Tax Presentation
January 10, 2018

The Impact of Tax Cuts and Job Act (TCJA)

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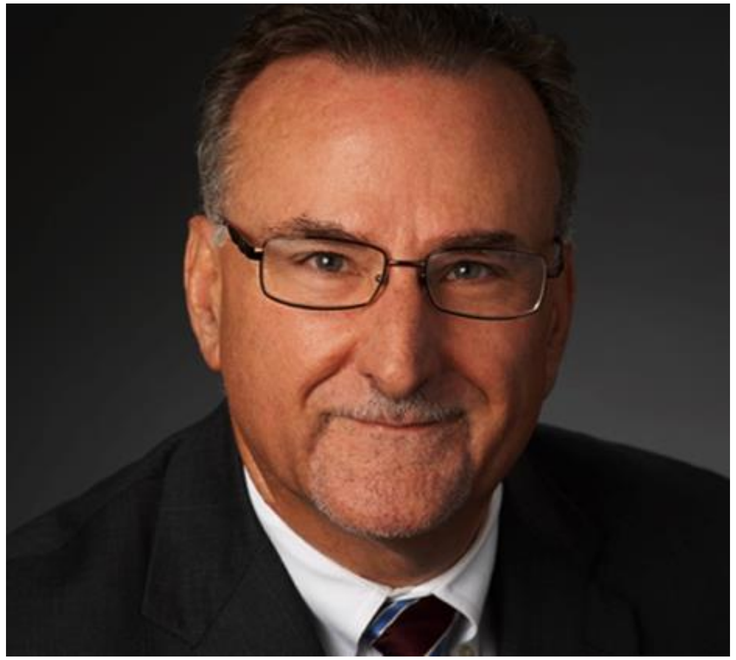
CPAs & ADVISORS



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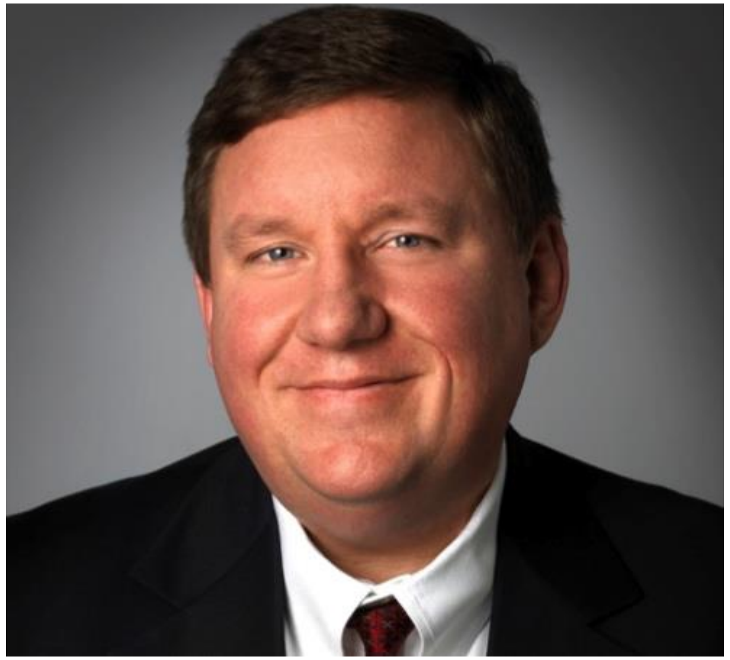
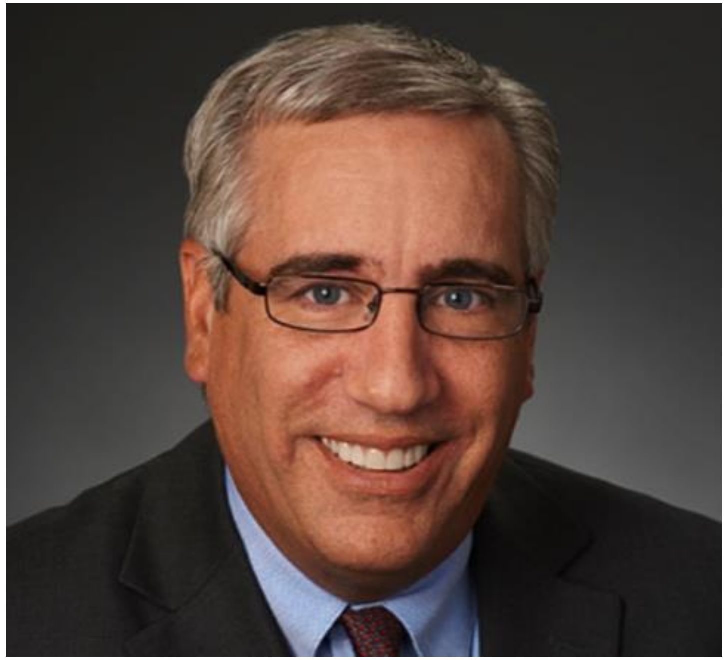


