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What the Tax Reform Act Means for Your Business

Congress has passed a tax reform act that will take effect in 2018, ushering in some of the most significant tax changes in three decades. There are a lot of changes in the new act, which was signed into law on Dec. 22, 2017. This letter serves as an overview of the significant changes that will impact businesses.

Key changes for businesses:

Here are some of these key items in the tax reform act that affect businesses:

- **Cuts the corporate tax rate:** Corporate tax gets cut and simplified to a flat 21 percent rate for C corporations filing Form 1120, changed from a multi-bracket structure with a 35 percent top rate.
- **Reduces pass-through taxes:** Most owners of businesses taxed as pass-through entities such as S corporations, partnerships and sole proprietorships will see their income tax lowered with a new 20 percent income reduction calculation, some limits apply such as 50% of W2 wages.
- **Repeals business entertainment deduction:** 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. The 50 percent deduction for business-related meals remains in place, however.
- **Domestic production activities credit:** The new law repealed the Domestic Production Activities Deduction for tax years beginning after 2017.
- **Net Operating Losses:** The two year net operating loss carryback is eliminated effective for 2018 tax years, creating an indefinite carryforward but allowing the NOL to be used only against 80% of subsequent year tentative taxable income.
- **Beefs up capital expensing:** Through 2022, short-lived capital investments in such items as machinery and equipment may be fully expensed as soon as they are placed in service, using bonus depreciation. This now also applies to used items instead of only new ones; they just need to be placed in service for the first time in your business. After 2022, allowable bonus depreciation is then lowered incrementally over the next four years.
- **Strengthens Section 179 deduction:** Section 179 deduction limits get raised to enable expensing of up to $1 million, and the phaseout threshold increases to $2.5 million. Section 179 may now also be used on expenses related to improvements to nonresidential real estate.

- **Depreciation of qualified improvement property:** The new law provides that qualified improvement property is depreciable using a 15-year recovery period and the straight-line method. Qualified improvement property is an improvement to an interior portion of a building that is nonresidential real property placed in service after the building was placed in service. It does not include expenses related to the enlargement of the building, any elevator or escalator, or the internal structural framework. There are no longer separate requirements for leasehold improvement property or restaurant property.
- **Nixes the corporate alternative minimum tax (AMT):** The 20 percent corporate AMT applied to businesses goes away entirely.
- **Expands use of cash-method accounting**: Businesses with less than $25 million in gross receipts over the last three years may adopt the cash method of accounting.
- **Boosts luxury automobile depreciation:** Luxury automobiles placed in service after 2017 will have allowable depreciation of $10,000 for the first year, $16,000 the second, $9,600 the third and $5,760 for subsequent years.

This brief summary of the tax reform act is provided for your information. Any major financial decisions or tax-planning activities in light of this new legislation should be considered with the advice of a tax professional. Call if you have questions regarding your situation. Feel free to share this memo with those you think may benefit from it.