KRUPPA NELSON & KOVNER, PLLC
Certified Public Accountants

January 3, 2018

Dear client,

As you may be aware, major tax reform legislation has been signed into law this year and resulted in sweeping changes to the tax code for the first time in about 30 years. Businesses should be aware of the provisions that have changed and plan now for how they effect you moving into 2018. (If applicable, see our separate letter addressing changes affecting individuals.)

The corporate tax rate cuts are significant. The 2017 tax act provides for a 21% flat corporate tax rate. Businesses conducted as sole proprietorships, partnerships, or S corporations are subject to a special deduction under the 2017 tax act, beginning in 2018.

Below are highlights of the 2017 tax act applicable to businesses:

Business Deductions and Credits

• Section 179 Expensing:

o The expensing limitation is increased to $1 million and the phase out amount is increased to $2.5 million. The new limitations are to be adjusted for inflation. The act further expands the definition of §179 property and the definition of qualified real property for improvements made to nonresidential real property.

• Recovery Period for Farming Property:

o The 2017 Reform Act repeals the requirement that property used in a farming business use the 150% declining balance method of depreciation and provides a five year recovery period for machinery or equipment used in a farming business.

• Research and Development Credit:

o The research and development credit is preserved.

• Deductions for Income Attributable to Domestic Production Activities:

o Beginning in 2018, the deduction for income attributable to domestic production activities is repealed.

• Entertainment Expenses Deductions:

o Beginning in 2018, no deduction is generally allowed for entertainment, amusement, or recreation; membership dues for a club organized for business, pleasure, recreation, or other social purposes; or a facility used in connection with any of the above. The 50% limitation on business meals is retained.

8122 Datapoint Drive, Suite 250, San Antonio, TX 78229
(210) 694-5945 - Fax: (210)694-5958
info@satexascpa.com

- Net Operating Loss "NOL" Deduction:

  o Beginning in 2018, the limit on the NOL deduction is 80% of the taxpayer's taxable income. Amounts carried to other tax years must be adjusted to account for the limitation. Amounts are to be carried forward indefinitely so NOL's can no longer be carried back to prior tax years.

Corporations

- Corporate Tax Rate:

  o Beginning in 2018, there is a 21% flat corporate tax rate for "C corporations"; there is no special tax rate for personal service corporations.

- Alternative Minimum Tax:

  o Beginning in 2018, the alternative minimum tax ("AMT") for corporations is repealed. In 2018, 2019 and 2020, if a corporate taxpayer has AMT credit carryforward, taxpayer is able to claim a refund of 50% of remaining credits (to extent credits exceed regular tax for year). For 2021, taxpayer is able to claim a refund of all remaining credits.

Pass-Through Entities (Partnerships and S Corporations)

- Pass-Through Tax Rate:

  o Beginning in 2018, a 20% deduction for "qualified business income" is provided in lieu of tax rate changes. Special rules and limitations apply when computing the deduction. This deduction can also apply to sole-proprietorships (for individuals that file a Schedule C for their business). The deduction expires after December 31, 2025.

General Business Items

- Self-Created Property Not Treated as a Capital Asset:

  o Beginning in 2018, the new law treats gain or loss from the disposition of a self-created patent, invention, model or design, or secret formula or process as ordinary in character.

Please contact us if you would like to discuss tax planning opportunities in preparation for the new rules that are generally going into affect for 2018.

Sincerely,

Kruppa Nelson & Kovner, PLLC

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