Dan Fales



Tony Schweier

Today’s Mission:

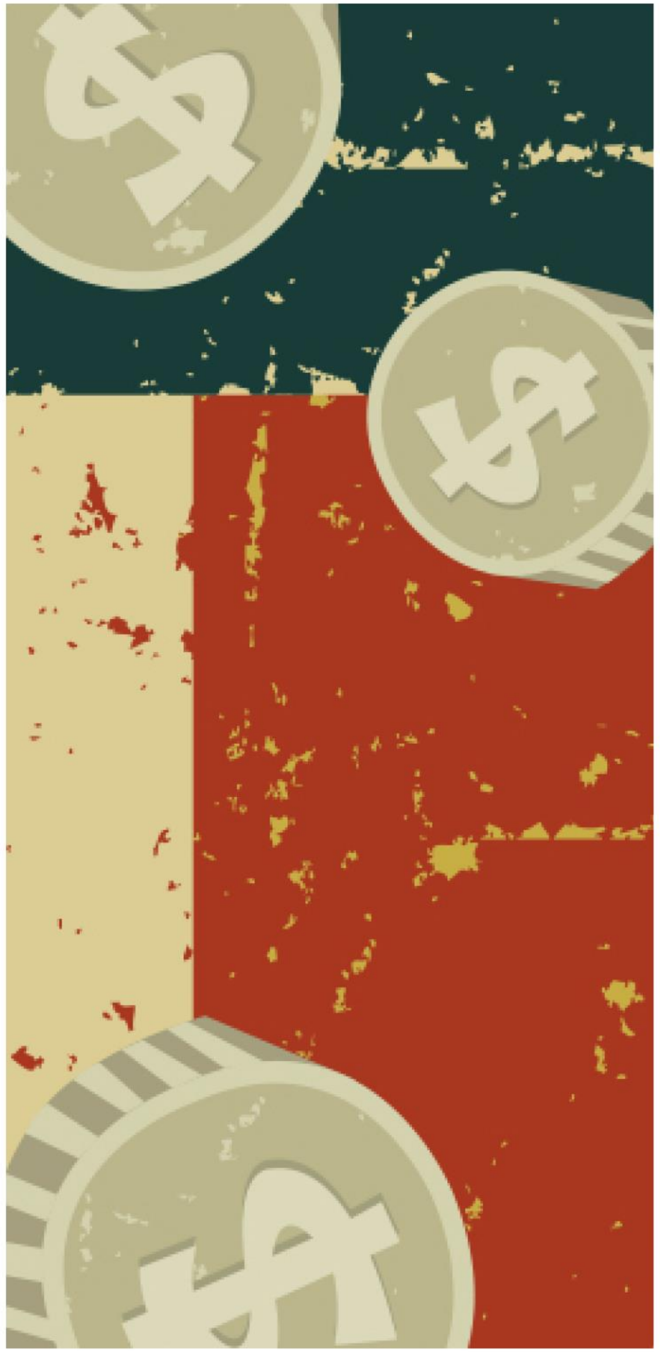
To discuss the TCJA
and it’s impact
on your business
now and in the future.

Temporary Provisions

It is important to note that the Tax Cuts and Jobs Act has sunset dates on many of its provisions. **Most sunset at the end of 2025**.

