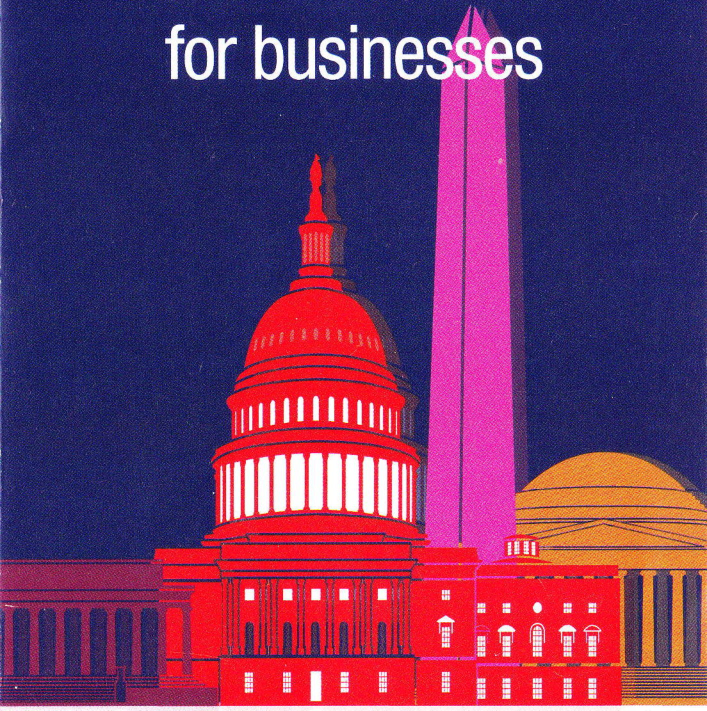
Tax Cuts and Jobs Act
for businesses



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Learn more about the new tax law

The Tax Cuts and Jobs Act (TCJA) has brought on major tax law change that impacts small businesses. The TCJA enhanced some tax breaks, repealed others and modified several deductions that are likely to affect a majority of business owners. Here's what changed.

Corporate tax rate: Corporate tax is now a flat 21 percent rate, changed from a multi-bracket structure with a 35 percent top rate.

Section 179 expensing: The TCJA raises deduction limits to enable expensing of up to $1 million of business property purchases. And the phaseout threshold increases to $2.5 million. Property can now be new or used equipment, as long as it's placed in service for the first time for your business. In addition, Section 179 may now be used on expenses related to improvements to nonresidential real estate. This includes roofs, heating and ventilation, air-conditioning, fire protection, and alarm and security systems.

Start using the purchased property in 2018 to qualify for the deduction this year, as qualified assets must be placed in service. And remember, the maximum is still limited to your taxable business income for the year.

First-year bonus depreciation: The TCJA allows first-year bonus depreciation of 100 percent of the value of assets purchased (both new and used qualifying property) and placed in service within the next five years. This deduction will be reduced starting 2023.

First-year depreciation deduction	
2018-2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

Luxury cars: The TCJA increases the annual luxury car depreciation limit to $10,000 in the first year and $16,000 in the second year.

Depreciation reminder: These tax law updates only change the timing of your expense, not the overall deduction.

Entertainment and meals: Businesses will no longer be able to deduct 50 percent of the cost of entertainment, amusement or recreation directly related to their trade or business. However, **business meal expenses are still 50 percent deductible.**

As an employer, you can deduct 50 percent of the costs of a cafeteria or similar eating facility for employees on the premises, as opposed to the 100 percent deduction previously allowed (but only through 2025). This fringe benefit remains 100 percent tax-free to the employees.

Transportation and commuting: Employers can no longer deduct the cost of qualified employee transportation fringe benefits unless it's necessary for the safety of the employee.

Miscellaneous items (employee unreimbursed expenses): The deduction for unreimbursed employee expenses is among the qualified 2 percent miscellaneous itemized deductions that have been eliminated. This means employees can no longer expense:

- Work-related meals
- Entertainment
- Gifts
- Lodging
- Tools
- Supplies
- Professional dues
- Licensing fees
- Work clothes
- Work-related education

Business credits: Many credits have been modified in the TCJA, such as the orphan drug credit, rehabilitation credit and research credit. A new credit for employer-paid family or medical leave is also now available for qualified employees.

New income tax withholding tables

The IRS released updated income tax withholding tables that employers must use to update their payroll systems. Employees can check using the withholding tool on the IRS website to see if their withholding amounts are correct.

