YEAR-END TAX PLANNING FOR BUSINESSES

& The Impact of
House And Senate Tax Reform Proposals

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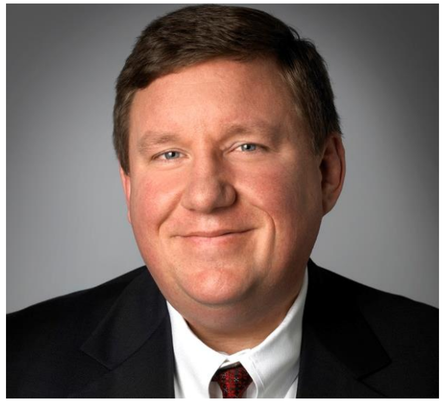
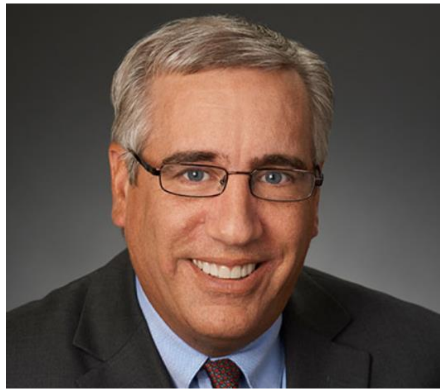
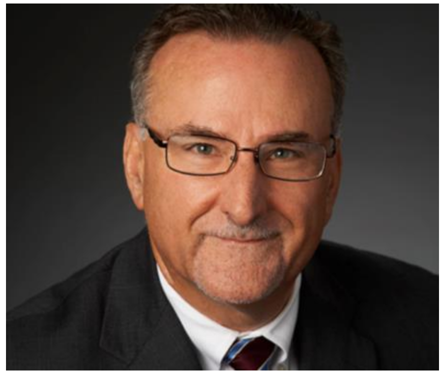
CPAs & ADVISORS



Dan Fales assists clients with federal, state, local and international tax issues including complex transactional tax matters. Dan also serves as the primary advisor to the shareholders and owners of various closely-held and family-owned businesses, providing counsel on income and estate taxes as well as succession planning.



Tony Schweier specializes in corporate and individual taxation and has been designated by the firm as the primary S Corporation tax resource. Additional areas of expertise include projection and forecasting of financial statements, business mergers and acquisitions as well as strategic planning.



The moderator for today’s event is **John Venturella**. John chairs the firm’s Tax Group and serves as a tax advisor to businesses from $100 million, multi-national corporations to closely held and family-owned companies. He assists clients with federal, state and local tax issues including mergers and acquisitions.

Today’s Goals:

- Assess the current proposals from House and Senate.
- Review impact of proposals and a look at specifics.
- Understand what you can do now, before year-end.

Tax Rate Structure For Small Businesses

The House bill limits the maximum tax rate applied to the business income of small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25%.

The Senate bill calls for a 17.4% deduction of domestic qualified business income.

Both versions limit the applicability to avoid abuses.