Tax Rate Structure for Small Businesses

The law provides a 20% deduction for the qualified business income of pass-through entities. The deduction is limited to the lesser of 20% of qualified business income or 1) 50% of W-2 wages paid or 2) 25% of W-2 wages paid plus 2.5%of unadjusted basis of all qualified property.



Operating Trade or Business

Impact of Tax Cuts and Jobs Act

	Current Law 2017	20% Rule Tax Law 2018 2018
S Corporation Income (using projected taxable income from year end planning)	$4,000,000	$4,000,000
Pass Through Deduction	0	$(800,000)
Taxable Income	$4,000,000	$3,200,000
Income Tax (highest marginal rate 39.6% in 2017; 37% in 2018)	$1,584,000	$1,184,000
Net Investment Income Tax	$-	$-
Federal Tax Savings from State and local income tax deduction	$(71,280)	$-
State Tax on income (assumed 4.5% rate for all states combined)	$180,000	$180,000
Total Tax under 2018 Tax Law		**$1,364,000**
Total Tax under 2017 Tax Law	**$1,692,720**	
Savings under new tax law		$328,720

Real Estate Business With Income

Impact of Tax Cuts and Jobs Act

	Current Law 2017	20% Rule Tax Law 2018 2018
Partnership Income (using projected taxable income from year end planning)	$750,000	$750,000
Pass Through Deduction	0	$(150,000)
Taxable Income	$750,000	$600,000
Income Tax (highest marginal rate 39.6% in 2017; 37% in 2018)	$297,000	$222,000
Net Investment Income Tax	$-	$-
Federal Tax Savings from State and local income tax deduction	$(13,365)	$-
State Tax on income (assumed 4.5% rate for all states combined)	$33,750	$33,750
Total Tax under 2018 Tax Law		**$255,750**
Total Tax under 2017 Tax Law	**$317,385**	
Savings under new tax law		$61,635

Real Estate Business With Loss

Impact of Tax Cuts and Jobs Act

	Current Law 2017	20% Rule Tax Law 2018 2018
Partnership Income (using projected taxable income from year end planning)	$(500,000)	$(500,000)
Pass Through Deduction	0	$-
Taxable Income	$(500,000)	$(500,000)
Income Tax (highest marginal rate 39.6% in 2017; 37% in 2018)	$(198,000)	$(185,000)
Net Investment Income Tax	$-	$-
Federal Tax Savings from State and local income tax deduction	$8,910	$-
State Tax on income (assumed 4.5% rate for all states combined)	$(22,500)	$(22,500)
Total Tax under 2018 Tax Law		**$(207,500)**
Total Tax under 2017 Tax Law	**$(211,590)**	
Savings (cost) under new tax law		$(4,090)

“Expensing” of Capital Investments

The Tax Cuts and Jobs Act allows business to immediately write off (or “expense”) the cost of new investments in depreciable assets other than structures made after September 27, 2017, for the next five years. This policy represents an unprecedented level of expensing with respect to the duration and scope of eligible assets.

Limitations on Immediate Expensing

The law on immediate expensing has an interplay with the new interest expense limitation rules. If a real estate business wants to avoid being subject to the interest expense limitation rules then it makes an election to do so and in making such an election the business gives up the ability to immediately expense assets.

Interest Expense

The TCJA will limit the deduction for net interest expense incurred by a business to 30% of its adjusted taxable income. (This provision excludes dealerships or companies with less than $25 million in annual revenue or electing real estate business.)

For the next four years adjusted taxable income means EBITDA calculated on an income tax basis and in year five and after that EBIT calculated on an income tax basis.

The TCJA provides that all disallowed interest will be carried forward indefinitely and treated as interest expense in succeeding taxable years.

Interest Expense

Electing Real Property Trade or Business

An electing real property trade or business is a business engaged in real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing or brokerage.

Why is this distinction important?

If a real property trade or business makes the election out of the interest expense limitation rule then it cannot use the immediate expensing rules and in fact has to depreciate its assets over longer ADS depreciable lines.

