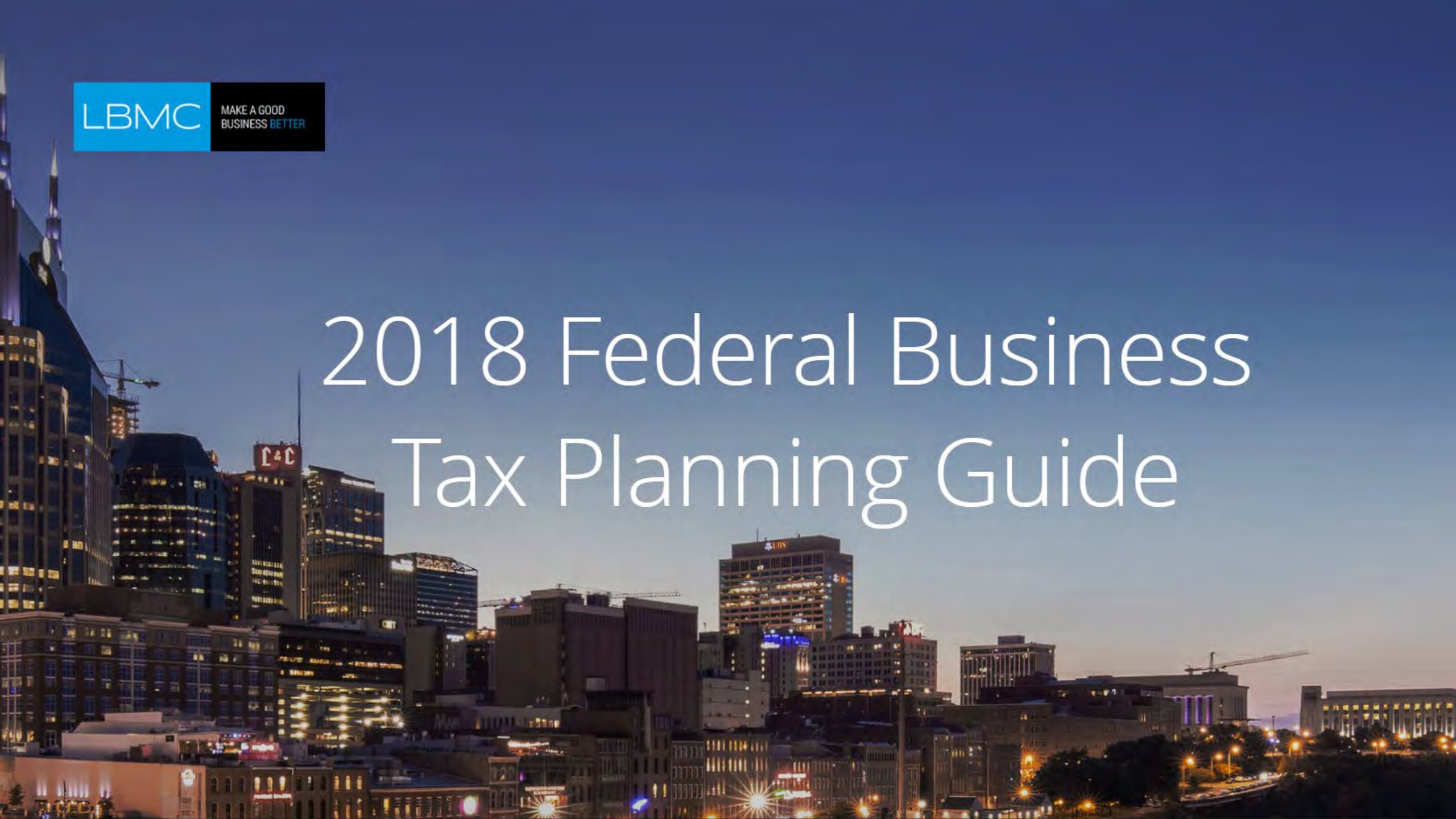