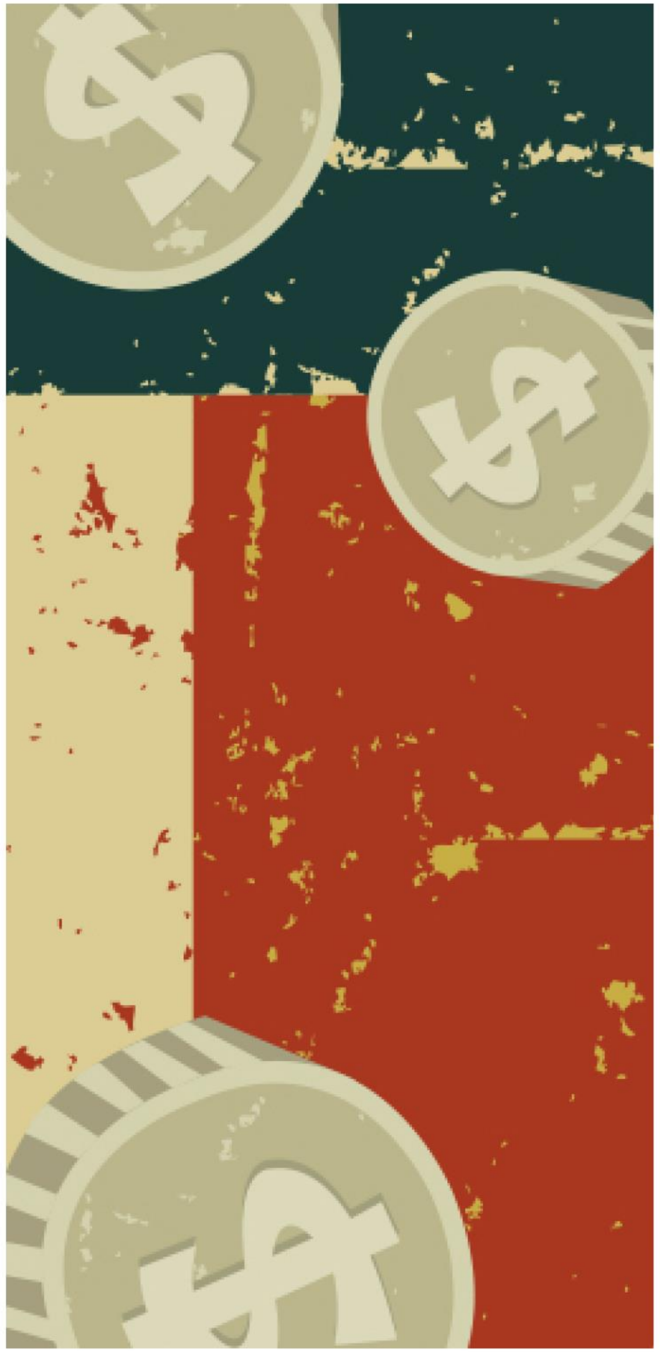
The lower pass through entity tax rate hyped in the media is a myth.

Owners of pass-throughs who are active in their business will only get the 25% on 30% of their income or a percentage equal to their specified rate of return divided by net business income.

Using the 30% rule the owners of pass-through entities have approximately a 35.5% tax rate (25% x 30%) plus (39.6% x 70%) which is hardly a break from the current 39.6% rate.

In addition, the proposed law subjects owners of pass-through entities to self employment tax on their business income – and the proposed law takes away the deduction for state and local income taxes.

Net result – look for ways to minimize your pass-through income.



Tax Rate Structure For “S” Corporations

The S Corporation Association says on its website that the plan “abandons any notion of equity for pass-through businesses. Under the plan, no successful pass-through business will receive the promised 25 percent rate or anything close to it.”

Tax Rate Structure For "C" Corporations

The House bill would reduce the corporate tax rate to 20% effective 2018. The Senate version would be effective 2019. In addition, both bills repeal the AMT and reduce the dividend received deduction (80% to 65% and 70% to 50%).

Both the House and Senate versions allow businesses to immediately write off (or "expense") the cost of new (House would include used under certain circumstances) investments in depreciable assets other than structures made after September 27, 2017, for at least five years. This policy represents an unprecedented level of expensing with respect to the duration and scope of eligible assets.

"Expensing" of Capital Investments

Interest Expense

Both the House and Senate will limit the deduction for net interest expense incurred by a business to 30% of its adjusted taxable income.

Other Business Deductions And Credits

Because of the substantial rate reduction for all businesses, the current-law domestic production (“section 199”) deduction will be repealed (House effective 2018 and Senate 2019). Domestic manufacturers who are C Corporations will see the lowest marginal rates in almost 80 years. In addition, numerous other special exclusions and deductions will be repealed or restricted.