New Loss Limitation Rule

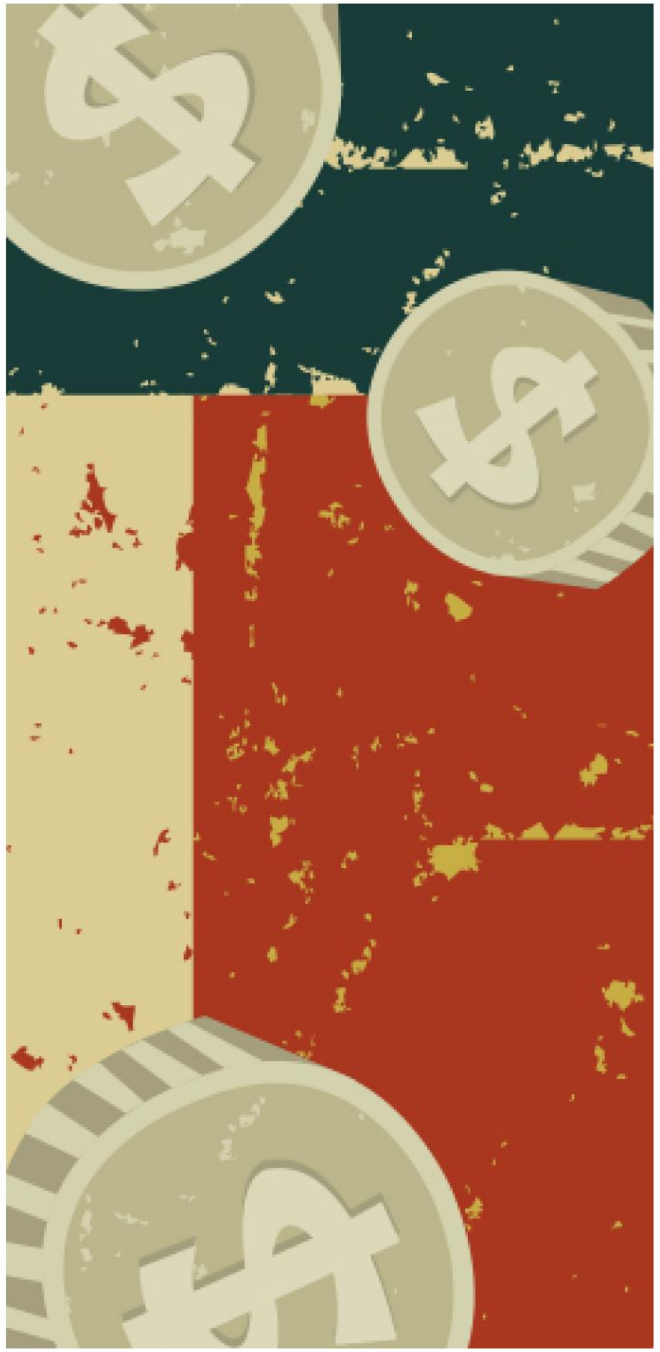
Under New Section 461(l) the "excess business loss" of any individual for any taxable year is disallowed and treated as a net operating loss carryover to the following taxable year.

Excess business loss is $250,000 (single) or $500,000 (joint) applied at the individual level.

New Corporate Tax Rate

The TCJA changes the “C” corporate tax rate to a flat 21%.

Corporate AMT is repealed.



Change In Entity Structure?

A variety of factors affect the decision by an individual to hold a business as a corporation or a partnership (or other flow-through entity) including (i) the fact that the income of a corporation is taxed twice (once at the corporate level and then again upon a distribution by the corporation or a sale of the stock of the corporation), (ii) the relative tax rates imposed on various types of income received by corporations and individuals, (iii) the fact that it is generally not possible to remove appreciated assets from a corporation without triggering tax on those assets, (iv) the tax consequences resulting from a sale of the business, (v) the application of employment-related taxes and the so-called Medicare tax under Section 1411, and (vi) the possibility of future changes in law (including tax rates).

Our expectation is that these changes in rates will not fundamentally change an individual’s determination in deciding whether to hold a business as a corporation or a partnership (or other flow-through entity).

