

Tax Cuts and Jobs Act Synopsis Comparison for Businesses

Pre-Act Law

Tax Cuts and Jobs Act

C Corporations

Tax Rate	Top Rate of 35%	All income taxed at 21%
Alternative Minimum Tax	Alternative minimum tax figured after adjustments	Repealed

S Corporations, Partnership, Sole Proprietorship

Section 199A Deduction

Taxable income flows through to individual tax return with no special rates or deductions

Taxable income flows through to individual tax returns and is taxed at ordinary rates.

All qualified businesses will receive a 20% deduction on domestic qualified business income.

The deduction is subject to limits of the greater of 50% total W-2 wages, or 25% of total W-2 wages plus 2.5% of qualified assets

The deduction is phased out for owners of Specified Service Businesses between AGI of:

	MFJ	Non MFJ
AGI	315,000-415,000	157,500-207,500

All Businesses

DEPRECIATION

Section 179 Expense

Total 179 Available 510,000
Total annual assets placed in service 2,030,000

Total 179 Available 1,000,000
Total annual assets placed in service 2,500,000

Section 168k (Bonus)

50% Depreciation on New Assets

<u>Bonus Amt.</u>	<u>Placed in service between:</u>	
100%	9/28/2017	12/31/2022
80%	1/1/2023	12/31/2023
60%	1/1/2024	12/31/2024
40%	1/1/2025	12/31/2025
20%	1/1/2026	12/31/2026

Bonus Depreciation Eligible for new and used assets

ACCOUNTING METHOD

Gross Receipts Test

Taxpayer must switch to accrual if:
3 year rolling average gross receipts over \$5 million

Taxpayer must switch to accrual if:
3 year rolling average gross receipts over \$25 million

Personal Service Corps, S Corps, Partnerships are allowed to use cash method regardless of \$25 million test

Inventories Test

Generally, business with inventory are required to use the accrual method of accounting

Businesses that meet the gross receipts test may use an accounting method that:

1. Treats inventories as non-incident materials
2. Conforms to the taxpayer's financial accounting treatment of inventories.

COMMON DEDUCTIONS

Domestic Production Activities Deduction

9% qualified activity subject to limitations

Repealed

Meals and Entertainment

Meals and Entertainment 50% Deductible
100% Meals for benefit of employer allowed

Entertainment disallowed
Meals 50% allowed
50% Meals for benefit of employer allowed

UNICAP Section 263A

Required if \$10 million or more in gross revenues

Required if \$25 million or more in gross revenues

NET OPERATING LOSSES

NOL carryback 2 years, forward 20.
Use against 100% taxable income

NOL carryback eliminated, Use against 80% taxable income

Tax Cuts and Jobs Act Section 199A Deduction Scenarios

Generally, there will be a 20% deduction on domestic qualified business income.

Qualified Business Entities include Partnerships, S-Corps, and Sole Proprietors.

The deduction will be limited by the greater of:

50% of total W-2 wages, or

25% of total W-2 wages plus 2.5% of assets with a class life of 10 years or greater, not fully depreciated.

Scenario 1 – One Person Operation

Scenario 1 represents a small, one or two-person operation. The business owner has the time and ability to do most of the work required to keep the business running. There may be a need for a helper to come in a few days a week, but no reason to pay anyone a W-2 wage. The business owner rents a space or works out of his/her home, so there is no qualified property. In this example, the business does not receive any of the 20% deduction.

Net Income	a	50,000.00	
Owner Wages/Guaranteed Pmts	b	-	
Other Wages Paid	c	-	
Qualified Property	d	-	
Net Income + Owner Wages	e	<u>50,000.00</u>	a + b
Deduction before limit	f	10,000.00	e*.20
50% Wages	g	-	(b+c)*.50
25% Wages + Property	h	-	(b+c)*.25 + d*.025
Deduction	i	<u>-</u>	f, or > of g or h
Net Taxable Income	j	<u>50,000.00</u>	a - i

Scenario 2 – Small Business with Employees

Scenario 2 represents a larger operation filing as an S corporation. The company has 3 or 4 employees, one of which is the business owner. The business may have purchased a small building to conduct its business in, but does not have many qualified assets outside of that.