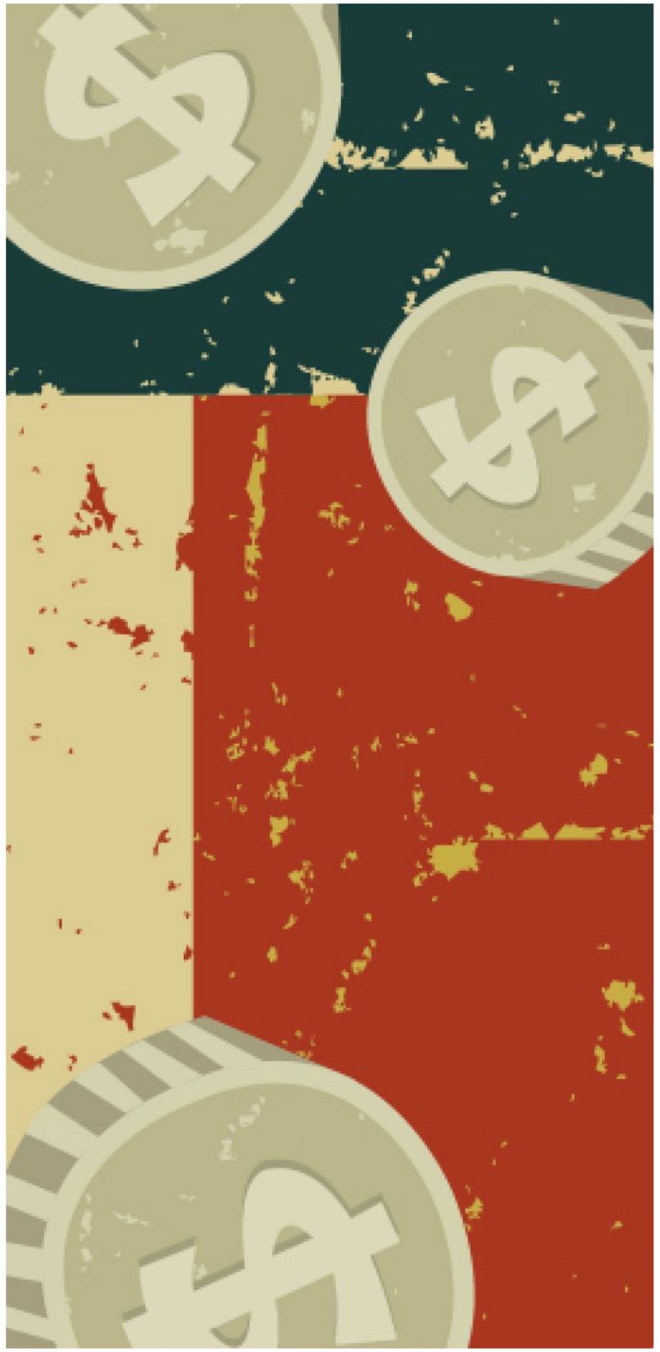
Business credits are preserved in two areas where tax incentives have proven to be effective in promoting policy goals important in the American economy: research and development (R&D) and low-income housing.

Tax Rules Affecting Specific Industries

Special tax regimes exist to govern the tax treatment of certain industries and sectors. The framework will modernize these rules to ensure that the tax code better reflects economic reality and that such rules provide little opportunity for tax avoidance.

International Tax Reform

Still Struggling For A Solution



Deemed Repatriation

$3.1 trillion held overseas by U.S. multinationals

Both the House bill and Senate measure impose a “deemed” repatriation

Split rates for liquid and non-liquid assets

100% Deduction For Foreign Source Dividends If The CFC Is 10% Or More Owned.

Repeal Of The Indirect Foreign Tax Credit

Base Erosion

Attacking Profit Shifting

The Senate bill would repeal the IC-DISC Structure.

