# Your Guide to the 2019 / 2020 Tax Changes – Corporations

Here's how the U.S. tax system is changing for 2019 and beyond.

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*Sources: Journal of Accountancy, Michael Frenkel, IRS, "Tax Cuts and Job Act".*

Now that the Tax reform bill was recently signed into law, it creates major changes to the U.S. tax code for both individuals and corporations. In fact, the bill represents the most significant tax changes in the United States in more than 30 years.

With that in mind, here's a guide to all of the changes that will go into effect -- the new tax brackets, modified deductions and credits, corporate tax changes, and more.

IMAGE SOURCE: GETTY IMAGES.

## The 2019 tax bracket

For tax years 2018 through 2025, the new tax law has significantly simplified the corporate tax rate and has created a single flat tax Rate at 21% on corporate profits:

| Marginal Tax Rate | Corporate Net Profit |
|---|---|
| 21% | $1 and beyond |

DATA SOURCE: IRS.

## Corporate AMT

A significant change that will impact corporations is the complete repeal of the corporate AMT.

## Depreciation

- **Bonus Depreciation**
- **Section 179 Expensing**
- **Luxury Automobile limits**

**Bonus Depreciation:**

The act extended and modified bonus depreciation under Sec. 168(k), allowing businesses to immediately deduct 100% of the cost of eligible property in the year it is placed in service, through 2022. The amount of allowable bonus depreciation will then be phased down over four years: 80% will be allowed for property placed in service in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. (For certain property with long production periods, the above dates will be pushed out a year.)

The act also removed the rule that made bonus depreciation available only for new property.

**Section 179 Expensing:**

The act increased the maximum amount a taxpayer may expense under Sec. 179 to $1 million and increased the phaseout threshold to $2.5 million. These amounts will be indexed for inflation after 2018.

The act also expanded the definition of Sec. 179 property to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging. It also expanded the definition of qualified real property eligible for Sec. 179 expensing to include any of the following improvements to nonresidential real property: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.

**Luxury Automobile Depreciation Limits:**

The act increased the depreciation limits under Sec. 280F that apply to listed property. For passenger automobiles placed in service after 2017 and for which bonus depreciation is not claimed, the maximum amount of allowable depreciation is $10,000 for the year in which the vehicle is placed in service, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth and later years.

## Accounting Methods

***Cash method of accounting:*** The act expanded the list of taxpayers that are eligible to use the cash method of accounting by allowing taxpayers that have average annual gross receipts of $25 million or less in the three prior tax years to use the cash method. The $25 million gross-receipts threshold will be indexed for inflation after 2018. Under the provision, the cash method of accounting may be used by taxpayers, other than tax shelters, that satisfy the gross-receipts test, regardless of whether the purchase, production, or sale of merchandise is an income-producing factor.

Farming C corporations (or farming partnerships with a C corporation partner) will be allowed to use the cash method if they meet the $25 million gross-receipts test.

The current-law exceptions from the use of the accrual method otherwise remain the same, so qualified personal service corporations, partnerships without C corporation partners, S corporations, and other passthrough entities continue to be allowed to use the cash method without regard to whether they meet the $25 million gross-receipts test, so long as the use of that method clearly reflects income.

***Inventories:*** Taxpayers that meet the cash-method $25 million gross-receipts test will also not be required to account for inventories under Sec. 471. Instead, they will be allowed to use an accounting method that either treats inventories as nonincidental materials and supplies or conforms to their financial accounting treatment of inventories.

***UNICAP:*** Taxpayers that meet the cash-method $25 million gross-receipts test are exempted from the uniform capitalization rules of Sec. 263A. (The exemptions from the UNICAP rules that are not based on gross receipts are retained in the law.)

## Expenses and Deductions

***Interest deduction limitation:*** Under the act, the deduction for business interest is limited to the sum of (1) business interest income; (2) 30% of the taxpayer's adjusted taxable income for the tax year; and (3) the taxpayer's floor plan financing interest for the tax year. Any disallowed business interest deduction can be carried forward indefinitely (with certain restrictions for partnerships).

Any taxpayer that meets the $25 million gross-receipts test is exempt from the interest deduction limitation. The limitation will also not apply to any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Farming businesses are allowed to elect out of the limitation.

For these purposes, business interest means any interest paid or accrued on indebtedness properly allocable to a trade or business. Business interest income means the amount of interest includible in the taxpayer's gross income for the tax year that is properly allocable to a trade or business. However, business interest does not include investment interest, and business interest income does not include investment income, within the meaning of Sec. 163(d).

Floor plan financing interest means interest paid or accrued on indebtedness used to finance the acquisition of motor vehicles held for sale or lease to retail customers and secured by the inventory so acquired.

## Net Operating Losses

The act limits the deduction for net operating losses (NOLs) to 80% of taxable income (determined without regard to the deduction) for losses. (Property and casualty insurance companies are exempt from this limitation.)

Taxpayers are allowed to carry NOLs forward indefinitely. The two-year carryback and special NOL carryback provisions were repealed. However, farming businesses are still allowed a two-year NOL carryback.

## Domestic Production Activities Deduction

The new act has eliminated this deduction.

## Entertainment Expenses

Perhaps the most controversial aspect of tax reform on the corporate tax reform is the elimination of the deduction for all “Entertainment” expenses. The act disallows a deduction for (1) an activity generally considered to be entertainment, amusement, or recreation; (2) membership dues for 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.

These expenses include expenses such as sporting event tickets, (this includes your Cowboys tickets) or any other event that would be considered “Fun”.

## Meals

Under the act, taxpayers are still generally able to deduct 50% of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). For amounts incurred and paid after Dec. 31, 2017, and until Dec. 31, 2025, the act expands this 50% limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets requirements for *de minimis* fringes and for the convenience of the employer. This means that we retain the standard 50% limit on meals but we lose the ability to treat “meals at the convenience of the employer as a 100% deduction, it becomes a 50% deduction now.

## Employer Credit for paid family or medical leave:

The act allows eligible employers to claim a credit equal to 12.5% of the amount of wages paid to a qualifying employee during any period in which the employee is on family and medical leave if the rate of payment under the program is 50% of the wages normally paid to the employee. The credit is increased by 0.25 percentage points (but not above 25%) for each percentage point by which the rate of payment exceeds 50%. The maximum amount of family and medical leave that may be taken into account for any employee in any tax year is 12 weeks. However, the credit is only available in 2018 and 2019.

## The pass-through deduction -- does it apply to you?

The new tax code makes a big change to the way pass-through business income is taxed. This includes income earned by sole proprietorships, LLCs, partnerships, and S corporations.

Under the new law, taxpayers with pass-through businesses like these will be able to deduct 20% of their pass-through income. In other words, if you own a small business and it generates $100,000 in profit in 2018, you'll be able to deduct $20,000 of it before the ordinary income tax rates are applied.

There are phaseout income limits that apply to "professional services" business owners such as lawyers, doctors, and consultants, which are set at $157,500 for single filers and $315,000 for pass-through business owners who file a joint return.

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With all of the new tax law changes, please call or email us to discuss how these changes affect your business tax situation. We are here to help you.

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