FRSCPA
CERTIFIED PUBLIC ACCOUNTANTS

Tax Reform Changes Businesses & Business Owners

Tax Item	Current Law	House Bill (After November 10th Mark Up)	Senate Proposal (As Released on November 9th)
Business Rates			
C Corporations (Non-Personal Service)	8 Tax Brackets: 15% 25% 34% 39% 34% 35% 38% 35%	Taxable income is taxed at a flat 20% Rate change goes into effect in 2018.	Taxable income is taxed at a flat 20%. Rate change does not go into effect until 2019.
C Corporations (Personal Service Corporations)	Taxable income is taxed at a flat 35%.	Taxable income is taxed at a flat 25%	The special tax rate for personal service corporations would be repealed. Taxable income is taxed at a flat 20%.
C Corporations - Alternative Minimum Tax	Certain adjustments are made to taxable income to determine the "Alternative minimum taxable income". This income is then used to determine a "minimum tax". The taxpayer then pays the higher of either (a) the minimum tax or (b) regular tax (as calculated under normal rates and normal taxable income).	Repealed.	Repealed.

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Passthroughs (Partnerships, LLCs, and S Corporations)	Taxed at personal ordinary income rates based on owner's taxable income. 7 tax brackets: 10% 15% 25% 28% 33% 35% 39.6%	Maximum rate of 25% on "qualified business income" of individuals. Non-qualified business income is taxed at the ordinary income rates. Qualified Business Income means either: (1) 30% of passthrough income (if elected), or (2) variable "applicable percentage" based on a formula and the facts and circumstances. (determines amount deemed to be return of capital) Income that does not constitute Qualified Business Income would be taxed at the individual tax brackets: 12% 25% 35% 39.6% 45.6%** For example, if election is made then 30% would be taxed at the 25% rate and then the remaining 70% would be taxed at the individual's income rate.	No special tax rate provided for business income, but a special deduction is provided. (see below). After the deduction, the individual income tax rates would apply. 7 Tax Brackets: 10%, 12%, 22.5%, 25%, 32.5%, 35%, and 38.5%

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Depreciation and Fixed Asset Deductions			
Section 179 Expensing	Up to $500K of qualifying property may be expensed. The deduction begins to be phased out after $2 MM in qualifying purchases. Qualifying proeprty is depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Qualifying properyt includes qualifying real property (i.e. qualifyied leashold improvement proeprty, restaurant property, and retail improvement property).	Up to $5 MM of qualifying property may be expensed. The deduction would begin to be phased out after $20 MM of qualifying purchases. Eligible property definition remains the same. Effective for property purchased after 11/2/2017.	Up to $1 MM of qualifying property may be expensed. The deduction would begin to be phased out after $2.5 MM of qualifying purchases. Sec. 179 property definition would be expanded to include certain depreciable property used to furnish lodging. Qualifying Real Property would be expanded to include roofs, heating, ventilation, A/C, fire protection, alarm systems, and security systems. Effective after 12/31/2017.
Bonus Depreciation	An additional first-year depreciation deduction is allowed equal to 50% of the cost of qualified property. Qualifying property must either be: (1) MACRS depreciable with life of 20 years or less, (2) water utility property, (3) non-Section 197 computer software or (4) qualifying improvement property Further, the property must be new. (I.e. first use by anyone).	100% of the cost of qualifying property may be expensed if placed in service after 9/27/2017 and before 1/1/2023. Qualifying property now includes used property which is first being used by the taxpayer.	100% of the cost of qualifying property may be expensed if placed in service after 9/27/2017 and before 1/1/2023. Qualifying property now includes used property which is first being used by the taxpayer.

Updated November 14, 2017

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Other Deductions			
Pass-Throughs - New 17.4% Qualified Business Income Deduction	No special deduction.	No special deduction. (*but see* differing rates above)	Individual may deduct 17.4% of "domestic qualified business income" from pass-through entities (or sole proprietorships). Deduction would not apply to specified service business (e.g. law, health, engineering, accounting), unless indivdiauls taxable income is less than $150,000, if married filing jointly, or $75,000, for anyone else. Deduction would further be limited to W-2 wages of the pass-through business.
Business Interest	No general limitation, but specific limitations in certain situations.	Deductible interest would be limited to the sum of business interest income plus 30% of adjusted taxable income for the tax year. This does not apply to taxpayers who do not have average receipts exceeding $15 MM. For example, Business interest income = $100K Adjusted Taxable Income = $500K Deductible Interest Limited to = $180K = ($500K + 100K) x 30%	Deductible interest would be limited to the sum of business interest income plus 30% of adjusted taxable income for the tax year. This does not apply to taxpayers who do not have average receipts exceeding $15 MM. For example, Business interest income = $100K Adjusted Taxable Income = $500K Deductible Interest Limited to = $180K = ($500K + 100K) x 30%