Changes To Accounting Methods

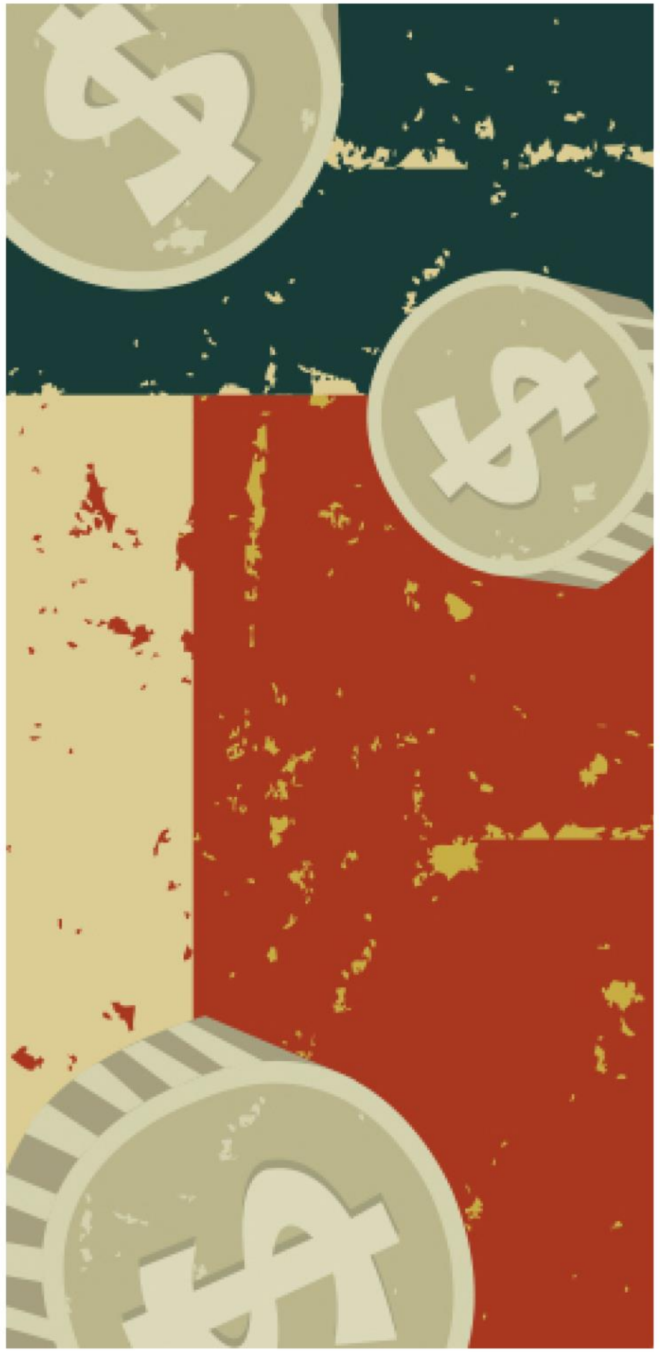
Cash method of accounting for corporations and partnerships with corporate partners currently limited to those with $5 million or less in average gross receipts. The House would increase threshold to $25 million. The Senate would increase it to $15 million.

Accounting for inventories would change. Currently taxpayers with average gross receipts less than $10 million ($1 million in some industries) are permitted to account for inventories as materials and supplies that are not incidental. The House would raise the threshold to $25 million and the Senate would raise it to $15 million.

The Unicap (Section 263A) compliance would also change. The House would raise the average gross receipts to $25 million (from $10 million currently) and the Senate would raise it to $15 million.

Contributions To Capital

Contributions to capital of a corporation would be included in a corporation's gross income unless exchanged for stock. Contributions in excess of fair market value of stock issued would be included in gross income. The House applies same rule to partnerships. The Senate does not address.



Depreciation Deductions For Non-Residential And Residential Rental Property

The Senate would shorten the recovery period to 25 years for both non-residential and residential property. The House does not address it.

Like-Kind Exchanges

The House would limit deferral of gain on Like-Kind Exchanges to real property. The Senate would limit it to real property that is not held primarily for sale.

The House bill would disallow deductions for entertainment, amusement or recreation activities under all circumstances. It would also disallow transportation fringe benefits, benefits in form of on-premises gym/athletic facilities or for any personal amenities not directly related to employer’s trade or business. Senate version is very similar to House.

Entertainment Expenses

Various Credits

The House would repeal credit for employer provided child care. The Senate does not address.

The House would eliminate the work opportunity tax credit (WOTC). The Senate does not address.

The House would eliminate the new markets tax credit. The Senate does not address.

