

The Tax Cuts and Jobs Act of 2017 significantly changed the landscape for businesses, both small and large, and expect to feel the impact of these adjustments for many years to come. The table below compares modifications that went into effect starting January 1, 2018 with previous tax law allowing you to easily determine elements having the most impact to your business.

BUSINESS PROVISIONS

Topic	Previous Tax Law	2017 Tax Reform Act
Corporate tax rate	Top rate of 35 percent	Flat rate of 21 percent (effective 1/1/2018)
Pass-through tax rate	Individual rate on ordinary income	Deduction of 20 percent of domestic qualified business income (QBI); subject to limitation; expires after 12/31/2025. (i)
Alternative Minimum Tax (AMT)	20 percent	Repealed; AMT credits refundable from 2018 through 2021
Personal service corporations	Flat rate of 35 percent	Flat rate of 21 percent
Dividends received deduction	70 & 80 percent deduction for any dividend received from corporations owning <20 or ≥20 percent of stock of another corporation, respectively	Deduction amounts reduced to 50 & 65 percent for corporations owning <20 or ≥20 percent of stock of another corporation, respectively
Bonus depreciation	40, 30 & 20 percent bonus depreciation for qualified property in 2018–2020, respectively; property must be new to qualify	100 percent through 2022 for qualified property placed in service after 9/27/2017 ⁱⁱ ; 80, 60, 40 & 20 percent bonus depreciation for property placed in service in 2023–2026, respectively; excludes certain property used in regulated public utility businesses & property used in a trade or business that has floor plan financing indebtedness; includes qualified film, television & live theatrical productions
Section 179 expensing	Up to \$520,000; phaseout beginning at \$2,070,000 of assets placed in service	Up to \$1 million; phaseout beginning at \$2.5 million of assets placed in service

Topic	Previous Tax Law	2017 Tax Reform Act
Cost recovery for residential rental & nonresidential real property	27.5 years for residential rental real property & 39 years for nonresidential real property	Maintains current law recovery periods for residential rental real property & nonresidential real property; 30 year alternative depreciation system (ADS) recovery period for residential rental property (ii)
Like-kind exchanges	Deferral of gain permitted on like-kind exchanges of certain property held for productive use in a trade or business or for investment	Limit deferral of gain on like-kind exchanges to real property that is not held primarily for sale
Interest expense	Deduction allowed for interest expense	Deduction limited to business interest income, floor plan financing interest & 30 percent of entity's adjusted taxable income; excess carried forward indefinitely ⁱⁱⁱ
Required application of §263A uniform capitalization rules to inventory	Gross receipts > \$10 million for property acquired for resale; no threshold for manufactured property	Gross receipts > \$25 million for property acquired for resale or manufactured property
Required use of percentage-of-completion method for long-term contracts	Gross receipts > \$10 million	Gross receipts > \$25 million
Net operating loss (NOL)	Carried back two years & carried forward 20 years	Deduction limited to 80 percent of taxable income for tax periods after 2017; no carryback; carried forward indefinitely Retains current law treatment for property and casualty insurance companies
Cash method of accounting	Allowed for C corporations that do not exceed a \$5 million gross receipts test	C corporations with less than \$25 million of gross receipts
Entertainment expenses	Deduction limited to 50 percent of expense	No deduction for amounts paid or incurred after December 31, 2017

Topic	Previous Tax Law	2017 Tax Reform Act
S corporation conversion to C corporation	Not addressed	Distributions from an eligible terminated S corp treated as paid from accumulated adjustments account & earnings & profits on a pro rata basis; §481(a) adjustments taken into account ratably over six-year period; applies to S corps that revoke elections during two-year period following enactment date
Deduction for domestic production activities	Up to 9 percent for domestic production activities	Repealed (effective for taxable years beginning after 12/31/2017)
Research & development credit	Tax credit available to businesses that develop new or improved products or processes	Explicitly retained
Low income housing credit	Tax credit available to owners of qualified residential rental buildings in low-housing projects	No change
Work opportunity tax credit	Nonrefundable tax credit for 40 percent of qualifying wages paid to certain employees who qualify as members of disadvantaged groups	No change
Qualified opportunity zones	Not addressed	Deferral/permanent exclusion of capital gains reinvested in a corporation or partnership that invests at least 90% of its assets in qualified opportunity zone property, which are targeted at certain low-income community population census tracts to be established in each state

Topic	Previous Tax Law	2017 Tax Reform Act
Employer credit for paid family & medical leave	Not addressed	Tax credit available to eligible employers of 12.5 percent of wages paid to qualifying employees during any period such employees are on family & medical leave if payment rate under program is 50 percent of wages normally paid . Effective for wages paid in tax year beginning after December 31, 2017 and before January 1, 2020.
Unused business credits	Deduction allowed for unused business credits; carried back one year; carried forward 20 years	No change
Deduction for settlements paid in connection with sexual harassment or sexual abuse	Generally deductible as ordinary & necessary trade or business expense	No deduction for settlement, payout or attorney fees related to sexual harassment or sexual abuse if payments subject to a nondisclosure agreement
Untaxed accumulated foreign earnings	Not addressed	15.5 percent for cash/cash equivalents, 8 percent otherwise, payable over eight years
Future foreign earnings	Worldwide income tax based on residence & source	Territorial system with base erosion provisions
Interest-charge domestic international sales corporation (IC-DISC)	Taxation on profits generated by small U.S. manufacturers from U.S.-manufactured products sold overseas can be deferred indefinitely & reinvested into business	Retained

ⁱ Deduction does not apply to specified service businesses, except in case of taxpayer whose taxable income does not exceed \$157,500 for single filers (\$315,000 married filing jointly (MFJ)) with a phaseout beginning at the same levels over the next \$50,000 (\$100,000) of taxable income. QBI is all domestic business income other than investment income (except income from publicly traded partnerships that's eligible for inclusion), investment interest income (other than qualified real estate investment trust & corporate dividends), net capital gain, foreign currency gains, etc. The deduction is limited to the greater of 50 percent of W-2 wages paid with respect to the business or 25 percent of W-2 wages paid plus 2.5 percent of the unadjusted basis of all qualified property.

ⁱⁱ Definition of qualified property expanded by removing requirement that original use begin with taxpayer.

iii Adjusted taxable income is without regard to items not properly allocable to a trade or business, any business interest expense or business interest income, the 20 percent pass-through income deduction, floor plan financing interest, any NOL deduction and, for taxable years beginning before January 1, 2022, any deduction for depreciation, amortization or depletion. Interest deduction not limited for any taxpayer that meets a \$25 million gross receipts test, is a regulated public utility business (including electric cooperatives) or a real property business. Farming businesses may elect not to be subject to limitation provided they use ADS method to depreciate farming property with recovery period of 10 years or more. Electing farming business specifically include agricultural and horticultural cooperatives.