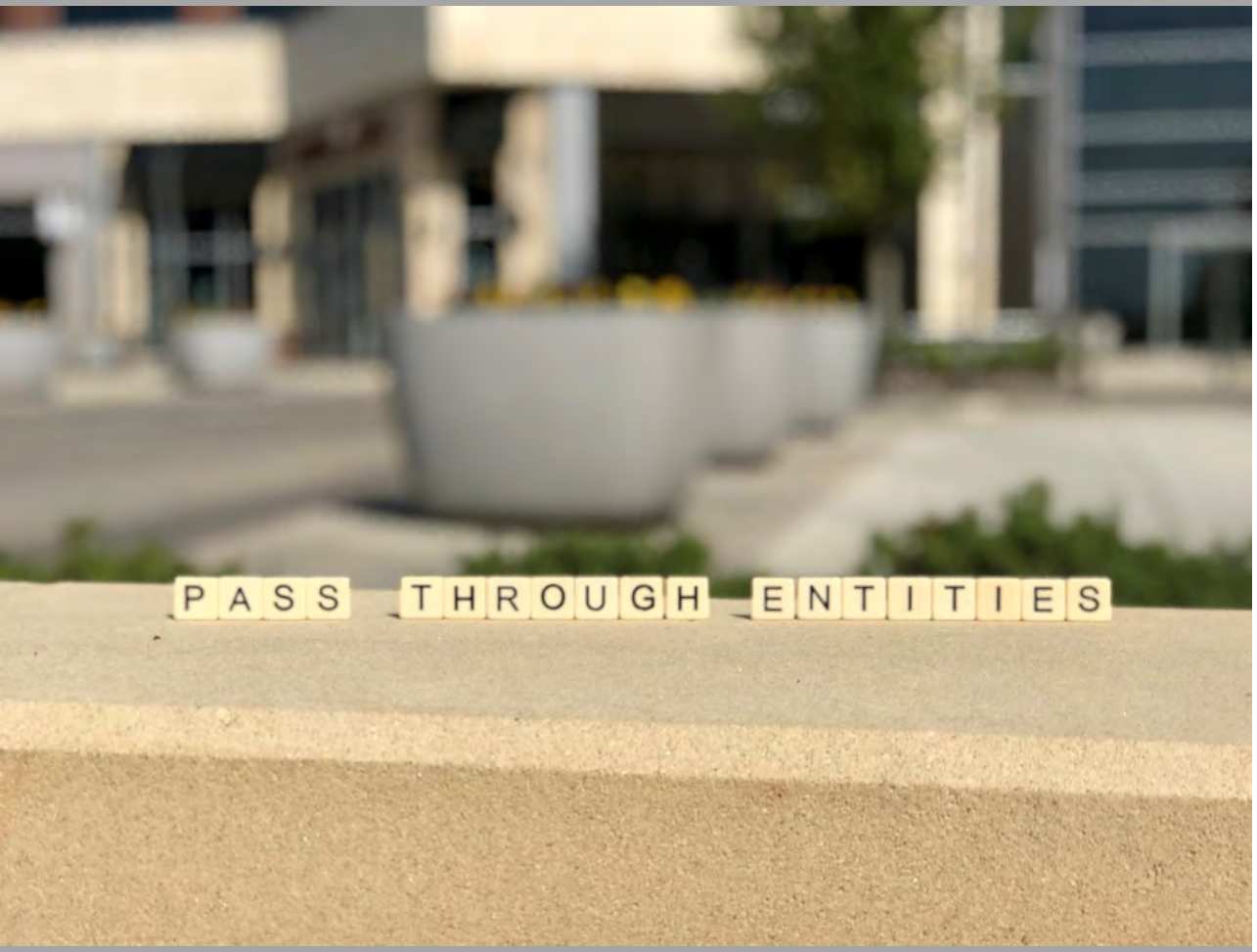
LBMC MAKE A GOOD BUSINESS BETTER