Professional Sports Stadium Construction

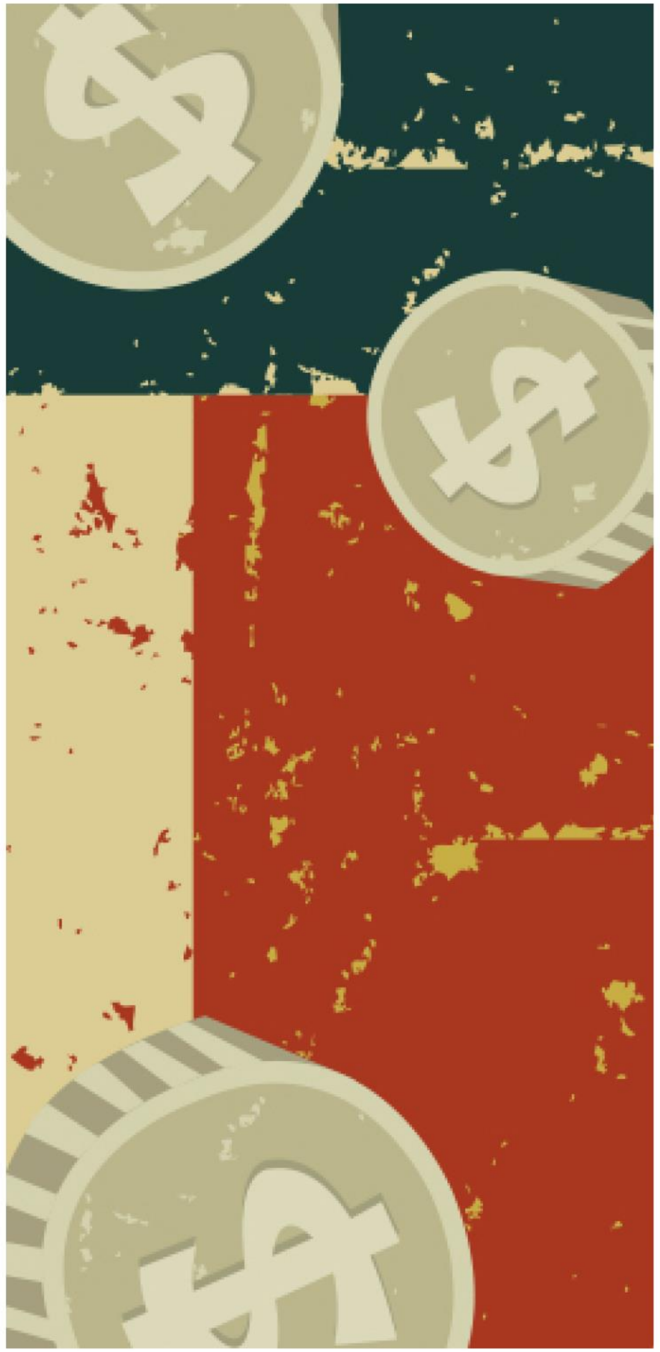
The House would disallow issuance of tax exempt bonds where their proceeds are used to build a professional sports facility. The Senate does not address.

S Corporation Conversion To A C Corporation

The House would impose certain requirements on distributions from and Section 481(a) adjustments for any S Corporation terminating its S Election within two years of the enactment date. The Senate does not address.

Qualified Equity Grants

There would be new rules for employees of nonpublic companies who are granted stock options or restricted stock units (RSUs).



Qualified Moving Expense Reimbursements

The reimbursement of qualified moving expenses would be taxable income to the recipient.

Recommendations

More than ever, decisions are unique to each entity's specific facts and circumstances. That said here are some general observations:

1. It will be more important than ever for owners of pass-through entities to carefully evaluate their status as either active or passive.
2. Pass-through entity owners who are active in their businesses will remain incented to lower pass-through entity income (such as via retirement plan funding for example).

Recommendations (continued)

3. A heavily leveraged business which is <u>paying down</u> its indebtedness will want to evaluate if it should be/remain a C Corporation so as to pay down debt with the cheapest after-tax dollars.
4. If you are a C Corporation on LIFO the low C Corporation tax rates require a re-evaluation of being on LIFO since LIFO reserve would be recaptured at 20% rate if the House bill becomes law.

