Certified Public Accountants
And Consultants

Koch & Company, CPA, P.A.
252 W. Olympia Avenue
Punta Gorda, FL 33950

www.kochcpas.com

Tel: (941) 637-0544
Fax: (941) 637-9693
cpa@kochcpas.com

TOP BUSINESS CHANGES YOU NEED TO KNOW ABOUT THE NEW TAX LAW

New 21% corporate tax rate. For tax years beginning in 2018 or later, the TCJA establishes a flat 21% corporate rate, and that rate also applies to PSCs.

Corporate AMT repealed. For tax years beginning in 2018 or later, the new law repeals the corporate AMT. For corporations that paid the corporate AMT in earlier years, an AMT credit was allowed under prior law. The new law allows corporations to fully use their AMT credit carryovers in their 2018–2021 tax years.

Reduced corporate dividends deduction. For tax years beginning in 2018 or later, the TCJA reduces the 80% deduction to 65% and the 70% deduction to 50%.

New deduction for pass-through businesses. For tax years beginning in 2018 through 2025, the TCJA establishes a new deduction based on a non-corporate owner's qualified business income (QBI). This break is available to individuals, estates and trusts that own interests in pass-through business entities. The deduction generally equals 20% of QBI, subject to restrictions that can apply at higher income levels. Please contact us for more information.

Business interest deductions. Under the TCJA, for tax years that begin in 2018 or later, businesses generally can't deduct interest expenses in excess of 30% of "adjusted taxable income." For S corporations, partnerships and LLCs that are treated as partnerships for tax purposes, this limit is applied at the entity level rather than at the owner level.

Bonus depreciation improves significantly under the TCJA: For qualified property placed in service between September 28, 2017, and December 31, 2022 (or by December 31, 2023, for certain property with longer production periods), the first-year bonus depreciation percentage is increased to 100%. In addition, the 100% deduction is allowed for both new and used qualifying property. The new law also allows 100% bonus depreciation for qualified film, television and live theatrical productions placed in service on or after September 28, 2017.

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Also be aware that, under the TCJA, in some cases a business may not be eligible for bonus depreciation beginning in 2018. Examples include real estate businesses that elect to deduct 100% of their business interest and dealerships with floor-plan financing if they have average annual gross receipts of more than $25 million for the three previous tax years.

The TCJA permanently enhances the Sec. 179 deduction. Under the new law, for qualifying property placed in service in tax years beginning in 2018, the maximum Sec. 179 deduction is increased to $1 million, and the phase-out threshold amount is increased to $2.5 million. For later tax years, these amounts will be adjusted for inflation.

The new law also expands the definition of eligible property to include certain depreciable tangible personal property used predominantly to furnish lodging. The definition of qualified real property eligible for the Sec. 179 deduction is also expanded to include the following improvements to nonresidential real property: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

Deductions for business passenger vehicles. For new or used passenger vehicles that are placed in service in 2018 and used more than 50% for business, the maximum annual depreciation deductions under the TCJA are as follows: $10,000 for Year 1, $16,000 for Year 2, $9,600 for Year 3, and $5,760 for Year 4 and thereafter until the vehicle is fully depreciated. For years after 2018, these amounts will be adjusted for inflation.

Meals, entertainment and transportation. *Under the new law, for amounts paid or incurred after December 31, 2017, business-related entertainment expenses are no longer deductible*. Meal expenses incurred while traveling on business are still 50% deductible, but the 50% disallowance rule will now also apply to meals provided via an on-premises cafeteria or otherwise on the employer's premises for the convenience of the employer.

Here are some of the other business-related changes in the TCJA:
The Section 199 deduction, also commonly referred to as the domestic production activities deduction or manufacturers' deduction, is eliminated for tax years beginning after December 31, 2017, for non-corporate taxpayers and for tax years beginning after December 31, 2018, for C corporation taxpayers.

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For business net operating losses (NOLs) that arise in tax years ending after December 31, 2017, the maximum amount of taxable income that can be offset with NOL deductions is generally reduced from 100% to 80%.

A new limitation applies to deductions for "excess business losses" incurred by non-corporate taxpayers. Losses that are disallowed under this rule are carried forward to later tax years and can then be deducted under the rules that apply to NOLs. This new limit kicks in after applying the passive activity loss rules. However, it applies to an individual taxpayer only if the excess business loss exceeds the applicable threshold.

The eligibility rules to use the more-flexible cash method of accounting are liberalized to make them available to many more medium-size businesses. Also, eligible businesses are excused from the chore of doing inventory accounting for tax purposes.

The Section 1031 rules that allow tax-deferred exchanges of appreciated like-kind property is allowed only for real estate exchanges completed after December 31, 2017. Beginning in 2018, there are no more like-kind exchanges for personal property assets. However, the prior-law rules still apply if one leg of an exchange has been completed as of December 31, 2017, but one leg remains open on that date.

The TCJA also includes a bevy of changes that will affect taxpayers who conduct foreign operations. In conjunction with the reduced corporate tax rate, the changes are intended to encourage multi-national companies to conduct more operations in the United States, with the resulting increased investments and job creation in this country.

Many of the new changes need further detailed explanations. If you have any **questions** about these or any other items, **please contact us** at any time. **941-637-0544**.