2018 Federal Business Tax Planning Guide



For businesses, the rubber is now meeting the road on the tax law passed by Congress in late December of 2017 under the Tax Cuts and Jobs Act of 2017 (TCJA). It's the most massive tax law change since 1986, and there's a lot to take in. There are numerous changes that employers must make to their processes and accounting in the areas of income tax withholding, family and medical leave, moving expenses and entertainment deductions, among others.

There are many other federal provisions that have changed and may impact your specific situation. This guide is an overview to provide insight into some of the main provisions. Please consult your LBMC tax advisor for more details. He or she can help you identify which changes affect you and the best strategies for maximizing the new tax law's benefits and minimizing any negative tax ramifications.



20% Deduction for Pass-Through Entities

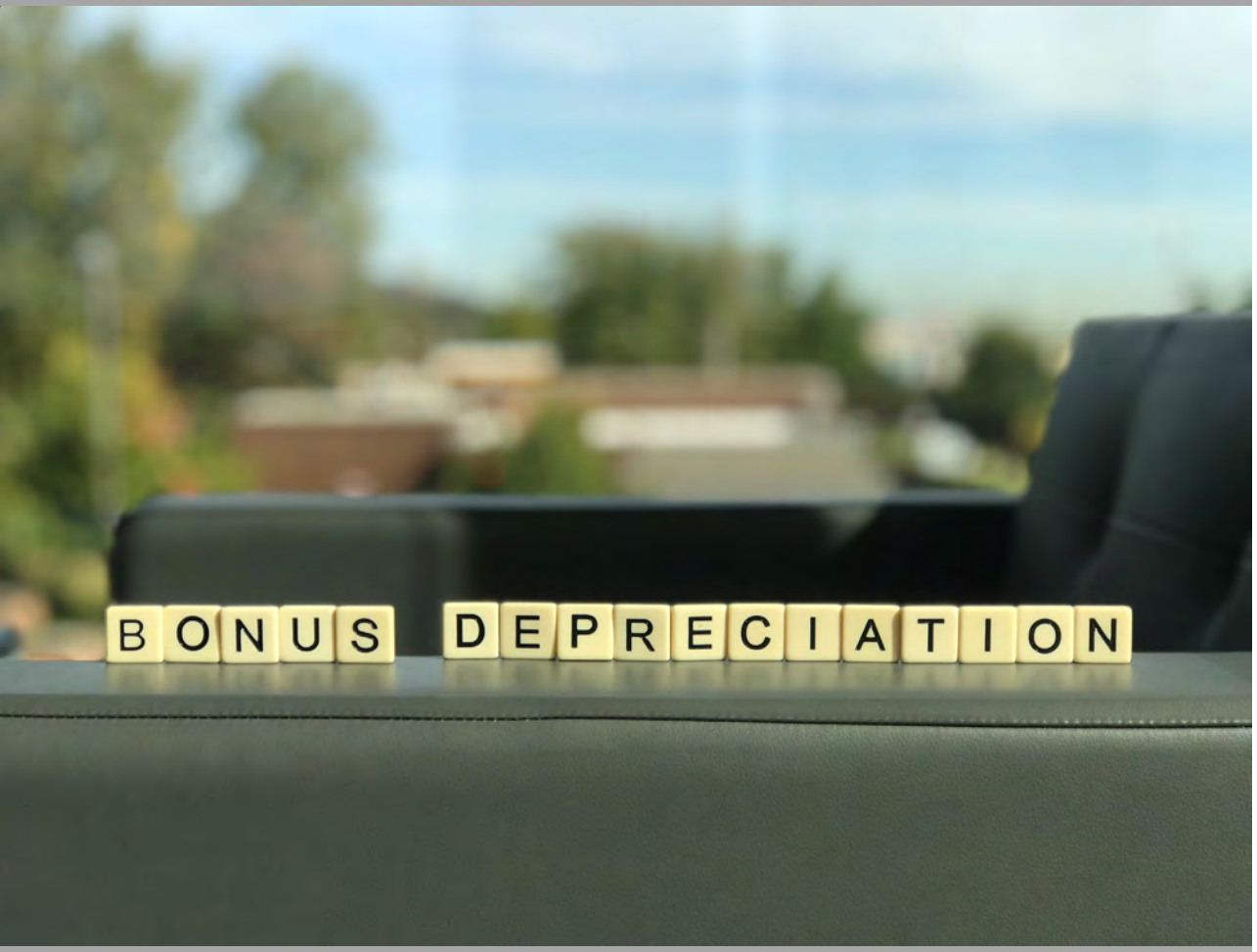
Federal tax reform creates a new 20% deduction for individuals, trusts and estates (noncorporate taxpayers) to take from qualified business income from partnerships, S corporations and sole proprietorships. According to the federal tax law, each business passes through the allocable share of income or loss to the partners or shareholders. Then the individual partner or shareholder calculates the 20% deduction separately for each trade or business.

