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BUSINESS CLIENT LETTER

Tax Reform and what it means for Your Business

Dear Client:

The Tax Cuts and Jobs Act is the first major tax reform in 31 years. The new tax reform law makes many changes to the tax code. Your business will be impacted. Tax benefits include a reduction in the corporate tax rate, increase in the bonus depreciation allowance, an increase in the §179 expensing amount and the repeal of the corporate alternative minimum tax. Owners of S corporations, partnerships, LLCs, sole proprietorships and farms are allowed a deduction of 20% of qualified business income, subject to a number of limitations. A few highlights follow:

Corporate taxes. Beginning in 2018, the new tax reform law reduces the C corporate tax rate to 21%, from a top rate of 35%. Corporate alternative minimum tax was repealed.

Bonus depreciation. The new tax reform law temporarily increases the 50% bonus depreciation allowance to 100% for qualifying property placed in service after September 27, 2017, and before January 1, 2023. A phase-out of the deduction begins January 1, 2023. The new law also removes the requirement that the original use of qualified property must begin with the taxpayer. For the first time, bonus depreciation will be allowed on the purchase of used property.

Section 179 expensing. The new tax reform law increases the §179 expensing amount to $1 million and the investment limitation to $2.5 million. Additional real property, such as a roof on a non-residential property, can qualify for a §179 expensing deduction.

Pass-through businesses. The new tax reform law allows non-corporate taxpayers to deduct up to 20% of domestic qualified business income from an S corporation, partnership, LLC, sole proprietorship, or farm. In some situations, net rental income can qualify for some or all of the 20% deduction. Limitations apply based on wages paid or if the qualified business income is from a specified service business (like law, accounting, medical, etc.) Neither limitation applies if the taxpayer's taxable income on his or her Form 1040 is less than $157,500 for a single person ($315,000 for a married filing joint couple.)

Listed Property. The new tax reform law increases the depreciation for a passenger automobiles placed in service after December 31, 2017. The maximum amount of allowable depreciation is $10,000 for the year in which the vehicle is placed in service; $16,000 for the second year; $9,600 for the third year; and $5,760 for the fourth and later years. The new law removes computers and peripheral equipment from the definition of listed property. Therefore, laptop computers, for example, are not subject to the strict substantiation requirements that apply to other listed property.

Tax deferred exchanges. The tax deferred exchange rules in §1031 will only apply to real property. Personal property, such as autos, machines, tractors, equipment, etc. may no longer qualify under the tax deferred exchange rules.

Deductions and credits. The entertainment deduction has been repealed. The cost of tickets to concerts, football games or the ballet are no longer deductible. The §199 domestic production activities deduction is eliminated. The new tax reform law retains the research and development credit, but will require five year amortization of research and development expenditures. The new tax reform law creates a temporary credit for employers paying employees who are on family and medical leave.

Interest deductions. For businesses with gross receipts in excess of $25 million, the new tax reform law caps the deduction for net interest expenses at 30% of adjusted taxable income.

Stock options. The new tax reform law allows qualified employees of private companies to defer tax on the exercise of options for up to five years. CEOs, CFOs, highly compensated employees and 1% owners are not eligible for the deferral.

Net operating losses. The new tax reform law limits the net operating loss deduction to 80% percent of taxable income for losses arising in tax years beginning after December 31, 2017. The carryback for NOLs is eliminated, except for qualifying farm losses. NOL loss carryforwards will be indefinite, subject to the percentage limitation.

These are just a few of the changes included in the new tax reform law. Your 2018 business taxes will be affected. That’s guaranteed by the scope of the changes.

We can answer your questions.

- Will my taxes increase or decrease because of the new tax reform law?
- Are my withholding and estimated tax payments correct considering the new tax reform law?
- Will I qualify for the new 20% business income deduction?
- Is this the year to buy additional equipment or a new vehicle for my business?

Please call and we’ll help you with your new tax law questions.

Sincerely,

Neiman, Kornblum, Farkas & Hoffer