
Business Tax Changes Under the Tax Cuts and Jobs Act

FICPA Gulf Coast – May 1, 2018

WILLIAMS PARKER

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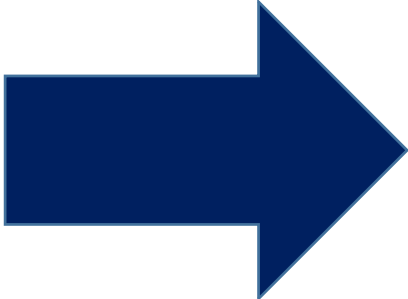
Welcome

Passage of the Tax Cuts and Jobs Acts



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Corporate Tax Rate

35%  21%



Section 179 Deduction

- Section 179 deduction limit has been increased from \$500,000 to \$1,000,000
- The Section 179 phase out threshold amount has been raised from \$2,000,000 to \$2,500,000
- Section 179 property now includes
 - Tangible personal property used to predominantly furnish lodgings (i.e. furniture, appliances, home equipment, etc.)
 - Improvements to non-residential real property



Bonus Depreciation

- Old Law
 - Qualified property was allowed a 50% “bonus depreciation” expense for the year such property was placed into service
 - Only applied to new property
- New Law
 - 50% bonus depreciation has been increased to a full 100% bonus depreciation deduction
 - Definition of Qualified Property has been expanded to include used property



Revocation of S Corp Status

- If
 - An entity was an S corporation on the day before the enactment of the Tax Cuts and Jobs Act,
 - During the two year period following the enactment of the Tax Cuts and Jobs Act, such entity revokes its S corporation status, and
 - Such revocation causes necessary adjustments under IRC 481 to account for a change from accrual to cash method
- Then
 - Adjustments shall be taken into account ratably for the next 6 years

*As written, only applies to revocations but not terminations



Elimination of Technical Termination

- Old Law: 2 ways to terminate a partnership
 - Partners no longer carry on any business, financial operation, or venture of the partnership
 - Sale or exchange of 50% or more of the total interest in partnership capital and profits = a termination of the partnership
- New Law:
 - Technical termination has been eliminated



Net Operating Losses – 80% Limit

- Old Law
 - NOL Deduction = NOL Carryback + NOL Carryforward

- New Law
 - NOL Deduction limited to 80% of taxable income

*Does not apply to NOLs generated prior to December 31, 2017.

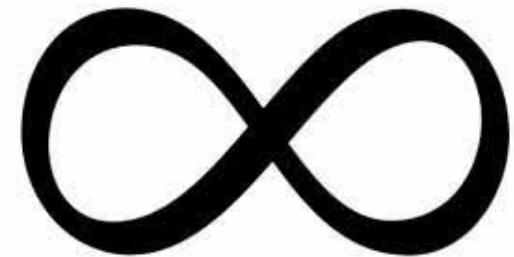


Net Operating Losses – Carryback Eliminated

- NOL Carryback disallowed
 - 2 year carryback of net operating losses has been removed
 - Certain farm losses may still use the 2 year carryback



- NOL Carryforward never expires
 - 20 year carryforward of net operating losses has been extended indefinitely



Business Interest Deduction

- Repeals “Earnings Stripping” rules
- Replaced with a business interest deduction limitation
- Deduction for business interest can’t exceed the sum of:
 - The taxpayer’s business interest income for the year, plus
 - 30% of the taxpayer’s adjustable taxable income for the year, plus
 - The taxpayer’s floor plan financing interest
- Indefinite carryforward of disallowed interest
- Does not apply to businesses whose average annual gross receipts do not exceed \$25 million over the previous three tax years



Business Interest Deduction – Example 1

- Corporation X has the following:
 - \$1,000,000 adjustable taxable income
 - \$20,000 business interest income
 - \$120,000 business interest expense
 - \$0 floor plan financing
- 30% of \$1,000,000 = \$300,000
- Limitation = \$300,000 + \$20,000 = \$320,000
- Since business interest expense is only \$120,000, the full expense may be deducted.



Business Interest Deduction – Example 2

- Corporation X has the following:
 - \$100,000 adjustable taxable income
 - \$20,000 business interest income
 - \$120,000 business interest expense
 - \$0 floor plan financing
- 30% of \$100,000 = \$30,000
- Limitation = \$30,000 + \$20,000 = \$50,000
- Since business interest expense is \$120,000, only \$50,000 may be taken as a business interest deduction.
 - The remaining \$70,000 is carried forward indefinitely



Entertainment Expenses

- Old Law

- Entertainment expenses are deductible if directly related to the active conduct of a trade or business
- Nine specific exceptions were generally deductible, including
 - Food and beverage furnished for employees
 - Recreational, social, or other similar activities furnished for employees who are not highly compensated employees

- New Law

- No entertainment expense is deductible, even if directly related to the active conduct of a trade or business
- The nine exceptions remain deductible



Employer-Operated Eating Facilities

- Old Law

- Employer-provided eating facilities, with meals furnished by an employer, were excluded from employee income as a de minimus fringe benefit while also being deductible to the employer
- Excluded from the 50% limitation on food and beverage expenses

- New Law

- 50% limitation applies for employer-provided meals qualifying as de minimus fringe benefits
- Beginning after the year 2026, such meals will no longer be deductible



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Thank you