House Bill	Senate Bill
25% Rate	17.4% Deduction

Passive Investor

House Bill	Senate Bill
30% at 25%	17.4% deduction limited to 50% of W-2 wages
70% at 39.6% + 2.9%	

Active Investor

Specified Return On Capital

Net business income

Gets 25% rate

Remainder at 39.6% + 2.9%

Temporary Provisions

It is important to note that both the House and Senate versions have sunset dates on many of the tax code provisions. For instance, the Senate version sunsets the pass-through and individual tax changes after 2025.

Death And Generation-Skipping Transfer Taxes

Both the House and Senate bills increase the federal estate, GST and gift tax unified credit basic exclusion amount to $10,000,000 effective in 2018. And both adjust the amount for inflation.

The House bill would repeal the estate tax and GST, effective for decedents dying after 2024 and lower the gift tax rate from 40% to 35% effective for gifts made after 2024.

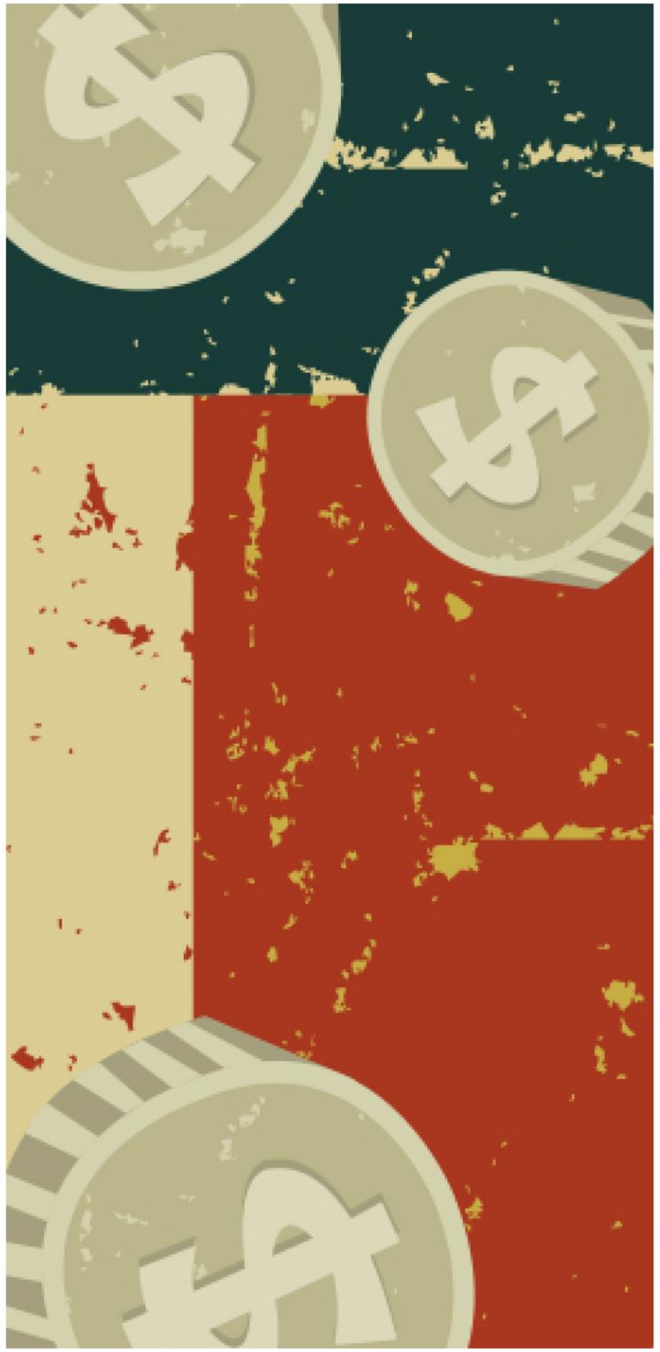
The Senate plan does not provide for repeal of the estate tax or GST at any point in the future.

