2017 TAX CUTS AND JOBS ACT: IMPACT ON BUSINESSES

The Tax Cuts and Jobs Act (TCJA) passed in 2017 made many changes to the Internal Revenue Code for both individuals and businesses. Highlighted below are some of the most significant changes affecting businesses. Most of these tax law changes became effective for taxable years beginning after December 31, 2017.

Most significant changes affecting businesses

To quickly view these changes, refer to the table on page 3.

- **The corporate tax rate is reduced to a flat 21% rate.**
  Previously, the corporate tax rate was applied at a graduated rate from 15% to 38%.

- **The corporate Alternative Minimum Tax (AMT) has been repealed.**
  In addition to the regular income tax calculation, a second tax system known as the Alternative Minimum Tax applied to both individuals and corporations under prior laws. "Small corporations" whose average annual gross receipts for the prior three years didn't exceed $7.5 million were exempt from AMT. Although the AMT still applies to noncorporate taxpayers, corporations no longer have to compute this tax.

- **The Net Operating Loss (NOL) deduction is limited to 80% of taxable income.**
  However, NOLs that arose in tax years that began before January 1, 2018, won't be subject to the 80%-of-taxable-income limit. Businesses will have to distinguish between pre- and post-January 1, 2018 losses. Businesses with a tax year that is a fiscal year-end will be subject to the 80%-of-taxable income limit for the tax year that begins in 2018.

- **Net Operating Losses (NOLs) may no longer be carried back two years, but can now be carried forward indefinitely.**
  Under prior tax law, a NOL was generally carried back two years and then carried forward 20 years. Corporations could elect to forego the carryback. A NOL can no longer be carried back to any tax year, except for certain farming losses, and property and casualty insurance companies. **However, NOLs that arose in tax years that ended before January 1, 2018 will be subject to the two-year carryback/20-year carryforward rule. Taxpayers will have to distinguish between the pre- and post-1-1-2018 NOLs when computing the NOL deduction. Businesses with a tax year that has a fiscal year-end will be subject to the no-carryback/indefinite carryforward rule for the tax year that *begins in 2017* and ends after December 31, 2017 (unless a technical correction is made so that the no carryback/indefinite carryforward rules apply to tax years *beginning* after 12/31/17).**

- **Business interest expense deduction is limited to 30% of its adjusted taxable income.**
  Adjusted taxable income is computed without regard to deductions for depreciation, amortization, or depletion. Any business interest deduction disallowed under this rule can be carried forward into the following year, and generally indefinitely. The limitation does not apply to businesses with average annual gross receipts of $25 million or less for the three-year period ending with the prior tax year.

- **Business entertainment expenses are no longer deductible.**
  Under prior law, an expense for an activity considered to be entertainment, amusement, or recreation was deductible as a business expense if the business established that the expense was directly related to the active conduct of their trade or business or income-producing activity. The deduction was limited to 50% of the total deductible amount.

- **Expensing of Section 179 property raised to $1 million and the annual property placed in service limitation raised to $2.5 million**.
  Under prior law, the maximum Section 179 deduction was $500,000 (adjusted for inflation). This maximum dollar limit was reduced (but not below zero) by the amount by which the cost of total Section 179 property placed in service by the taxpayer during the tax year exceeded $2 million (adjusted for inflation). The new limitations are applicable to property placed in service in tax years beginning after December 31, 2017.

- **Bonus depreciation is increased to 100% and used property now qualifies for bonus depreciation.**
  The 2017 TCJA also extended the bonus depreciation placed-in-service date for qualified property from December 31, 2019 to December 31, 2026. **Phase down of bonus depreciation percentages will begin in 2023 instead of 2018.** Previously, the tax code allowed for the bonus depreciation deduction for new property placed in service during the tax year to be 50% of the adjusted basis of the qualified property. Previously, the bonus depreciation percentage decreased to 40% for property placed in service in 2018 and 30% for property placed in service in 2019.

- **Like-kind exchanges are limited to exchanges of real estate.**
  Prior to the 2017 TCJA, personal property (located in the U.S.), including intangible personal property such as patents and other intellectual property, that met the requirements of a like-kind exchange, would be allowed gain or loss deferral treatment. Now like-kind exchange gain or loss deferral will not apply for personal property and intangible property exchanges completed after December 31, 2017. Like-kind exchange gain or loss deferral treatment will only apply to exchanges of real property not held primarily for sale.

- **The Dividends-Received Deduction (DRD) has been reduced.**
  For corporations owning at least 20% of the dividend-paying company, the DRD has been reduced from 80% to 65% of the dividends. For corporations owning under 20%, the deduction is reduced from 70% to 50%.

- **The gross receipts limit for cash-method use by C corporations is raised to $25 million.**
  Under prior tax law, the gross receipts dollar limit was $5 million when computing the average annual gross receipts test to see if a C corporation would meet an exception and be able to use the cash method of accounting. Now the gross receipts test is satisfied if the average annual gross receipts for the three-tax-year period ending with the tax year that precedes the tax year at issue, doesn't exceed $25 million, subject to adjustment for inflation for tax years beginning after December 31, 2018.

How can Axelia Partners help

The 2017 TCJA contains many provisions. To gain a better understanding of how it is impacting your business taxes, contact our experts.

Business Tax Law Before & After the 2017 Tax Cuts and Jobs Act

Note: Most of these tax law changes became effective for taxable years beginning after December 31, 2017

Description	Old Tax Law	New Tax Law
Corporate Tax Rate	Graduated tax rate structure from 15% to 38%	**Flat 21% tax rate**
Alternative Minimum Tax (AMT)	AMT applied to both individuals and corporations, except "Small corporations".	**AMT is repealed for corporations only!**
Net Operating Loss Deduction (NOL)	NOL was generally carried back two tax years and then carried forward up to 20 years. NOL could eliminate 100% of taxable income in a given year.	**For NOLs arising from tax years that ended before Jan 1, 2018, old tax law applies. Otherwise, the NOL no carryback/carry forward applies indefinitely, and NOL deduction is limited to 80% of taxable income.**
Business Interest Expense	No limitation on the amount of interest expense that could be deducted.	**Business interest expense deduction is limited to 30% of its adjusted taxable income.**
Business Entertainment Expenses	Up to 50% of business entertainment expenses were deductible.	**Business entertainment expenses are not deductible.**
Section 179 Expense Deduction	The maximum Section 179 expense deduction was $500,000 with a phase-out threshold of $2 million.	**Expensing of Section 179 property is raised to $1 million and the phase-out threshold to $2.5 million**.
Bonus Depreciation Deduction	Bonus depreciation deduction was capped at 50%.	**Bonus depreciation is increased to 100%. Used property qualifies.**
Like-Kind Exchanges	Like-kind exchanges gain or loss deferral applied to real estate and personal property, including intangible personal property.	**Like-kind exchanges are limited to exchanges of real estate only.**
Dividends Received Deduction (DRD)	The DRD was either 80% or 70% of the dividends depending on company ownership (over or under 20%).	**The DRD dropped to either 65% or 50% of the dividends depending on ownership (above or under 20%.)**
Cash Method for Corporations	Cash method of accounting allowed if gross receipts were $5 million or less.	**The gross receipts test is raised to $25 million.**