For more details, read "New Regulations on 20 Percent Deduction for Pass-Through Businesses."

Limitation on Business Interest Expense Deduction

Federal tax reform generally caps the deduction for net interest expenses at 30 percent of adjusted taxable income (ATI) for businesses with average annual gross receipts more than $25 million. Exceptions exist for small businesses, including an exemption for businesses with average gross receipts of $25 million or less. This limitation applies to interest paid to related and unrelated parties.

Read the following article for more details "Limitation on Business Interest Expense Deduction under TCJA."



100% Bonus Depreciation

Federal tax reform allows full (100 percent) expensing of short-lived capital investments, such as machinery and equipment, for five years, then a 20-percent phase-down schedule over the subsequent five. The write-off is allowed for qualified property placed in service after September 27, 2017 and before January 1, 2023 (January 1, 2024, for longer production period property and certain aircraft). Federal tax reform also eliminated the original use requirement, and allows taxpayers to elect to apply 50% expensing for the first tax year ending after September 27, 2017.

For an in-depth look, read "Bonus Confusion in New Tax Law."

Cost Segregation - Section 179 Deduction

Federal tax reform raises the Section 179 small business expensing cap to $1 million with a phaseout starting at $2.5 million. It also expands the definition of "qualified property" to include certain depreciable personal property used to furnish lodging, and improvements to nonresidential real property (such as roofs, heating, and property protection systems).

Additional information can be found here "Cost Segregation Studies to Accelerate Depreciation Deductions."

Repeal of Like-Kind Exchanges Except for Real Property

The TCJA didn't eliminate like-kind exchanges and still generally allows tax-deferred like-kind exchanges of business and investment real estate. However, the TCJA eliminated tax-deferred like-kind exchange treatment for exchanges of personal property that includes everything from equipment, cars, trucks, etc., after December 31, 2017. Prior-law rules that allow like-kind exchanges of personal property only apply if part of the exchange was completed by December 31, 2017, even when part of the exchange remained open on that date. Overall the Section 1031 exchange rules have not changed since 1984.

For more information, read "Section 1031 Like-Kind Exchanges Post Tax Reform."