Entertainment Expenses

The TCJA disallows 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.

Meals & Entertainment Changes Under Tax Reform

	2017 Expenses (Old Rules)	2018 Expenses (New Rules)
Office Holiday Parties	100% Deductible	100% Deductible
Entertaining Clients	50% Deductible	Meals – 50% deductible
	Event tickets, 50% deductible for face value of ticket; anything above face value is non-deductible Tickets to qualified charitable events are 100% deductible	No deduction for entertainment expenses
Employee Travel Meals	50% Deductible	50% Deductible
Meals Provided for Convenience of Employer	100% deductible provided they are excludible from employees' gross income as de minimis fringe beneftis; otherwise, 50% deductible	50% Deductible (nondeductible after 2025)

Various Credits

The TCJA retains the Work Opportunity Tax Credit (WOTC).

The TCJA retains the R & D tax credit.

The TCJA retains the low income housing tax credit.

Partnership Technical Termination Repeal

The TCJA repeals IRC § 708(b)(7)(B) “Technical Termination“ rule.

Now if there is a more than 50% change of ownership the partnership is deemed to continue.

The TCJA increases the federal estate, GST and gift tax unified credit basic exclusion amount to $10,000,000 effective in 2018 and adjusts the amount for inflation.

The TCJA does not repeal the estate tax or the GST.

The exclusion amounts revert to 2017 amounts after December 31, 2025.

Estate & Generation-Skipping Transfer Taxes

Individual Tax Rate Structure

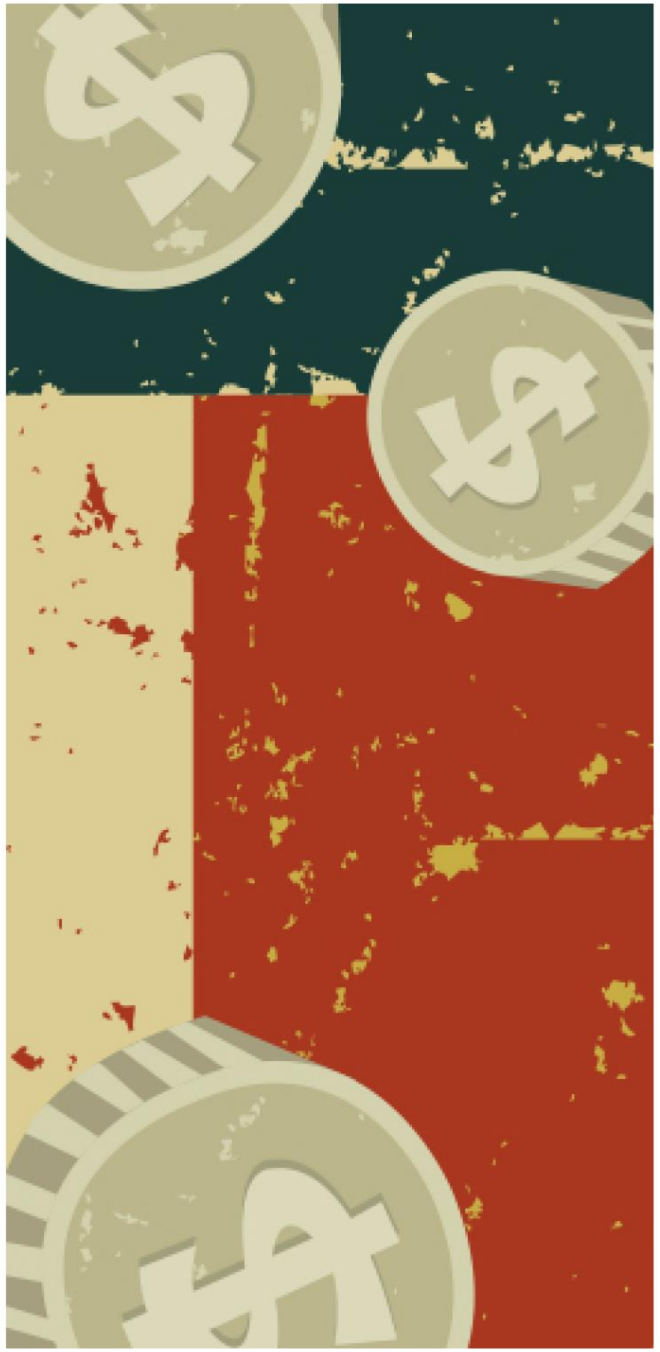
Under current law, taxable income is subject to seven tax brackets. The TCJA retains seven brackets but the top rate is now 37% not 39.6%.

