Understanding Tax Reform:

Opportunities and Strategies

January 18, 2018

 Information in this presentation is subject to change based on further interpretation of the law and guidance issued by the Internal Revenue Service.

Corporations and Business Deductions

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Corporations – Basic Concepts

- General Rules
  - Double taxation
    - Corporate income tax on corporation's taxable income
    - Individual income tax on dividends distributed to shareholder
  - State and Local Income Taxation (SALT) deduction allowed
  - Tax-free mergers and acquisitions generally allowed
  - Corporation must pay tax on appreciated corporate <u>property</u> distributed (deemed sale of corporate property)
  - Liquidation of corporation generally treated as capital gain to shareholder based on FMV of corporate assets distributed (net of corporate tax on deemed sale of corporate property)
  - Step-up in basis of value of stock upon death but not assets inside of corporation

Corporations – New Law

- 21% flat tax for corporations
- Corporate AMT repealed
- Dividends received deductions
  - 65% for ≥ 20% owned subsidiary corporation
  - 50% for < 20% owned corporate investment
- Personal Service Company (similar to SSB) Income
- Personal Holding Companies

Corporations – New Law

- Net Operating Losses (NOLs)
  - Post-2017 NOLs can no longer be carried back
  - Post-2017 NOL deduction is limited to 80% of taxable income and carries forward indefinitely

All Businesses (Corporations & Pass-Thrus)

- Bonus Depreciation
  - 100% expensing of nearly all business property (other than real estate) acquired 09/28/2017-12/31/2022, with gradual phase-out starting 2023
    - Includes used property as long as it is taxpayer's initial use

Year	% Allowed as Expense
2023	80%
2024	60%
2025	40%
2026	20%
2027-	0%

  - Taxpayer can elect to not expense specific property acquisitions and instead depreciate them

All Businesses (Corporations & Pass-Thrus)

- Section 179 expensing
  - Now includes certain building improvements
  - Up to $1,000,000 can be expensed per year
  - Phase-out threshold increased to $2,500,000 of fixed asset acquisitions
- Listed property
  - Maximum allowable depreciation for luxury automobiles increased

All Businesses (Corporations & Pass-Thrus)

- Business interest deduction limitation
  - Interest expense limited to:
    - 30% of EBITDA for tax years 2018-2021
    - 30% of EBIT for tax years after 2021
  - Doesn’t apply to businesses with < $25 million average annual revenues (including revenues of most affiliates)
  - Disallowed interest expense carries forward to subsequent years, indefinitely, subject to above limitation
  - Real estate businesses can elect out (will be discussed later)
  - Applies to all interest expense, including interest on related party debt
  - Debt to equity restrictions (a/k/a earnings stripping rules) no longer apply

All Businesses (Corporations & Pass-Thrus)

- Accounting method changes for businesses with < $25 million of average annual revenues (including revenues of most affiliates)*
  - Cash vs. accrual
  - Accounting for inventories
  - UNICAP
  - Completed contract method allowed for long-term contracts less than two (2) years

*certain partnerships with losses considered to be tax shelters not eligible for favorable tax accounting methods

All Businesses (Corporations & Pass-Thrus)

- Accounting method changes for businesses
  - Taxable year of inclusion - revenue cannot be recognized any later than the year recognized in audited financial statements
- Other provisions
  - Domestic production activity deduction (DPAD) repealed
  - Meals and entertainment
    - Entertainment expenses – no longer deductible
    - All meals (including onsite employee and travel meals) – 50% deductible

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