Entertainment/Meal Expenses and Fringe Benefits

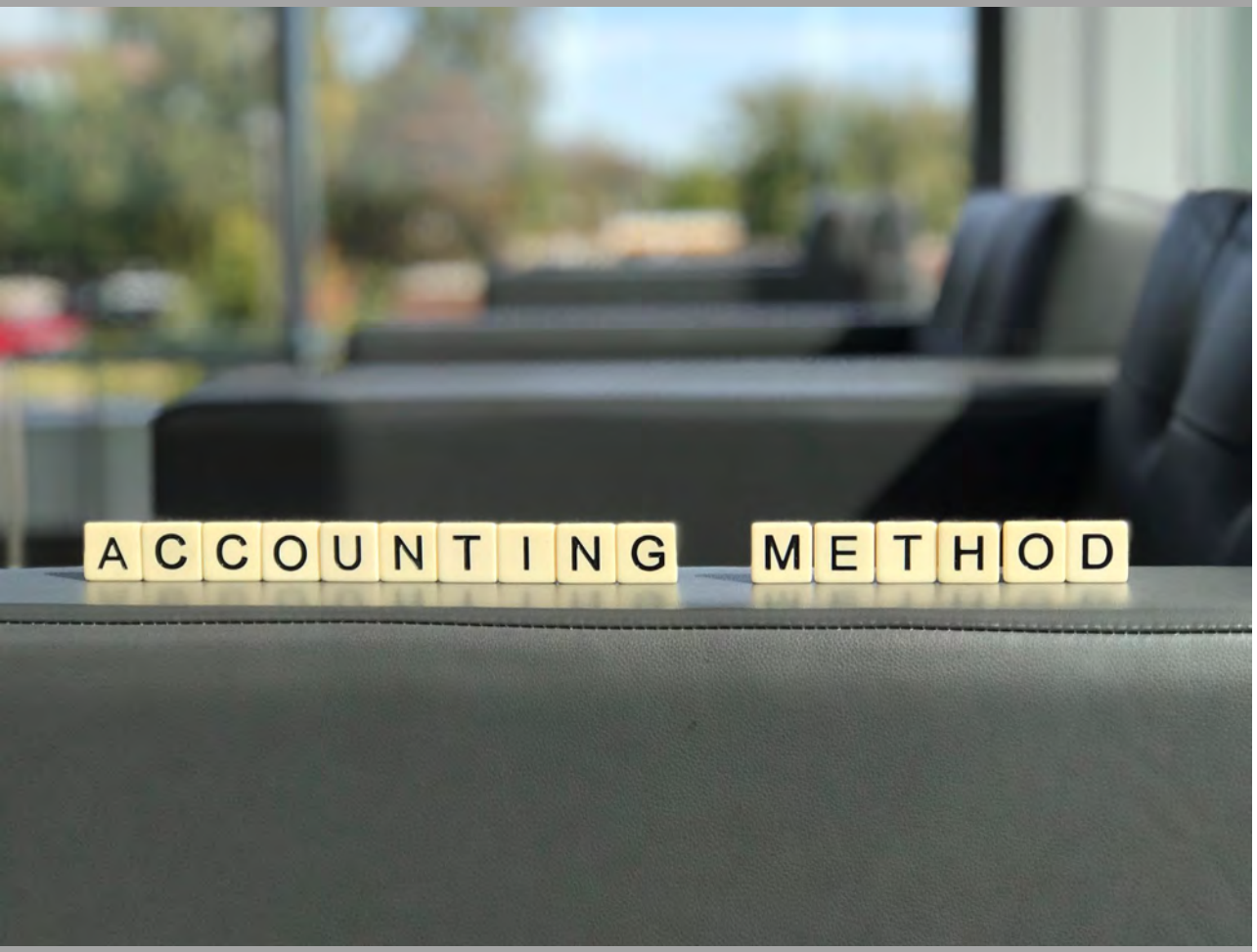
Under the new tax law, there are fewer deductions available for entertainment and meal expenses. Businesses can no longer deduct entertainment expenses. However, expenses incurred for recreational or social activities primarily for the benefit of employees are still fully deductible. Meals provided to employees who are traveling are still 50% deductible. It is important to immediately start separating your meal and entertainment expenses into the proper categories (100%, 50%, 0% deductibility) to better calculate the proper deduction.

Learn more and download a reference chart here "Meals and Entertainment Deductions — 2018 Tax Law Changes."

Opportunity Zones

The Opportunity Zones program is a new tax incentive introduced to the tax code in Section 1400Z to foster economic investment in distressed communities. The tax incentive centers on investments in QOZs, which are low-income census tracks nominated by States and then reviewed, certified, and designated by the Department of Treasury.

Read the following article for more details "Tax Reform Under the Radar – Qualified Opportunity Zones."



Small Business Accounting Method Changes

Small businesses can now receive accounting-related relief by using the simpler and more-flexible cash method. Small business taxpayers with average annual gross receipts of $25 million or less in the prior three-year period are eligible to use the cash method of accounting. The cash method is allowed even if the purchase, production or sale of merchandise is an income-producing factor for these taxpayers. These changes could prompt more companies to opt for the simpler, tax-deferred cash method for both financial reporting and tax purposes.

For more information, read "Small Business Accounting Method Changes Under TCJA."