Like-Kind Exchanges

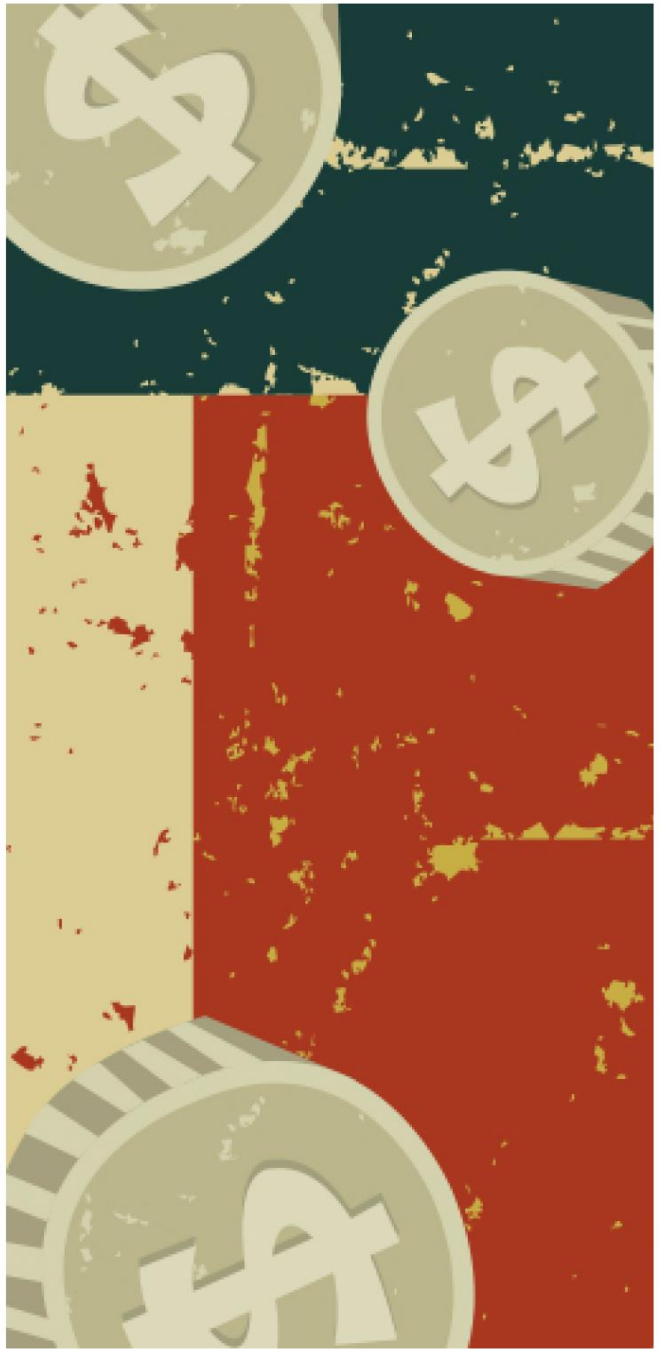
The TCJA limits deferral of gain on Like-Kind Exchanges to real property that is not held primarily for sale.

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 Aspects of TCJA



Deemed Repatriation for 10% Owners of Foreign Subsidiaries

Must include in income before the 2018 tax year the 10% shareholders pro-rata share of E & P.

Liquid assets taxed at 15.5%, all other assets taxed at 8%.

Special role for S Corporations; can elect to maintain the deferral until certain events – including a sale of substantially all the S Corporation assets.

Deduction for Foreign-Source Portion of Dividends

For tax years after 12/31/17, there will be an exemption for certain foreign income. The exemption is a 100% dividend received deduction from specified 10% foreign owned corporations.

