

# **Tax Cuts and Jobs Act**

## **Business Overview**

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# Business Tax Reform

- 1. Corporate Tax Rates
- 2. Depreciation
- 3. Interest Expense
- 4. Net Operating Losses
- 5. Alternative Minimum Tax

# Business Tax Reform

- **6. Entertainment, etc. Expenses**
- **7. Accounting Methods**
- **8. Dividends Received Deduction**
- **9. Section 199 Deduction**

# Corporations

Inc. Over	Inc. Not Over	Amount	% on Excess	Amt. Over
0	50,000	0.00	15.0	0
50,000	75,000	7,500.00	25.0	50,000
75,000	10,000,000	13,750.00	34.0	75,000
10,000,000	---	3,388,250.00	35.0	10,000,000

# Corporations (New Law)

Inc. Over	Inc. Not Over	Amount	% on Excess	Amt. Over
0	N/A	0.00	21.0	0

Taxable years beginning after 12/31/17.

# Income Tax Expense

- 1. Tax Liability Reported on Income Tax Return
- 2. Temporary Differences-Adjustment
- 3. Permanent Differences-No Adjustment

# Example

- 1. Operating income (other than bad debts expense)-\$1,100,000.
- 2. Bad debts expense-\$100,000;
- 3. Net income-\$1,000,000;
- 4. No other temporary or permanent differences.

# Example

- 1. Net Income \$1,000,000
- 2. Add 100,000
- 3. Taxable Income \$1,100,000
  
- 4. Income Tax Expense-\$374,000 ( $\$1,100,000 \times 34\%$ )
- 5. Subtract (Deferred) 34,000 ( $\$100,000 \times 34\%$ )
- 6. Current Tax Expense 340,000



# Example

- 1. Income Tax Expense                    \$13,000
- Deferred Tax Asset                    13,000
  
- 2. Income Tax Expense                    \$13,000
- Deferred Tax Asset                    \$21,000

# Depreciation and Amortization

- **Life:** Time period over which the cost of the asset is expensed. Matching Principle.
- **Method:** 200% Declining Balance (or Double Declining Balance) Method.
- **Convention:** Half-Year Convention, Mid-Quarter Convention, or Mid-Month Convention.

# Section 179 Expense Election

- **Election:** Election made on Form 4562;
- **Personal Property:** Personal property placed in service;
- **Limitation:** \$500,000; excess amount carried over to next year.

# § 179 Expense

Current Law	New Law
\$500,000	\$1,000,000
\$2,000,000	\$2,500,000

**Placed in service in taxable years beginning after 12/31/17.**

# Bonus Depreciation

Placed in Service Date	Bonus Depreciation %
After 12/31/07 & before 1/1/18	50%
2018	40%
2019	30%
2020	0%

# Bonus Depreciation (New Law)

Placed in Service Date	Bonus Depreciation %
After 9/27/17 & before 1/1/23 (2022)	100%
2023	80%
2024	60%
2025	40%
2026	20%
2027	0%

Acquired and placed in service after 9/27/17.

# Earnings Stripping Rules

- **1. Disqualified Interest:** 1. Interest paid or accrued to related parties without any Guam income tax; 2. Interest paid or accrued to unrelated party with a related party guarantee (disqualified guarantee).
- **2. Debt To Equity:** Ratio exceeds 1.5 to 1.
- **3. Adjusted Taxable Income (“ATI”):** Deduction cannot exceed 50% of ATI.

# Earnings Stripping Rules (New)

- 1. **Business Interest:** any interest paid or accrued that is related to a trade or business.
- 2. **Adjusted Taxable Income (“ATI”):** Deduction cannot exceed 30% of ATI plus floor plan financing interest (debt used to finance acquisition of motor vehicles for sale to retail customers).
- 3. Taxable years beginning after 12/31/17.

# Net Operating Losses

Current Law	New Law
2 year carryback	No carryback
20 year carryover	Unlimited carryover
100% of Taxable Income	80% of Taxable Income
90% of AMT Income	N/A
	Taxable years beginning after 12/31/17

# Alternative Minimum Tax (AMT)

- 1. Parallel Tax (applies together with regular tax).
- 2. Tax Credit.
- 3. 20% of Alternative Minimum Taxable Income.
- 4. Repealed effective for taxable years beginning after December 31, 2017.

# Entertainment, etc. expenses

- 1. Entertainment, amusement, or recreation expenses directly related to (or associated with) the active conduct of the taxpayer's trade or business.
- 2. Qualified transportation fringes include qualified parking, transit passes, vanpool benefits, and qualified bicycle commuting reimbursements.
- 3. Value of meals furnished to employee, employee's spouse or dependents (by or on behalf of employer).

# Meals & Lodging Benefit

- Exclusion: Gross income does not include the value of meals or lodging provided by the employer to the employee (for the convenience of the employer);
- Business Premises: Meals provided on business premises;
- Condition of Employment: Lodging provided on business premises as a condition of employment.

# Entertainment, etc. expenses

- 1. Repealed effective for amounts paid or incurred after December 31, 2017.
- 2. Repealed effective for amounts paid or incurred after December 31, 2017.
- 3. Repealed effective for amounts paid or incurred after December 31, 2025 (50% after 12/31/17).

# No Cash Method of Accounting

- 1. C corporation;
- 2. Partnership (at least 1 C corporation partner);
- 3. Tax Shelter.

# Cash Method of Accounting

- 1. Farming Business;
- 2. Qualified Personal Service Corporation;
- 3. Entities (Not more than \$5,000,000 gross receipts).

# Cash Method of Accounting

Subject	Current Law	New Law
Cash Method	\$5,000,000	\$25,000,000
Inventory (I.R.C. § 471)	None	\$25,000,000
Completed Contract	\$10,000,000	\$25,000,000

**Taxable years beginning after 12/31/17.**

# Dividends Received Deduction

Ownership %	DRD %
80% to 100%	100%
20% to 79%	80%
1 to 19%	70%

# DRD (New Law)

Ownership %	DRD %
80% to 100%	100%
20% to 79%	65%
1 to 19%	50%

**Taxable years beginning after 12/31/17.**

# DPAD

- 1. **Domestic Production Activities Deduction (“DPAD”)**: 9% of taxable income or qualified production activities income (whichever is less);
- 2. Real Estate Construction Business in US or Architect/Engineering Services in US;
- 3. Repealed effective for taxable years beginning after December 31, 2017.



# END

- Thanks for your participation.