TAX REFORM DETAILS

The 2017 Tax Cut and Jobs Acts (TCJA) is the biggest change to tax laws in over 30 years, MKP is here to help you navigate through these changes. Below you will find some of the updates that can affect your business for the better.

SECTION 179 DEDUCTION LIMIT INCREASED TO 1 MILLION

Starting in 2018, the TCJA increased the maximum section 179 expense amount to 1 million, (the previous limit was $510,000) for qualifying property placed in service during the tax year.

100% BONUS DEPRECIATION

Qualified asset additions of both new and used property are eligible for 100% first year bonus depreciation, not subject to any spending limits or income based phase-out thresholds.

Prior to year-end, businesses should consult MKP about purchasing additional equipment, furniture, computers, or other fixed assets.

NEW DEDUCTIONS FOR INCOME FROM A PASS-THROUGH ENTITY

Business income from pass-through entities may get a deduction of 20% of a pass-through entity's income.

This deduction is subject to restrictions that may be applied at higher business income levels and/or based on owner's taxable income.

In addition, the deduction is limited to W-2 wages in certain cases so tax planning may be required to capitalize on this opportunity.

CORPORATE TAX RATES

The corporate tax structure has been altered significantly under the TCJA. Tax brackets with a top rate of 35% have been eliminated and replaced with a flat 21% rate. While the reduced corporate rate may cause many pass-through businesses to contemplate converting to C-corporations, there are many factors that should be considered.

Although the 21% flat corporate rate is lower than the 35% rate that businesses are generally subject to, C-corporations are also subject to a second layer of taxation when dividends are paid out of the company's profits. C-corporations are also not eligible for the 20% pass-through deduction that can reduce a pass-through business' overall effective tax rate to as low as 29.6%.

MEALS & ENTERTAINMENT EXPENSE

Until further clarification is provided, businesses can continue to deduct 50% of allowable business meal expense. These previous rules still apply:

- The meal is neither lavish or extravagant under circumstances.
- The taxpayer (or employee of taxpayer) is present when food or beverages are furnished .

Expenses for entertainment, amusement, or recreation are no longer deductible. The TCJA specifically denies these deductions.

ACCRUAL TO CASH METHOD CHANGE

The TCJA has created the opportunity for more businesses to qualify to report on the cash basis method. Increases to the average annual gross receipts threshold and inclusion of C-corporations and businesses that maintain inventories have increased the number of businesses eligible to make this changes.

Many factors go into the decision if a change is favorable to a business. Our firm has been analyzing when and where a method change is appropriate. MKP will contact you if we believe a method change would be beneficial.