November 1, 2018

To: Business Clients
Re: 2018 Year-End Tax Planning

As many of you know, the Tax Cuts and Jobs Act was signed by President Trump late in December 2017. The Act makes sweeping changes to the U.S. tax code and impacts virtually every taxpayer. For businesses, tax benefits include a reduction in the corporate tax rate, increase in the bonus depreciation allowance, an enhancement to the Code Sec. 179 expense and repeal of the alternative minimum tax. Owners of partnerships, S corporations, and sole proprietorships are allowed a temporary deduction as a percentage of qualified income of pass-through entities, subject to a number of limitations and qualifications. On the other hand, numerous business tax preferences are eliminated.

Corporate Taxes
A reduced 21-percent corporate tax rate is permanent beginning in 2018. The Tax Cuts and Jobs Act also repeals the alternative minimum tax on corporations.

Bonus Depreciation
The Tax Cuts and Jobs Act temporarily increases the 50-percent "bonus depreciation" allowance to 100 percent. It also removes the requirement that the original use of qualified property must commence with the taxpayer, thus allowing bonus depreciation on the purchase of used property.

Section 179 Expensing
The Tax Cuts and Jobs Act sets the Code Sec. 179 dollar limitation at $1 million and the investment limitation at $2.5 million.

Deductions and Credits
Numerous business tax preferences are eliminated. These include the Code Sec. 199 domestic production activities deduction, non-real property like-kind exchanges, and more. Additionally, the rules for business meals are revised, as are the rules for the rehabilitation credit.

Interest Deductions
In an attempt to "level the playing field" between businesses that capitalize through equity and those that borrow, the Tax Cuts and Jobs Act generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income, among other criteria. Exceptions exist for small businesses, including an exemption for businesses with average gross receipts of $25 million or less.

Meals and Entertainment
The current 50% limit on deductibility of business meals is expanded to include expenses of the employer associated with providing food and beverages to employees as “de minimis” fringe benefits. Also included in the 50% limit is the cost of meals provided to employees on the business premises for the convenience of the employer.

For amounts incurred or paid after December 31, 2017, the Tax Cuts and Jobs Act disallows the 50% deduction for entertainment, amusement or recreation that are directly related to the business, except for the benefit of employees like office parties. This applies to the cost of tickets to sporting events, stadium license fees, private boxes at sporting events, theater tickets, golf club dues, etc. It’s wise to separate out these expenses on your profit and loss statements, so you can better analyze these categories going forward.

Net Operating Losses

The Tax Cuts and Jobs Act modifies current rules for net operating losses (NOLs). Generally, NOLs will be limited to 80 percent of taxable income for losses arising in tax years beginning after December 31, 2017. It also denies the carryback for NOLs in most cases while providing for an indefinite carryforward, subject to the percentage limitation.

Pass-Through Businesses

Through the end of 2017, owners of partnerships, S corporations, and sole proprietorships – as "pass-through" entities – pay tax at the individual rates, with the highest rate at 39.6 percent. The Tax Cuts and Jobs Act allows a temporary deduction in an amount equal to 20 percent of qualified income of pass-through entities, subject to a number of limitations and qualifications. The Tax Cuts and Jobs Act contains rules that will prevent pass-through owners—particularly service providers such as accountants, doctors, lawyers, etc.—from converting their compensation income taxed at higher rates into profits taxed at the lower rate.

These are just highlights of the changes and impact of the Tax Cuts and Jobs Act. There is much more to discuss than can be covered in this letter. We can help you with the immediate and long-term impact of the Tax Cuts and Jobs Act on your situation. **Please call our office to schedule a time to meet to project your 2018 tax liability and strategize year-end tax planning. I recommend we do this as soon as possible, to leave enough time to structure any beneficial transactions before year-end.** Please send your year-to-date balance sheet and income statement, most recent paystubs and details of any estimated tax payments made towards your 2018 liability. We recommend sending the information ahead of the meeting in order to give us sufficient time to review, and make the most out of our meeting.

Feel free to visit our website for additional current tax articles www.robertalario.com.

As always, contact our office with any questions.

Sincerely,

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