415,000
50% of Wage Reduction		25,000

S-Corp Example
Single Owner
Builds and sells product

Officer earns 125,000	2017	2018
1 Employee Earning 50,000	Married	Married
Wages	125,000	125,000
Pass-Through Income	**375,000**	**375,000**
1/2 SE Tax	0	0
Standard Deduction	(12,700)	(24,000)
Dependency Exemption	0	-
Taxable Income (b/f QBID)	487,300	476,000
Allowable QBID	-	**(75,000)**
Taxable Income (a/f QBID)	487,300	401,000
Regular Tax	138,202	91,729
Additional Medicare Tax	-	-
NIIT	-	-
SE Tax	-	-
Total Tax	138,202	91,729
Estimated tax savings		(46,473)
Taxable Income (b/f QBID)		476,000
QBI		375,000
Tentative Deduction		75,000
Phase Out of QBI		415,000
50% of Wage Reduction		87,500

S-Corp Example			
Single Owner			
Builds and sells product			
Officer earns	0	2017	2018
1 Employee Earning	0	Married	Married
Wages		-	-
Pass-Through Income		**500,000**	**500,000**
1/2 SE Tax		0	0
Standard Deduction		(12,700)	(24,000)
Dependency Exemption		0	-
Taxable Income (b/f QBID)		487,300	476,000
Allowable QBID		-	**0**
Taxable Income (a/f QBID)		487,300	476,000
Regular Tax		138,202	117,979
Additional Medicare Tax		-	-
NIIT		-	-
SE Tax		-	-
Total Tax		138,202	117,979
Estimated tax savings			(20,223)
Taxable Income (b/f QBID)			476,000
QBI			500,000
Tentative Deduction			0
Phase Out of QBI			415,000
50% of Wage Reduction			0

S-Corp Example			
Single Owner			
Builds and sells product			
Officer earns	125,000	2017	2018
1 Employee Earning	50,000	Married	Married
Wages		125,000	125,000
Pass-Through Income		**375,000**	**375,000**
1/2 SE Tax		0	0
Standard Deduction		(12,700)	(24,000)
Dependency Exemption		0	-
Taxable Income (b/f QBID)		487,300	476,000
Allowable QBID		-	**(75,000)**
Taxable Income (a/f QBID)		487,300	401,000
Regular Tax		138,202	91,729
Additional Medicare Tax		-	-
NIIT		-	-
SE Tax		-	-
Total Tax		138,202	91,729
Estimated tax savings			(46,473)
Taxable Income (b/f QBID)			476,000
QBI			375,000
Tentative Deduction			75,000
Phase Out of QBI			415,000
50% of Wage Reduction			87,500

C-Corporation

- Tax rates: The corporate tax rate is reduced to a flat 21% rate from the previous graduated tax rates of 15% up to 35% for tax years beginning on or after January 1, 2018. There will be a blended rate for fiscal year corporations.
  - Personal service corporations tax rate will be reduced from a flat tax rate of 35% to a flat tax rate of 21%
  - Will see more acquisitions based on lower tax rate

- Corporate alternative minimum tax (AMT): This provision is repealed.
  - Credit for prior-year minimum tax would be available up to the regular tax liability for tax year 2018, partially refundable in 2019-2021, and the balance refundable in 2022.

C-Corporation Examples

Old Bracket	Taxable Income	New Rate
15%	0-50,000	21%
25%	50,001-75,000	
34%	75,001-10,000,000	
35%	Over 10,000,000	

		2017		2018
Taxable Income	$	45,000	$	45,000
Rate		15%		21%
Tax		6,750		9,450

		2017		2018
Taxable Income	$	500,000	$	500,000
Rate		34%		21%
Tax		170,000		105,000

Personal Service		2017		2018
Taxable Income	$	45,000	$	45,000
Rate		35%		21%
Tax		15,750		9,450

Personal Service		2017		2018
Taxable Income	$	500,000	$	500,000
Rate		35%		21%
Tax		175,000		105,000

Treatment of S-Corporation Converted to C-Corporation

- Because of reduced Corporate tax rate
- May need to convert from cash to accrual
  - Unfavorable 481 Adjustment recognize over 6 years not 4 years
- Post-termination transition period (PTTP):
  - Two year period after S-Corp revocation
  - Split distributions between accumulated adjustment account (AAA) and accumulated earnings and profits (AEP)

Thank you

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