Note that the owner's wages are added back to net income to derive the 20% deduction, and they are also included in the limitation calculations. If this business was set up as a partnership, the guaranteed payments would be added back to net income to derive the 20% deduction, but would not be included in the limitation calculations, as they are not W-2 wages.

Also note that the limitation is the greater of the two calculations. So, even though the second calculation is less than 20% of net income, because the first calculation is greater than 20% of net income, the business is entitled to the full deduction.

Net Income	a	200,000.00	
Owner Wages/Guaranteed Pmts	b	60,000.00	
Other Wages Paid	c	80,000.00	
Qualified Property	d	200,000.00	
Net Income + Owner Wages	e	<u>260,000.00</u>	a + b
Deduction before limit	f	52,000.00	e*.20
50% Wages	g	70,000.00	(b+c)*.50
25% Wages + Property	h	40,000.00	(b+c)*.25 + d*.025
Deduction	i	<u>52,000.00</u>	f, or > of g or h
Net Taxable Income	j	<u>148,000.00</u>	a - i



Tax Cuts and Jobs Act

Section 199A Deduction Scenarios

Scenario 3 -Large Firm

Scenario 3 represents a larger, more profitable business with around 15 to 20 employees, and a good amount of qualified property.

Note that the owner's wages are added back to net income to derive the 20% deduction, and they are also included in the limitation calculations. If this business was set up as a partnership, the guaranteed payments would be added back to net income to derive the 20% deduction, but would not be included in the limitation calculations, as they are not W-2 wages.

Also note that because both the first and the second limitation calculation are less than the initial deduction calculation, the deduction is limited to the greater of the two calculations.

Net Income	a	4,000,000.00	
Owner Wages/Guaranteed Pmts	b	300,000.00	
Other Wages Paid	c	1,250,000.00	
Qualified Property	d	3,000,000.00	
<hr/>			
Net Income + Owner Wages	e	4,300,000.00	a + b
<hr/>			
Deduction before limit	f	860,000.00	e*.20
50% Wages	g	775,000.00	(b+c)*.50
25% Wages + Property	h	462,500.00	(b+c)*.25 + d*.025
<hr/>			
Deduction	i	775,000.00	f, or > of g or h
<hr/>			
Net Taxable Income	j	3,225,000.00	a - i

Scenario 4 – Specified Service Activities

Scenario 4 represents a business that is a specified service activity. Examples of specified service activities include, but are not limited to law, health, engineering, architecture, accounting, consulting, financial services and brokerage services. These activities are allowed the 20% deduction, but the deduction is further limited with a phase-out.

The phase-out limitations are based on adjusted gross income on the shareholder's tax return, and are as follows:

	MFJ	Non MFJ
AGI	315,000-415,000	157,500-207,500

Note that the figures in this scenario are the same as Scenario 2, but the deduction is significantly limited by the owner's AGI. We have assumed the taxpayer files married filing joint, so the AGI limitation begins at \$315,000 of AGI. Essentially 1% of the deduction is eliminated per \$1,000 of AGI over \$315,000.

If the taxpayer filed with any status other than married filing joint, the limitation would begin at \$157,500, and 1% of the deduction would be eliminated per \$500 of AGI over \$157,500.

Net Income	a	200,000.00		AGI Limitation Calculation:	
Owner Wages/Guaranteed Pmts	b	60,000.00		AGI (MFJ)	400,000.00
Other Wages Paid	c	80,000.00		Phase in Limit	315,000.00
Qualified Property	d	200,000.00		AGI over limit	85,000.00
<hr/>				Total Phaseout	100,000.00
Net Income + Owner Wages	e	260,000.00	a + b	Limitation Calc	85%
<hr/>				Applicable %	15% k
Deduction before limit	f	52,000.00	e*.20	Adj. Deduction	7,800.00 i*k=m
50% Wages	g	70,000.00	(b+c)*.50		
25% Wages + Property	h	40,000.00	(b+c)*.25 + d*.025		
<hr/>					
Tentative Deduction	i	52,000.00	f, or > of g or h		
Adjusted Deduction	m	7,800.00			
<hr/>					
Net Taxable Income	j	192,200.00	a - m		

