HERSHEY ADVISORS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Summary of Tax Cuts and Jobs Act
Important Provisions Affecting Businesses

The Tax Cuts and Jobs Act has a number of significant changes that impact business and rental activities. In addition to the changes listed below, there are a variety of provisions that carry less impact to our business clients. Please contact us with any questions on the following items.

Important – The information below will impact your **2018** business tax returns. There are several small provisions that apply to 2017.

1. **Section 179 Depreciation**: The Section 179 expensing limitations have been increased from $500,000 to $1 million (with a phase-out threshold of $2.5 million). There are two important changes to items that NOW QUALIFY for S179 depreciation:

    - Major repairs or betterments to nonresidential real property after the date the property was first placed in service NOW INCLUDE roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems
    - Certain property used predominantly to furnish lodging or in connection with furnishing lodging

2. **100% First-Year Bonus Depreciation**: A 100% first-year deduction is allowed for new and used qualified property acquired and placed in service after September 27, 2017.

    Bonus depreciation has been around for many years. However, you can now purchase used property and have it qualify for the accelerated depreciation.

3. **Passenger Vehicle Depreciation**: The maximum amount of allowable depreciation for passenger vehicles has increased substantially.

 Passenger Auto Depreciation	Old Law	New Law
First Year Bonus Depreciation	$6,400	$8,000
Year 1	$3,160	$10,000
Year 2	5,100	16,000
Year 3	3,050	9,600
Year 4 and future	1,875	5,760

4. **Like Kind Exchanges**: Like kind exchanges will only be allowed for real property not primarily held for sale. You can no longer avoid a taxable transaction by trading in a vehicle or a piece of equipment. (However, with bonus depreciation and increased S179 depreciation, this taxable transaction can be mitigated).

5. **<u>Recovery Terms for Real Property</u>**: In the past, significant interior renovations to non-residential properties have been depreciated over 39 years with limited exceptions for qualified leasehold improvement, qualified restaurant improvements, and qualified retail improvements. Under the new law, all interior renovations and buildouts will be depreciated using a 15-year recovery period and using straight-line depreciation.

   The property no longer needs to be subject to a lease, placed in service more than three years after the date the building was first placed in service, or be made to a restaurant building.

6. **<u>Excess Business Losses</u>:** Historically, losses generated from a business could be subtracted against other sources of income on your personal return (wages, interest, social security, etc.). Under the new law, business losses will now be subject to a limit of approximately $500,000 (joint) or $250,000 (single). Unused business losses will carryforward to future tax years as a net operating loss.

   In the past, you could essentially reduce your taxable income to zero if a business loss occurred. It appears that this offset may be limited to $500,000 per year.

7. **<u>Net Operating Losses</u>:** Under old law, net operating losses could be carried back two years and forward for 15 years. Under the new law, you will not be able to carry a loss back to a prior tax year. However, the losses can be carried forward indefinitely.

   In addition, the usage of net operating losses will be limited to 80% of your taxable income.

8. **<u>Employee Achievement Awards</u>:** The IRS clarified that cash, gift cards, gift coupons, gift certificates, vacations, free meals, lodging, theater tickets, sporting event tickets, and similar items are 100% taxable to an employee regardless of their achievement (safety, years of experience, etc.).

9. **<u>Fringe Benefits</u>**: Entertainment expenses (movies, theater tickets, sporting events, etc.) are no longer deductible regardless of whether or not they are business related. Meals provided through an in-house cafeteria or on the premises of the employer are now subject to the 50% deductibility limit.

   Planning Point – Cash-basis taxpayers may want to consider paying for these items in 2017 instead of 2018 if the activity has already occurred.

10. **<u>Business Interest Expense Limitation</u>**: Businesses that have significant debt will now be limited in their deductible interest. Deductible interest will be limited to 30% of eligible income after adjustments for depreciation and other items.

    However, businesses with average annual gross receipts of less than $25 million for the three-tax year period ending with the prior taxable year are exempt from this limitation

11. **<u>Accounting Method Changes</u>**: The IRS requires you to use certain accounting methods based upon your revenue volume. Historically, these items were based on a $1 million or $5 million threshold. The Act raises the threshold to $25 million for the following:

    - Cash Method of Accounting
    - Requirement to Maintain Inventory
    - Capitalization of Carrying Costs (Section 263(a)) related to production inventory
    - Use of the Percentage of Completion method of accounting for construction contracts

Other Provisions Affecting Businesses:

1. **<u>Domestic Producers Deduction</u>**: Taxpayers will no longer be able to take the domestic production deduction.

2. **<u>Tax Rates</u>**: The corporate (C corporations) tax rate has been modified to a flat 21% rate in 2018. This will be an INCREASE in the corporate tax rates on the first $50,000 of income from 15% to 21%. However, it is a dramatic decrease in the other brackets.

Corporate Tax Rates	**Old Law**	**New Law**
Under $50,000	15%	21%
50,000 – 75,000	25%	21%
75,000 – 100,000	34%	21%
100,000 – 335,000	39%	21%
335,000 – 10,000,000	34%	21%

3. **<u>Corporate Alternative Minimum Tax (AMT)</u>:** The corporate AMT has been eliminated.

4. **<u>Family and Medical Leave</u>**: A new general business credit is available for certain employers who pay employees at least 50% of their normal wages during a family and medical leave of absence. This credit begins at 12.5% and extends to 25%, subject to specific rules and regulations.