

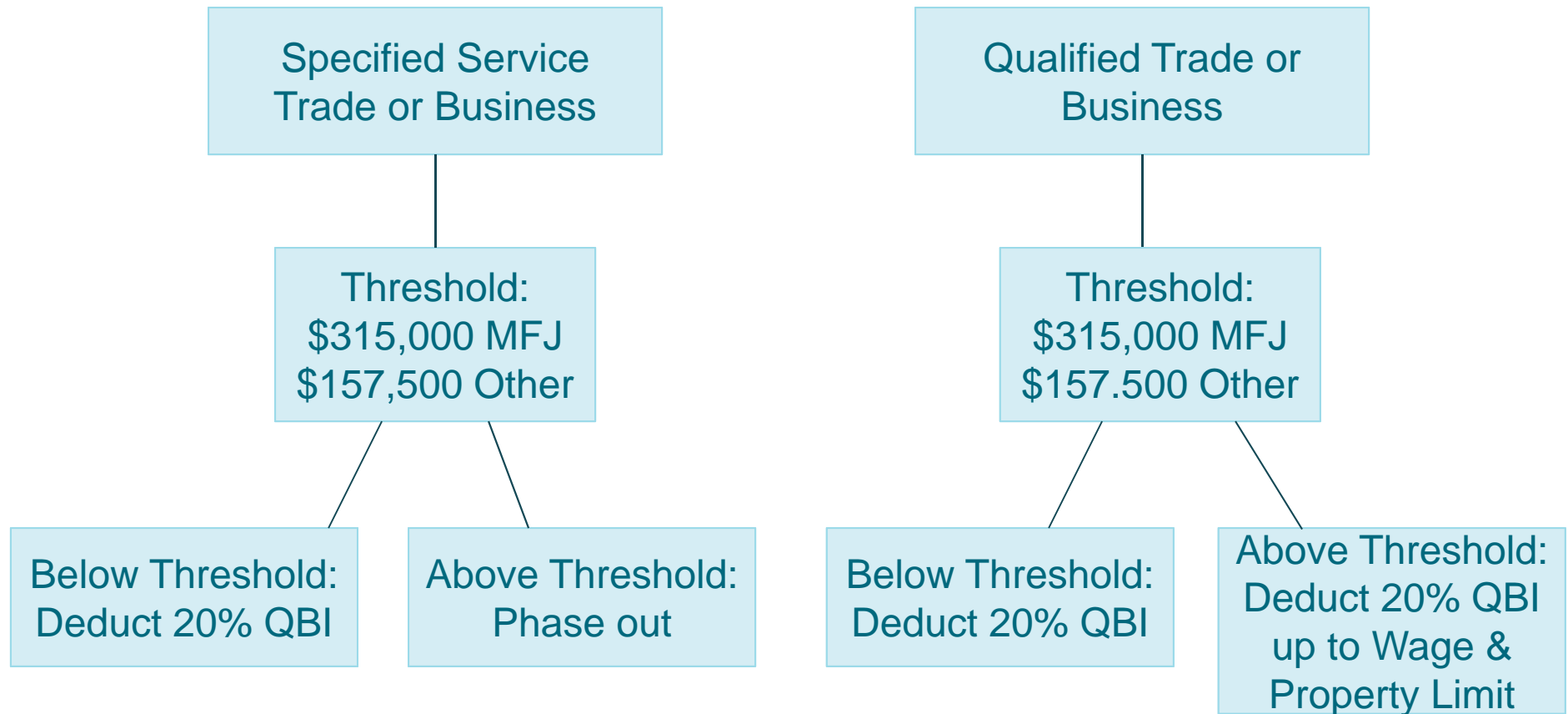
TAX REFORM: THE GOOD, THE BAD, AND THE UGLY