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Meals & Entertainment	50% of meals, entertainment, or amusement are deductibleif taxpayer establishes that item was directly related to taxpayer's trade or busienss or directly preceding or following a substantial and bona fide business discussion.	50% of food and beverage expenses remain deductible. No entertainment or amusement expenses are deductible.	50% of food and beverage expenses remain deductible. No entertainment or amusement expenses are deductible.
Domestic Production Activities Deduction	IRC § 199 provides a deduction equal to 9% of lesser of: Qualified production activities income, or Taxable Income	Repealed. No Deduction.	Repealed. No Deduction.
Net Operating Loss Deduction	Net Operating Loss (NOL) may be carried back two years and carried over 20 years to offset taxable income.	NOL deduction would be limited to 90% of taxable income. NOL would not be eligible to be "carried back" two years, except for small businesses and farms in the case of certain casualty and disaster losses. NOL would be able to carried over 20 years.	NOL deduction would be limited to 90% of taxable income. NOL would not be eligible to be "carried back" two years., except for certain losses related to farming. NOL would be able to carried over 20 years.
Other Repealed Deductions		- Lobbying Expenses - Rollover of Publicly traded securities gain into specialized small business investment companies - Special Rule for treating transfer of patent prior to commercial exploitation as long-term capital gain, effective for dispositions after 2017 - Unused Business Credits	- Unused business credit deduction

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Special Business Related Exclusions			
Like-Kind Exchanges	Currently property-for-property exchanges may be tax free under IRC § 1031. This includes both real and personal property.	Only real property for real property exchanges will qualify. Personal property will no longer qualify as "like-kind property".	Only real property for real property exchanges will qualify. Personal property will no longer qualify as "like-kind property".
Business Credits			
Worker's Opportunity Tax Credit (WOTC)	A federal tax credit is available to employers for hirigin from certain target groups. Numerous restrictions apply.	Repealed for wages paid after 12/31/2017.	No change.
Tip Credit for Portion of Employer Social Security Taxes.	A credit of 7.65% is provided for Tips reported in excess of federal minimum wage. Only restaurants with 10 employees or more are required to report.	Credit would be modified to reflect current minimum wage. Also, all restaurants claiming tip credit would be required to report IRS tip allocation among tipped employees.	No change.
Other Repealed Credits		- Clinical Testing Expenses for Drugs for Rare Diseases or Conditions - Employer-Provided Child Care Credit - Rehabilitation Credit - New Markets Tax Credit - Credit for Expenditures to Provide Access to Disabled Individuals	- Rehabilitation credit - Enhanced Oil Recovery (EOR) Credit
Other Miscellanous Accounting Changes			
Cash Method of Accounting	Corporations may only use cash method of accounting if average gross receipts do not exceed $5 MM for all prior years.	Corporations may only use cash method of accounting if average gross receipts do not exceed $25 MM for the three prior tax years.	Corporations may only use cash method of accounting if average gross receipts do not exceed $15 MM for the three prior tax years.

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Accounting for Inventories	Cash method can not be used for corporations with average gross receipts of more than $1 MM *and* the business has inventory.	A business with average annual gross receipts of $25 MM or less may use cash method, regardless of the use of inventory. In other words, a cash method business with average annual gross receipts of $25 MM or less may deduct the cost of inventory in the year paid.	A business with average annual gross receipts of $15 MM or less may use cash method, regardless of the use of inventory. In other words, a cash method business with average annual gross receipts of $25 MM or less may deduct the cost of inventory in the year paid.
UNICAP	Certain direct and indirect costs are required to be capitalized into inventory for taxpayers who are resellers with $10 MM or move average gross receipts.	Additional costs will not need to be capitalized unless producer or reseller has $25 MM or more in average gross receipts.	Additional costs will not need to be capitalized unless producer or reseller has $15 MM or more in average gross receipts.