Revenue Recognition Rule

Federal tax reform contains a provision that ties revenue recognition for book purposes to income reporting for tax purposes, for tax years starting in 2018. This law could have a major impact on industries dealing with contracts, especially as companies implement the updated revenue recognition standard under U.S. Generally Accepted Accounting Principles (GAAP). This accounting rule will cause some companies with complex, long-term contracts to recognize revenue earlier than in the past.

For an in-depth look, read "Revenue Recognition Rule Changes Under TCJA."

Tennessee Franchise and Excise Tax

Changes made to federal taxable income generally also mean changes to Tennessee taxable income. As a "rolling" conformity state, Tennessee automatically conforms to the latest version of the Internal Revenue Code. However, like other "rolling" conformity states, Tennessee may "decouple" from certain provisions it doesn't wish to follow.

For more details, read "How federal tax reform is going to affect Tennessee."

Research and Development Expenses

Starting with costs paid or incurred after December 21, 2021, federal tax reform requires domestic research expenses to be amortized over 5 years and foreign research expenses to be amortized over 15 years.

Read the following article for more details "Research and Development Expenses/Credit Changes Under TCJA."

Employer Credits on Employee Benefits

There are numerous changes that employers must make to their processes and accounting in the areas of income tax withholding, family and medical leave (FMLA) and moving expenses, among others. The supplemental tax rate decreased from 25% to 22% in 2018. Consider modifying paid-leave policies, due to FMLA changes. If eligible employees are paid on FMLA-related absences, employers could qualify for a tax credit. Employer paid moving expenses are taxable income to the employee, except for military.

For more information, read "Top 4 things employers need to know about the changes from the new tax law."

Standard Mileage Rate

The business standard mileage rate listed in Notice 2018-03, which was issued before the Tax Cuts and Jobs Act passed, cannot be used to claim an itemized deduction for un-reimbursed employee travel expenses in taxable years beginning after Dec. 31, 2017, and before Jan. 1, 2026.

For an in-depth look, read "IRS announces new mileage reimbursement rates for 2018."

Executive Compensation

The signing of the TCJA repealed two notable exceptions to the deduction limit, including the exception for performance-based pay (including stock options) and the exception for commission-based pay, and placed a limit on the amount a company can deduct for executive compensation at $1 million dollars for a company's CEO, CFO, and other highly paid executives.

For more details, read "Section 162(m) Guidance on Executive Compensation After TCJA."

Federal Repeal of Domestic Production Deduction (Section 199)

The Section 199 deduction (also known as U.S. production activities deduction, the domestic manufacturing deduction and domestic production activities deduction) can no longer be taken due to the new tax reform. Numerous business tax preferences were eliminated under the TCJA. This included the Code Section 199 domestic production activities deduction.

For more information on this topic, read "Maximize Your Firms Section 199 Deductions."

Other New Federal Tax Changes

- Contributions to Capital (IRC. Sec. 118)
- Related Party Interest and Intangible Expenses
- Dividends Received Deduction
- Foreign Dividends and Foreign Tax Credit
- International Income - Deemed Repatriation
- Federal Net Operating Loss (NOL) Changes

For more details, read "Other Federal Tax Reform Changes."

Individual Tax Changes

The TCJA makes small reductions to income tax rates for most individual tax brackets, including reducing the top rate from 39.6% to 37%. It also provides a large new tax deduction for owners of pass-through entities and significantly increases exemptions for the individual alternative minimum tax (AMT) and the estate tax. LBMC has developed a separate guide specifically for individual taxpayers.

Download the 2018-19 Tax Planning Guide for Individuals.

Contact Us Today!

LBMC would welcome the opportunity to help you minimize your 2018 tax liability. Please contact us to talk about ways to put these and other strategies to work for you.

Phone: 615-377-4600
Email: info@lbmc.com

Contact Us Today!

Legal Notice: *LBMC tax tips are provided as an informational and educational service for clients and friends of the firm. The communication is high-level and should not be considered as legal or tax advice to take any specific action. Individuals should consult with their personal tax or legal advisors before making any tax or legal-related decisions. In addition, the information and data presented are based on sources believed to be reliable, but we do not guarantee their accuracy or completeness. The information is current as of the date indicated and is subject to change without notice.*