CPA
Practice Advisor

general, the revised rules for businesses take effect in 2018 and are permanent, unlike most changes for individuals.

Ken Berry • Jan. 02, 2018

The monumental new tax law signed late in 2017 – the Tax Cuts and Jobs Act (TCJA) – has been hailed as a boon for big business. But the TCJA also benefits many small businesses while presenting new obstacles. In general, the revised rules for businesses take effect in 2018 and are permanent, unlike most changes for individuals. Following are the key provisions likely to affect small businesses.

[This article focuses on the effects of the new tax reform law on businesses. For a look at how it impacts individual taxpayers, read this article.]

Corporate taxation: The graduated tax rate structure for corporations, featuring a top tax rate of 35%, is being replaced by a flat rate of 21%. As a result, the overall tax liability of many C corporations will be reduced. Furthermore, cash accounting was generally not available to corporations with average gross receipts for the three prior years of $5 million or more. This rule has been replaced by a $25 million gross receipts test.

Section 179 deductions: Under Section 179 of the Internal Revenue Code, a business could expense up to $500,000 of the cost of qualified business property, subject to a dollar-for-dollar phaseout above $2 million. These figures were indexed for inflation. The new doubles the maximum allowance to $1 million and increases the phaseout threshold to $2.5 million. Caveat: The maximum allowance is still limited to the amount of income from business activity.

Bonus depreciation: In recent years, the percentage for first-year "bonus depreciation" deductions has fluctuated, complicating tax planning. Now the new law hikes the bonus depreciation deduction from 50% to 100% for five years and

Pass-through entities: The net income of pass-through entities like partnerships, S corporations, limited liability companies (LLCs) and sole proprietors is effectively taxed at individual tax rates. Now, for the first time ever, the new law creates a 20% deduction on income for pass-through entities, subject to certain limitations. Notably, the deduction only applies to "qualified business income" and can't be claimed by taxpayers in service businesses (excluding architecture and engineering) for single filers with taxable income above $157,500, and $315,000 for joint filers.

Other deductions and credits: Finally, the new law includes a slew of other changes affecting deductions and credits commonly claimed by businesses. For instance:

- The Section 199 deduction for qualified domestic property activities is repealed. This deduction was most often claimed by manufacturing firms.
- The new law revamps the rules for net operating losses (NOLs). Essentially, NOLs can no longer be carried back for two years, but can now be carried forward indefinitely (instead of for 20 years), subject to a limit of 80& of taxable income,
- The deduction for entertainment expenses that are directly-related-to or associated-with the conduct of business are repealed.
- The deduction for transportation fringe benefits – including mass transit passes, commuter vehicles and parking privileges – are repealed. If employers still provide these benefits, they remain tax-free to employees.
- The new law reduces the deduction for on-site eating facilities like cafeterias from 100% to 50% before it disappears completely after 2025. But this fringe benefit remains tax-free to employees.

- The deduction for business interest expenses is generally capped at 30% of adjusted

In the wake of these changes, small business clients may seek your assistance in 2018.

In particular, planning may focus on the new deduction for pass-through entities. These rules are so complex even tax experts are having trouble sorting through them, but some clients may be tempted to shift the form of business ownership or transfer ownership shares to other family members to cash in on this tax break.

Expect the IRS to issue guidance on the new deduction for pass-through entities and other aspects of the new tax law affecting small businesses. We will continue to update you on significant new developments.