

CONSIDER CURRENT BUSINESS TAX REFORM PROPOSALS

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December 15, 2017

Tax reform is one topic you can't escape these days. With proposals in both the House and the Senate, we thought it would help to review some changes that could affect your business in 2018. Alas, this time around, year-end tax planning for our business clients is complicated by the possibility of major tax reform that could take effect next year. The tax reform proposals are ambitious in scope and would generally be good news for many businesses and owners we advise (for which we thank you). However, tax rate cuts and other probusiness changes could be balanced by eliminating some longstanding tax breaks. There is no guarantee that any bill will actually get through Congress and become law. Stay tuned for developments, and be ready to move fast near year-end once the future becomes known.

Anyway, considering the proposals in both the House and the Senate, we thought it would be helpful to at least review some changes we at Abo and Company think may affect your business in 2018. Not a business or self-employed, pass this email along.

- ▶ **Section 179 Deduction.** For tax years beginning in 2018 through 2022, the House tax reform bill would increase the maximum Section 179 deduction to a whopping \$5 million per year, adjusted for inflation. The maximum deduction would phase out at \$20 million (adjusted for inflation). The Senate would increase the maximum annual Section 179 deduction to \$1 million and increase the deduction phase-out threshold to \$2.5 million (both numbers would be adjusted annually for inflation).
- ▶ **Bonus Depreciation.** Both the House and Senate tax reform bills would allow unlimited 100% first-year depreciation for qualified assets acquired and placed in service after 9/27/17 and before 1/1/23.
- ▶ **Tax Rate on Pass-through Income.** The House bill would install a maximum 25% federal income tax rate for income from a pass-through entity, subject to certain restrictions. The Senate bill would generally allow an individual taxpayer to deduct 17.4% of business income from a pass-through entity.
- ▶ **Corporate Tax Rate.** The House bill would tax C corporation income at a flat 20% rate for tax years beginning in 2018 and beyond. The rate for personal service corporations would be a flat 25%. The Senate bill would also install a flat 20% corporate rate, but it wouldn't take effect until tax years beginning in 2019.
- ▶ **Net Operating Losses (NOLs).** Under both the House and Senate tax reform bills, taxpayers could generally use an NOL carryover to offset only 90% of taxable income (versus 100% under current law). Under both bills, NOLs couldn't be carried back to earlier tax years but could be carried forward indefinitely.

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- ▶ More Businesses Could Use Cash-method Accounting. The House tax reform bill would allow a C corporation or partnership with a C corporation partner to use the cash method of accounting if its annual gross receipts for the prior three years don't exceed \$25 million. The Senate bill would set the threshold at \$15 million.
- ▶ Limits on Deducting Interest Expense. Under the House tax reform bill, deductions for business interest expense in tax years beginning in 2018 and beyond generally couldn't exceed 30% of the business's adjusted taxable income (subject to exceptions). Under the Senate tax reform bill, business interest expense for tax years beginning in 2018 and beyond would be limited to the business interest income plus 30% of adjusted taxable income.
- ▶ Deductions and Credits. Both the House and Senate bills would eliminate the domestic production activities deduction and certain tax credits.

Other important changes have been proposed. Stay tuned....

FOR MORE INFORMATION:

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