WEALTH MANAGEMENT

SUMMARY OF KEY TAX PROVISIONS AFFECTING BUSINESSES

PNC Center for Financial Insight℠

The following are key provisions contained in the Tax Cuts and Jobs Act[1], specifically relating to businesses and business owners. This is a condensed version of a detailed article on tax planning with more information. Click here to view the full article.

PROVISION	SUMMARY OF KEY TAX PROVISIONS	
	New Law	Effective / Expiration Dates
AMT (Corporations)	Corporate AMT Repealed	Effective January 1, 2018
Corporate Income Tax Rates	Eliminates the graduated corporate rate structure and instead taxes corporate taxable income at 21%	Effective January 1, 2018
Professional Service Corporations	No special rate for professional service corporations previously taxed at a flat rate of 35%	Effective January 1, 2018
Dividend-Received Deduction	Corporations are allowed a deduction with respect to dividends received from other taxable domestic corporations. The amount of the deduction is reduced from 70% to 50% of the dividend received. In the case of any dividend received from a 20%-owned corporation (that is, 20% or more of the stock is owned by the taxpayer), the amount of the deduction is reduced from 80% to 65%. The deduction percentages were reduced to 50% and 65% to reflect the lower corporate tax rate of 21%, resulting in a corporate tax rate on dividends received of 10.5% and 7.35%. Due to the decrease in the corporate tax rate from 35% down to 21%, this change was made to the dividend-received deduction simply maintains the same top tax rate of 10.5% and 7% (for 20%-owned companies) that were currently in place.	Effective January 1, 2018
Expensing of Business Assets	A taxpayer generally should capitalize the cost of property used in a trade or business or held for the production of income and recover such cost over time through annual deductions for depreciation or amortization. The new tax laws enhance a number of existing exceptions to this general rule: 100% immediate expensing of qualified property placed in service from September 27, 2017 through December 31, 2022. Changes the definition of qualified property to include used property.	Effective September 28, 2017 Expires December 31, 2027
Business Interest Expense Deduction	The deduction of net interest expense for corporate borrowers is capped at 30% of adjusted taxable income (ATI). ATI equates roughly to earnings before interest, taxes, depreciation, and amortization (EBITDA) from 2018 through 2021, and EBIT after that. The limitation does not apply to real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business or farming business. The cap does not apply to businesses in which the average annual gross receipts for the three-taxable-year period ending with the prior taxable year does not exceed $25 million.	Effective January 1, 2018

1 The official title of the legislation is "To provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018"; however, it is commonly referred to as the Tax Cuts and Jobs Act.