Individual Tax Rate Structure

Under current law, taxable income is subject to seven tax brackets. The House bill consolidates the current seven tax brackets into four brackets of 12%, 25% 35% and 39.6%. Senate version has six brackets; 10%,12%, 22.5%, 25%, 32.5% and 38.6%.

Typical families in the existing 10% bracket are expected to be better off under the House bill due to the larger standard deduction, larger child tax credit and additional tax relief that will be included during the committee process.

Both the House and the Senate versions provide for the use of a more accurate measure of inflation for purposes of indexing the tax brackets and other tax parameters.



Alternative Minimum Tax (AMT)

The nonpartisan Joint Committee (JCT) and the Internal Revenue Service (IRS) Taxpayer Advocate have both recommended repealing the AMT because it no longer serves its intended purpose and creates significant complexity. Both the House and Senate substantially simplify the tax code by repealing the existing corporate and individual AMT, which requires taxpayers to do their taxes twice.

Itemized Deductions

In order to simplify the tax code, both the House and Senate eliminate most itemized deductions, but retain tax incentives for home mortgage interest and charitable contributions.

Standard Deduction: Under both proposals the deduction is increased; $24,400 (House) and $24,000(Senate) for married filing joint.

Personal Exemptions: Repealed under both proposals.

Home Mortgage Interest: Limited to interest on $500,000 of debt under the House and $1,000,000 under the Senate proposal.

Itemized Deductions (continued)

SALT: House version limits the deduction to property taxes with a cap of $10,000. The House completely eliminates this deduction.

Tax Planning Ideas If Tax Reform Becomes Law

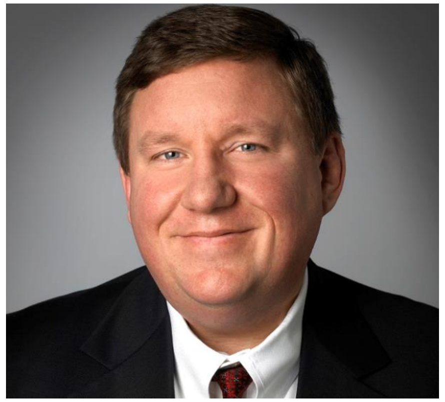
Recommendations for individuals:

1. Prepay as much state and local taxes as possible, so long as you are not in the AMT
2. Accelerate charitable contributions
3. Accelerate deductions into year before tax changes are effective, then once tax is effective accelerate income
4. Depending on rate changes consider conversion of retirement plans to Roths
5. Carryback NOLs – do not carry forward

What is next?

The Senate will likely pass its tax bill this week. Given the differences that exist between the House and Senate versions there will be a joint reconciliation committee. This committee will reconcile the two versions and send the reconciled version back to each house for approval. After both houses pass the reconciled bill it goes to President Trump for his signature and it becomes law.

There is a great deal of work yet to be done and the clock is ticking.



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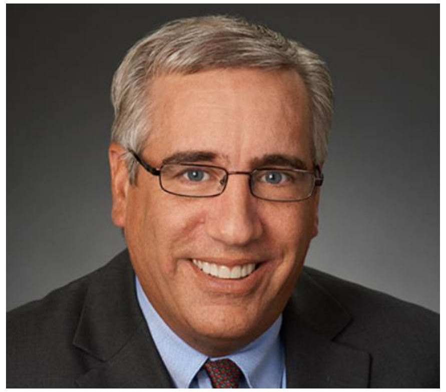

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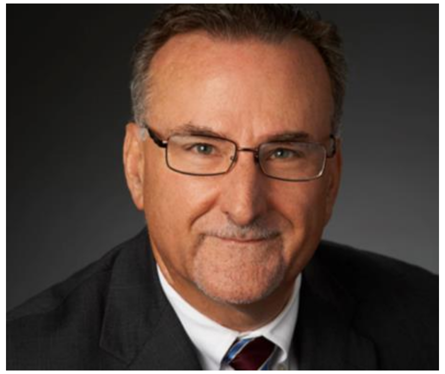

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Thank you!