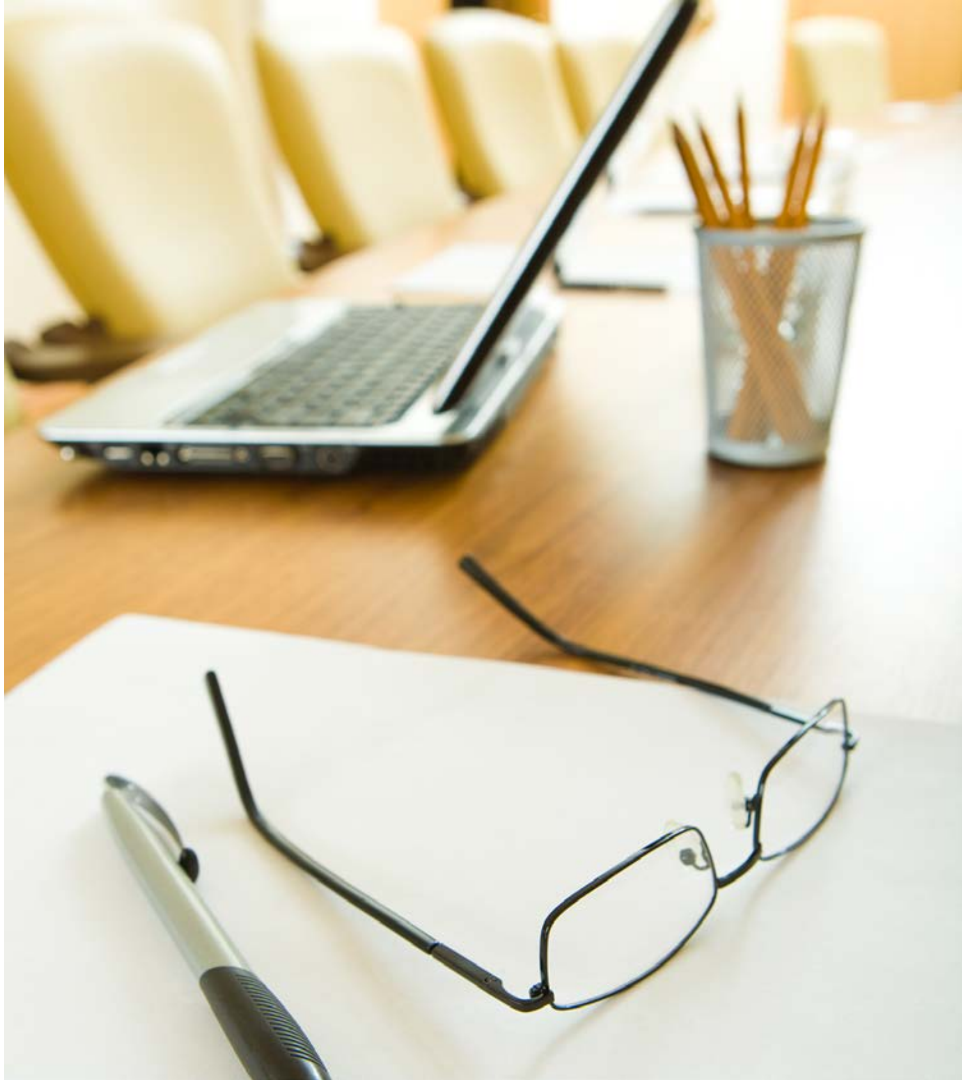
Tax Cuts & Jobs Act – Business Provisions

CPA

DiNatale Accounting & Consulting Solutions, LLC
Certified Public Accountants and Consultants
www.dinataleaccountingsolutions.com
443-402-0553

Many changes!

- Guidance is needed
- Effect on tax provisions
- Effect on financial statements



Overview of business changes

- Corporate rate reduction to flat 21%
- Repeal of corporate AMT
- Special rules for pass-throughs (Sec. 199A)
- Loss limitation for other than C corps (Sec. 461)
- Repeal of Sec.199 (DPD)
- Expensing of assets
  - increases to Sec.179 ($1 million and threshold $2.5 million)
- Expanded accounting method exceptions for small businesses
- Changes to various fringe benefits including treatment of meals and entertainment paid by employer
- Limit on use of and carryback of NOL
- Limitation on interest expense deduction for non-small businesses (over $25 million receipts); limited exceptions
- Corporate shift from worldwide to territorial system

Corporate rate changes

- Flat rate of 21%
- Effective for years beginning after 12/31/17
- Fiscal year corporations should apply Sec. 15
- Personal service corporations taxed at same rate (no more surtax)
- Corporate AMT has been repealed
- Dividends received deduction reduced

Effect on Accounting for Income Taxes under FASB ASC 740

- Effect on calculation of deferred tax liabilities/assets (due to change in rate)
- Additional complications related to fiscal year corporations

20% Pass-through Deduction

- 20% of qualified business income (QBI)
- Qualified business income definitions
  - – Qualified trade/business income
    - Not a specified trade/business
      - – Trade/business involving performance of services
  - – Does not include investment income
  - – Does not include reasonable compensation paid from S corporation or guaranteed payments paid to a partner
  - – Phaseout limitation

Partnership change

- Repeal of technical termination provisions
  - Greater than 50% ownership change (12 mos.)
    - No longer an automatic termination
    - No need to “close the books”
    - No short year returns
    - Effective for years after 12/31/17

Depreciation

- Additional first year/bonus depreciation-100% for property acquired after 9/27/17
- Phase down schedule for years after 2022
- Now allowed for new and used property
- Qualified improvement property no longer qualifies
- Luxury auto limits – (note that additional $8k depreciation has been extended for 2017)
- Increases to Sec. 179 ($1M and threshold $2.5M)
- SUV limitation remains at $25,000
- Limits are indexed for inflation
- Expansion for certain real property (roofs, HVAC)
- Allows residential rental property

Accounting methods for small taxpayers

- Expanded availability of cash method
- Inventory tracking requirements
- Sec. 263A threshold raised
- Expanded availability of completed contract method

Restrictions on interest deductions

- Deductible interest limited to
  - Interest income for year plus
  - 30% of taxable income plus
  - taxpayers financing interest for the year
- Limitation at the taxpayer level
- Interest not deductible carries forward indefinitely
- Doesn’t apply to taxpayers that meet $25M gross receipts test

Changes to fringe benefits/entertainment expense

- Repeal of business entertainment expenses
- Repeal of deduction for qualified transportation fringe benefits
- Repeal of exclusion for bicycle commuting reimbursement
- Repeal of exclusion for employee reimbursed moving expenses
- Other changes to employee fringe benefits

Net operating loss provisions

- No longer allowed to carryback NOLs
- Carried forward indefinitely
- 80% of taxable income may be reduced by NOL

Other changes to note

- New limits on executive compensation deduction
- Changes for Sec. 1031 exchanges
- Changes to carried interest rule
- Expenses for employer operating eating facilities is now 50% (rather than fully deductible)
- Lobbying costs no longer deductible
- New credit for paid family and medical leave

Planning for 2018 and forward

- Guidance needed on Sec. 199A (pass-through deduction)
  - Definitions: qualified business income; qualified trade/business; small business
- Effect of corporate rate reduction to 21% on choice of entity
- Debt structure due to interest limitations
- Entertainment expenses
- Changes to fringe benefits and effect on employees

International changes

- Move to a quasi-territorial system with a 100% dividends received deduction
- One-time tax on previously unrepatriated earnings
- Other significant changes for international tax law

Planning opportunities

Complexity = possible savings opportunities

Consider evaluating tax structure

A CPA can provide financial planning services

CPA

Thank you