



BGH Highlights of the Tax Cuts and Jobs Act

On December 22, 2017 the President signed into law H.R. 1, officially titled ‘An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018’, but politicians and commentators are calling it the Tax Cuts and Jobs Act. The new law overhauls the Internal Revenue Code by lowering tax rates, eliminating numerous tax provisions, and creating several new provisions. Below is a brief summary of the Tax Cuts and Jobs Act.

FOR BUSINESSES, THE TAX CUTS AND JOBS ACT:

- **Lowers the corporate tax rate to 21% (beginning Jan. 1, 2018)** – down from 35%
- **Created the new 20% tax deduction that applies to the first \$315,000 of joint taxable income (\$157,500 for single taxpayers)** earned by all businesses organized as S corporations, partnerships, LLCs, and sole proprietorships. For qualifying business entities with income above this level, the bill generally provides a deduction for up to 20% on business profits, reducing their effective marginal tax rate to no more than 29.6%. For taxpayers with taxable income above \$315,000 joint and \$157,500 single, the rules include limitations. For example, “higher income” service providers, except for architects and engineers, are not allowed this deduction. See the article on our website for additional details. This provision expires after 2025.
- **Allows businesses to immediately write off the full cost of new equipment** by expanding the §179 deduction to \$1 million and allowing 100% bonus depreciation on qualifying new and used fixed assets.
- **Increases the Luxury Auto Depreciation limits:** The new limits are set at \$10,000 the year the vehicle is placed in service then \$16,000 in year two, \$9,600 in year three, and \$5,760 per year thereafter. The old limits were \$3,160 in year one, \$5,100 in year two, \$3,050 in year three, then \$1,875 thereafter.
- **Net Operating Losses (NOL) can no longer reduce taxable income to \$0.** Beginning in 2018, the NOL deduction is limited to 80% of taxable income. In addition, the two year carryback provision is repealed and an NOL carryover may be carried forward indefinitely (until used up).
- **Modifies Section 1031 Like Kind Exchange provisions by limiting their application only to real property.** Thus sales of personal property will no longer qualify for tax deferred treatment.
- **Limits interest expense deductions on businesses with more than \$25 million average annual gross receipts.**
- **Eliminates the Corporate Alternative Minimum Tax**
- **Eliminates business deductions for entertainment, amusement, or recreation** including membership dues with respect to any club organized for business, pleasure, recreation, or other social purposes. The prior law limited the deduction to 50% (and this new law disallows 100%). The 50% deduction for only meals is maintained.
- **Unlike most of the individual provisions that expire after 2025, most of the business provisions are permanent.**

You can click the following links to our website to access articles to specific topics of the Tax Cuts and Jobs Act.

[New 20% Deduction for Qualified Business \(Pass-Through\) Income](#)

[100% Bonus Depreciation](#)

[Increased 179 Deduction](#)

[Qualified Improvement Property and Changes to ADS Real Property](#)

Call our office at 301-953-3259 if you have any questions.