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	New Law	Effective / Expiration Dates
Conversion of S Corporation to a C Corporation	In the case of a distribution of money by an eligible terminated S corporation, the accumulated adjustments account shall be allocated to such distribution, and the distribution shall be chargeable to accumulated earnings and profits, in the same ratio as the amount of the accumulated adjustments account to the amount of the accumulated earnings and profits. Any section 481(a) adjustment of an eligible terminated S corporation attributable to the revocation of its S corporation election (for example, a change from the cash method to an accrual method) is taken into account ratably during the six-taxable-year period beginning with the year of change. An eligible terminated S corporation is any C corporation which (1) is an S corporation the day before the enactment of this bill, (2) during the two-year period beginning on the date of such enactment revokes its S corporation election under section 1362(a), and (3) all of the owners of which on the date the S corporation election is revoked are the same owners (and in identical proportions) as the owners on the date of such enactment.	Effective December 22, 2017
Expensing under Section 179	The provision increases the maximum amount a taxpayer may expense under section 179 to $1 million, and increases the phase-out threshold amount to $2.5 million. Expands the definition of qualified real property.	Effective January 1, 2018
Like-Kind Exchanges	Preserves the tax-free treatment of like-kind exchanges of real property not held primarily for sale, but does away with such treatment for personal property. Items no longer eligible may include business assets such as planes, automobiles, machinery, equipment, copyrights, franchise licenses, computers, software, or any other asset that is not real property.	Effective January 1, 2018
Business Deductions for Entertainment	No deduction is allowed with respect to (1) an activity generally considered to be entertainment, amusement, or recreation; (2) membership dues with respect to any club organized for business, pleasure, recreation, or other social purposes; or (3) a facility or portion thereof used in connection with any of the above items.	Effective January 1, 2018
Small Business Accounting	Expands the use of cash method of accounting for small businesses by increasing the threshold to $25 million in average annual gross receipts over the last three years, increasing the number of small businesses that may deduct expenses earlier. Also expands the definition of what may be expensed and allows more small businesses to deduct inventory expenses when purchased.	Effective January 1, 2018
Employer Credit for Paid Family Leave	New tax credit for employers—The provision allows eligible employers to claim a general business credit equal to 12.5% of the amount of wages paid to qualifying employees during any period in which such employees are on family and medical leave if the rate of payment under the program is at least 50% of the wages normally paid to an employee.	Effective January 1, 2018 Expires January 1, 2019
Tax Treatment of Pass-Through Income	Each taxpayer with qualified business income (QBI) from a partnership, S corporation, or sole proprietorship is allowed a deduction equal to 20% of QBI. If the taxpayer's taxable income is above the threshold amount, the deduction is limited based on the business's W-2 wages and/or the unadjusted basis of qualified property. The threshold amount is $157,500 (twice that amount or $315,000 in the case of a joint return), indexed. The deduction is phased out on a prorated basis for a specified service trade or business with taxable income above the threshold amount, with the deduction fully disallowed at taxable income of $415,000 (joint filers) and $207,500 (all others). A specified service trade or business includes, but is not limited to, those in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services. Engineering and architecture services are excluded from the definition of specified service trade or businesses. The deduction is available to trusts and estates with QBI as well.	Effective January 1, 2018

PROVISION	SUMMARY OF KEY TAX PROVISIONS	
	New Law	**Effective / Expiration Dates**
Excessive Compensation Deduction Limits	The limit of $1 million deductible compensation paid to covered employees of public corporations remains. The legislation revises the definition of covered employee to include both the principal executive officer and the principal financial officer, and the three (rather than four) most highly compensated officers for the taxable year (other than the principal executive officer or principal financial officer). The exceptions for commissions and performance-based compensation from the definition of compensation subject to the deduction limit have been eliminated.	Effective January 1, 2018
Qualified Equity Grants	Provides an opportunity for qualified employees of certain nonpublic companies to defer taxation upon the receipt of stock from the exercise of nonqualified stock options, or when restricted stock units (RSUs) vest. Taxation may be deferred up to five years. A qualified employee is one who is not an individual who first becomes a 1% owner or one of the four highest compensated officers in a taxable year, notwithstanding that such individual may not have been among such categories for the 10 preceding taxable years.	Applies with respect to stock attributable to options exercised or RSUs settled after December 31, 2017
Deduction for Work-Related Expenses of an Employee	Previously, unreimbursed business expenses incurred by an employee were deductible, but only as an itemized deduction and only to the extent the expenses exceeded 2% of adjusted gross income. The deduction of all miscellaneous itemized deductions that are subject to the 2% floor has been suspended.	Effective January 1, 2018 Expires December 31, 2025
Employer-Provided Moving Expenses Reimbursement	Repeals the exclusion from gross income and wages for qualified moving expense reimbursements paid by an employer except in the case of a member of the Armed Forces of the United States on active duty who moves pursuant to a military order.	Effective January 1, 2018 Expires December 31, 2025
Estate / Gift / Generation-Skipping Transfer Taxes	Doubles the exclusion amount to $10 million, indexed for inflation starting in 2011 (2018 exclusion of $11.2 million for an individual and $22.4 million for a married couple). IRC Sec. 1014 (step-up in basis rule) is still available, which allows for an adjustment to the basis of property acquired from a decedent to its fair market value upon death. The IRC Sec. 691(c) deduction is still available. This provides income taxes a beneficiary incurs on assets they receive such as qualified plans, IRAs, among others.	The increase in the exclusion amount is effective January 1, 2018 and expires January 1, 2026

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