Understanding Tax Reform:
Opportunities and Strategies

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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 property 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- Corporate AMT repealed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

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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

<table>
<thead>
<tr>
<th>Year</th>
<th>% Allowed as Expense</th>
</tr>
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<tbody>
<tr>
<td>2023</td>
<td>80%</td>
</tr>
<tr>
<td>2024</td>
<td>60%</td>
</tr>
<tr>
<td>2025</td>
<td>40%</td>
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<tr>
<td>2026</td>
<td>20%</td>
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<tr>
<td>2027-</td>
<td>0%</td>
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</tbody>
</table>

- 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

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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

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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-Throughs)

- 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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