20% Pass-through Deduction



Section 199A: 20% deduction

Sec. 199A Flowchart



Specified Service Trade or Business

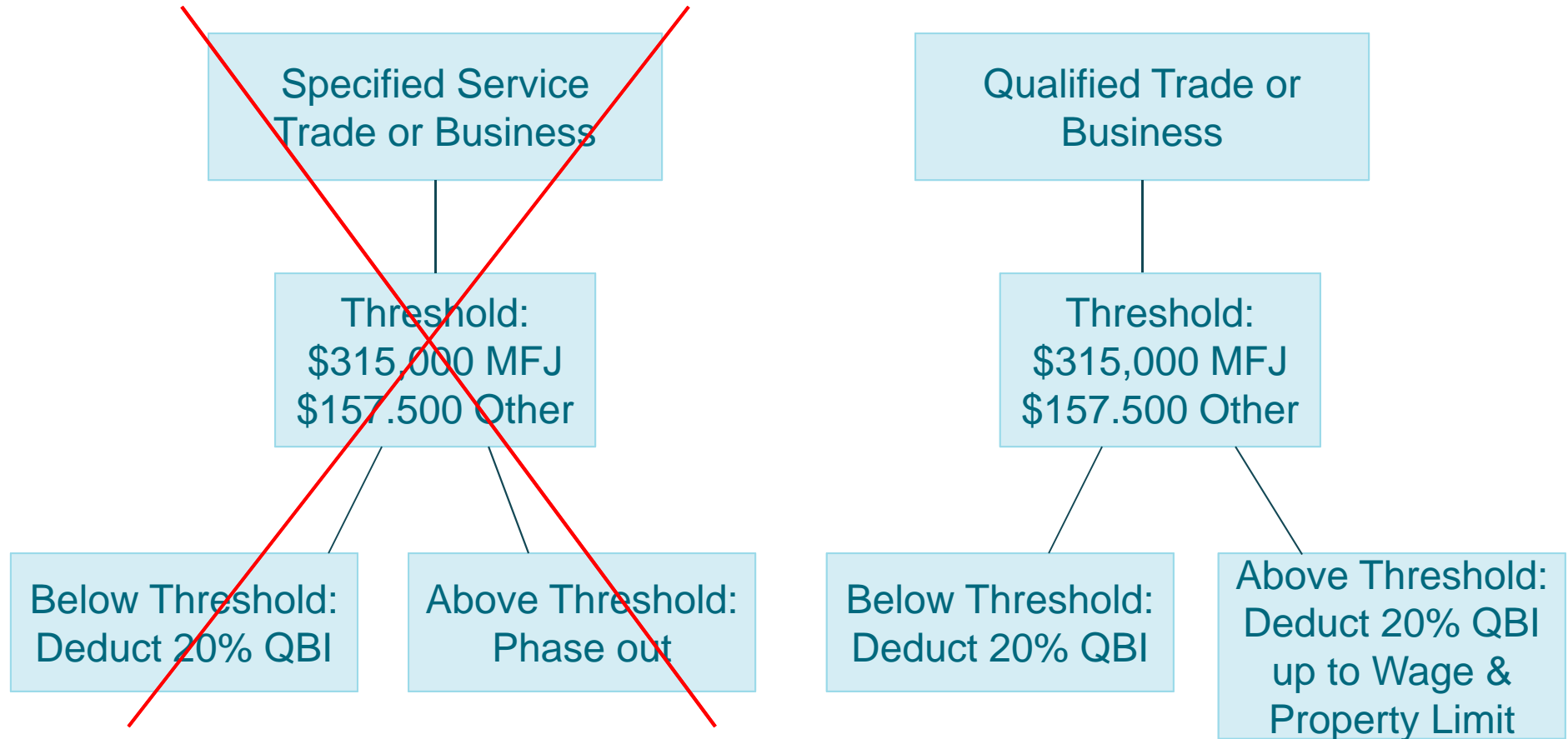
Specified Service Trade or Business:

Performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services.

New Regulations 1.199A-5(b)(2)(x):

Meaning of services performed in the field of brokerage services...does not include services provided by...insurance agents and brokers.

Sec. 199A Flowchart



Calculation

Wage & Property Limitation equals the greater of:

- 1) 50% of the W-2 wages or
- 2) 25% of the W-2 wage plus 2.5% of Property

Qualified Business Income \$5,000,000
Wages \$1,500,000
Property \$10,000,000

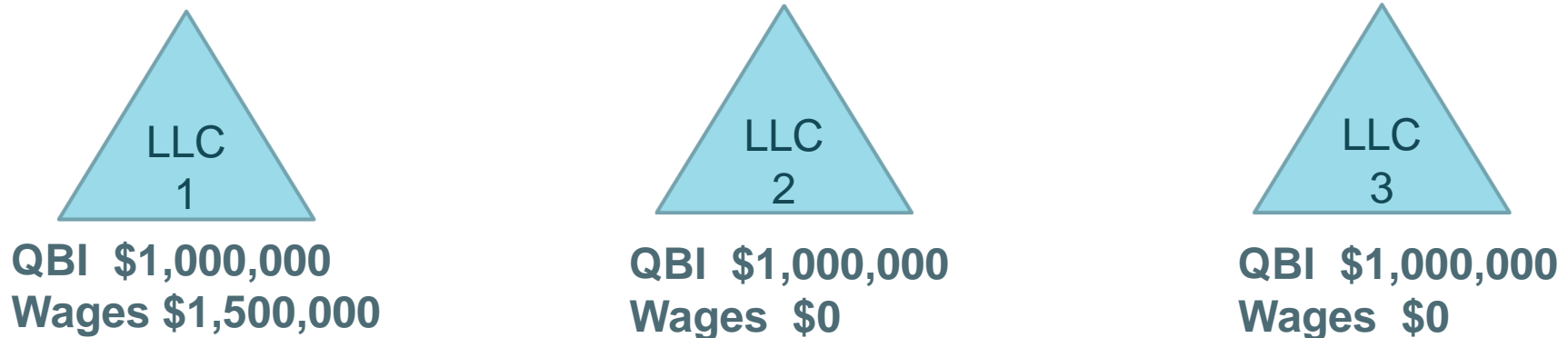
Potential Deduction
\$5,000,000
 x 20%
\$1,000,000

