STOCKMAN KAST RYAN + COMPANY

Business Changes in the Tax Cuts and Jobs Act

The below is a synopsis of key tax law changes that impact businesses for tax years beginning 2018 through 2025, unless specific effective dates are noted. More details of these key tax changes are available on our website, www.skrco.com. To learn how tax reform impacts your tax situation, please contact your tax advisor.

Income		
Reduced	**Corporate income tax rate**	For tax years that begin after Dec. 31, 2017, the corporate tax rate is reduced to a flat 21% rate.
Limit change	**Like-kind exchanges**	Generally effective for transfers after Dec. 31, 2017, Code Sec. 1031 like-kind exchanges are limited to transfers of real property not held primarily for sale
Expanded *Construction Industry Specific*	**Long-term contract rules**	Under current law, **construction companies** with average annual gross receipts $10 million or less, that meet certain other requirements, may use the more favorable completed contract method for recognizing income, rather than the less favorable percentage-of-completion method. For contracts entered into after Dec. 31, 2017, that $10 million figure is increased to $25 million.
Exemptions		
Repealed	**Corporate Alternative Minimum Tax exemption**	For tax years that begin after Dec. 31, 2017, the corporate alternative minimum tax (AMT) is repealed.
Deductions		
Added	**20% on Pass-through income**	For tax years that begin after Dec. 31, 2017, pass-through businesses, e.g., sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income. But this new provision is complicated. For example, "specified service trades or businesses," e.g., businesses that involve performance of services in the fields of health, law, consulting, athletics, financial services and brokerage services, don't fully qualify unless the taxpayer's taxable income is equal to or below $157,500 ($315,000 for married individuals filing jointly) and don't qualify at all if the taxpayer's taxable income is above $207,500 ($415,000 for married individuals filing jointly). Taxpayers in specified service businesses whose taxable income is too high to qualify for the new deduction should consider incorporating and/or changing/expanding their business model so that they are not specified service trades or businesses. There is existing guidance on what is and what isn't a specified service trade or business.
Disallowed	**Entertainment expenses deductions**	Amounts incurred or paid after Dec. 31, 2017 for entertainment will not be deductible, except for certain meals which may be 50% deductible.

Disallowed	**Employer deduction for employee transportation fringe benefits**	Amounts incurred or paid after Dec. 31, 2017 for employee transportation fringe benefits, e.g., parking and mass transit, will not be deductible.
Limit change	**Excessive employee compensation**	A deduction for compensation paid or accrued with respect to a covered employee of a publicly traded corporation is limited to no more than $1 million per year. However, under pre-Act law, exceptions applied for: (1) commissions; (2) performance-based remuneration, including stock options; (3) payments to a tax-qualified retirement plan; and (4) amounts that are excludable from the executive's gross income. For tax years beginning after Dec. 31, 2017, the exceptions to the $1 million deduction limitation for commissions and performance-based compensation are repealed.
Modified	**Net Operating Loss deductions**	For net operating losses (NOLs) arising in tax years ending after Dec. 31, 2017, the current-law two-year carryback is, in almost all cases, repealed. For losses arising in tax years that begin after Dec. 31, 2017, the NOL deduction is limited to 80% of taxable income.
Repealed	**Domestic Production Activities Deduction (DPAD)**	For tax years that begin after Dec. 31, 2017, the domestic production activities deduction (DPAD) is repealed. DPAD is a deduction equal to 9% (6% in the case of certain oil and gas activities) of the lesser of the taxpayer's qualified production activities income or the taxpayer's taxable income for the tax year.
Limit Change	**Business Interest deduction**	For tax years that begin after Dec. 31, 2017, every business, regardless of its form, is generally subject to a disallowance of a deduction for net interest expense in excess of 30% of the business's adjusted taxable income. The amount of any business interest not allowed as a deduction for any taxable year is treated as business interest paid or recruited in the succeeding tax year. This new rule does not apply to businesses with average annual gross receipts that do not exceed $25 million. Other exceptions may also apply.
Depreciation		
Expanded *Specific effective dates apply.*	**Expensing and depreciation**	Taxpayers will be able to take advantage of the 100% bonus depreciation provision included in the Act for property placed in service after Sept. 27, 2017. Also note that, under the Act, used property qualifies for bonus depreciation. Additionally, limitations on automobile depreciation are greatly increased for automobiles placed in service after Dec. 31, 2017
Credits		
Added	**Credit for wages paid under FMLA**	An eligible employer is allowed a credit for wages paid to a qualifying employee while on leave under the Family Medical Leave Act.

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