No FTCs allowed for these exempt dividends.

Only applies to C Corporations.

For the 2018 tax year and after, U.S. shareholders of a CFC must include in gross income its proportionate share of GILTI. Similar to a subpart F inclusion.

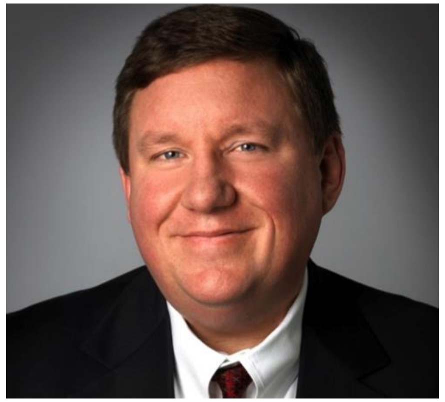
GILTI - The excess (if any) of the shareholders net CFC tested income over the shareholder’s net deemed tangible income.

(Any income currently subject to U.S. tax is not GILTI).

Global Intangible Low-Taxed Income (GILTI)

Base Erosion Anti-Abuse (BEAT)

Applies to companies with at least $500 million in revenue.



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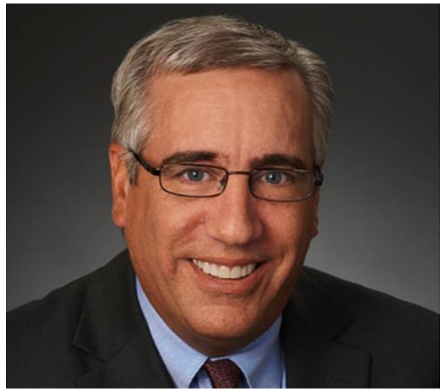

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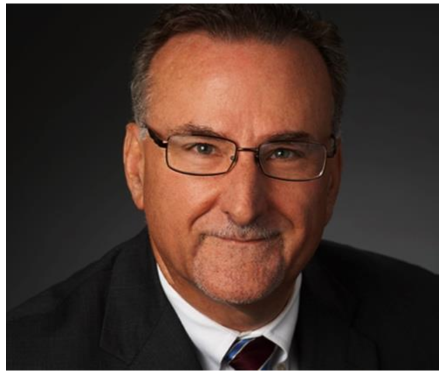

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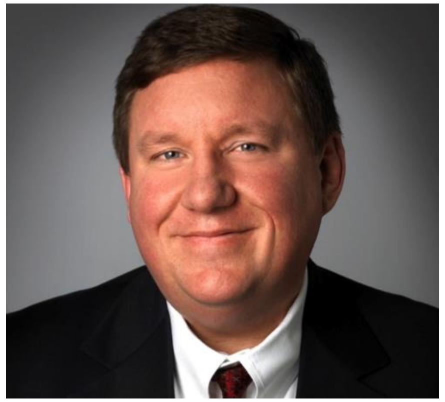
Questions?



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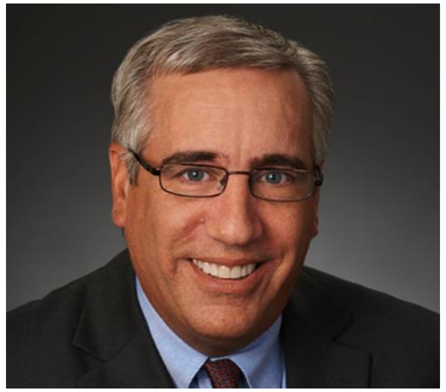

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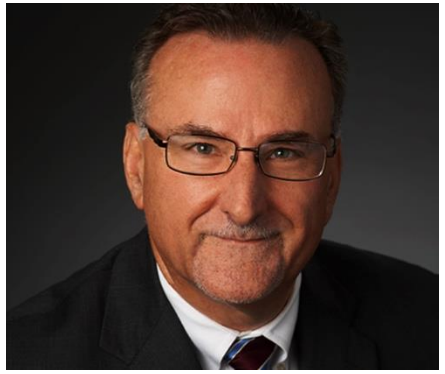

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Thank you!