Wage Limitation
\$1,500,000
 x 50%
\$750,000

Wage & Property Limitation
\$1,500,000 10 million
 x 25% x 2.5%
\$375,000 + \$250,000 = 625k

$\$750,000 > \$625,000 = \text{QBI deduction } \$750,000$

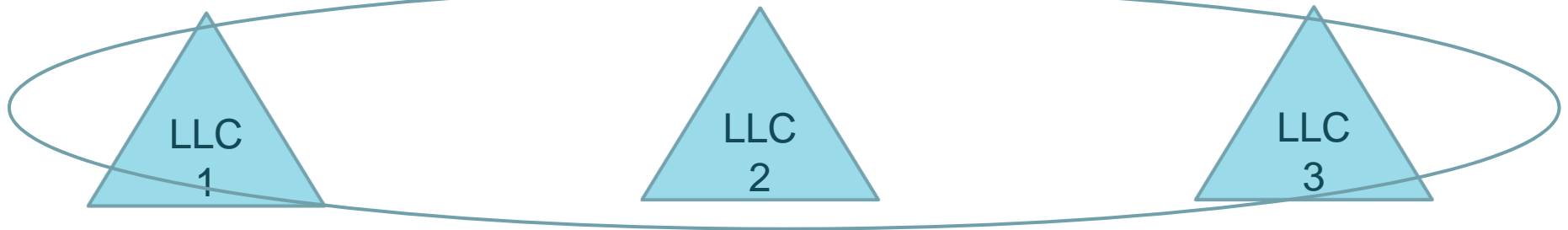
Multiple Entities



Scenario #1: LLCs are unrelated.

Scenario #2: LLCs are related, employees provide services for all companies, and a cost sharing arrangement is in place.

Aggregation: 50% common ownership



May aggregate if at least two of the following factors:

- (A) Provide products and services that are the same or offered together.
- (B) Share facilities or significant centralized business elements such as personnel, accounting, legal, HR, or IT resources.
- (C) Are operated in coordination with one or more of the businesses in the aggregated group.

NOL Treatment

| Entity Type | Old Law | New Law |
|----------------------------------|--|--|
| C-Corporation | Carryback 2 years; 20 year carryforward; 100% offset of TI | No carryback; indefinite carryforward; 80% limit |
| P&C Insurance Company | Carryback 2 years; 20 year carryforward; 100% offset of TI | No change |

NOL Treatment Example

- ▲ How are the NOLs Utilized?

- ▲ Taxpayer has the following:
 - ▲ 2019 - \$100 of Taxable Income
 - ▲ 2018 - \$10 NOL carryforward
 - ▲ 2017 - \$90 NOL carryforward

Corporate Changes



The Alternative Minimum Tax (AMT) has been repealed

Corporate Changes



International Taxation

Other Financial Statement Considerations



- ▲ ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*
- ▲ ASU 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*

Entity Selection



Choice of Entity

Changes Impacting All Entities

| | Old Law | New Law |
|-----------------------|---|---|
| Section 179 Expensing | \$500K limitation; Phase-out \$2 million | \$1 million limitation; Phase-out \$2.5 million |
| Bonus Depreciation | 50% for qualified property Elect out option available for class-by-class basis | 100% for qualified property Elect out of bonus available on class-by-class basis Election to take 50% bonus - includes all qualified property placed in service |

Changes Impacting All Entities

Meals and Entertainment

| | |
|---|-----------------|
| Holiday party or similar social events for employees | 100% deductible |
| Meals with clients, customers, or prospects with substantial business discussions | 50% deductible |
| On-premise meals provided for the convenience of the employer (such as lunch or dinner provided to employees while working) | 50% deductible |
| Meal reimbursements for employees while traveling on business | 50% deductible |
| Meals with clients, customers, or prospects at an entertainment activity (for example, meals at a sporting event) | Nondeductible |
| Meals with clients, customers, or prospects without substantial business discussions | Nondeductible |

Tax Reform

What's Next?