Other important tax info for 2018

GONE

Corporate alternative minimum tax (AMT): The 20 percent corporate AMT applied to businesses goes away entirely.

ENHANCED

Cash-method accounting: Businesses with less than $25 million in gross receipts over the last three years may adopt cash-method accounting.

MODIFIED

International taxation: Treatment of international income moves to the territorial system standard, in which foreign businesses are generally only taxed in the place in which they operate. The new law allows tax deductions for certain foreign-sourced dividends, reduced tax rates for foreign intangible income and reduced tax rates for repatriation of deferred foreign income.

New business deduction:

The TCJA creates a new 20 percent qualified business deduction for pass-through entities such as S corporations, partnerships and sole proprietorships. Here are some of the most important factors:

- This deduction is subject to a handful of complex restrictions. One restriction phases out the deduction for owners of specified service businesses that have taxable income exceeding $157,500 for single filers and $315,000 for joint filers.
- Taxpayers with taxable income above those thresholds will see a reduced deduction, subject to special wage and capital limits.
- Losses will lower your eligible income. Excess losses will carry over to future years, limiting your ability to take the deduction in the future.
- Qualified property must be tangible property subject to depreciation and available for use in a qualified trade or business.
- Rental property owners may also benefit from the deduction.
- Calculating the actual deduction can be tricky. It depends upon many factors, including your level of income, profession and the amount your business spends on wages and property acquired during the year.
- The domestic production activities deduction (DPAD) was repealed in the TCJA for 2018 and subsequent tax years.

Keep in mind that because the new business deduction is complex, the IRS will likely give further guidance in 2018 on how it will affect businesses.

Planning tip: If you're an owner of a specified service business and your pass-through income is above the thresholds, try to stay below the taxable income thresholds to fully benefit from this deduction. That may mean deferring income at the end of the year. The deduction phases out above the thresholds and also depends on your type of business, your wages and the value of your capital assets.

TCJA checklist

Use this TCJA topics list as a reminder of items on your tax return that may affect business tax deductions, credits, exemptions and other items that were part of your tax filing in 2017. This will help you determine what you need to pay attention to in 2018 and beyond. If you'd like to discuss these tax changes, give us a call.

- ☐ Section 179 expensing
- ☐ First-year bonus depreciation
- ☐ Luxury car
- ☐ Transportation fringe benefits
- ☐ Entertainment and meals
- ☐ Business credits
- ☐ Corporate AMT
- ☐ Corporate tax rate
- ☐ Cash-method accounting
- ☐ International taxation
- ☐ DPAD

DISCLAIMER: This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may affect your situation.

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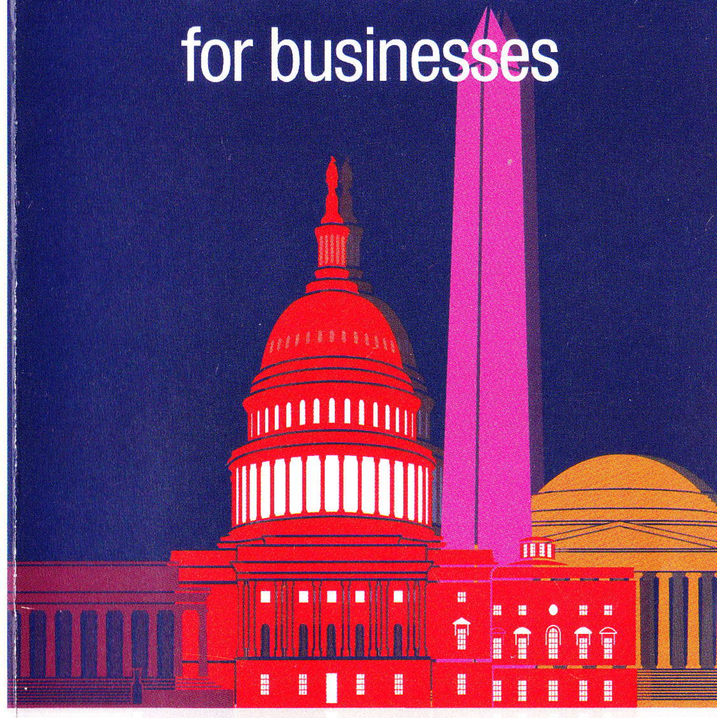

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