



TAX REFORM SNAPSHOT: Pass-Through Impact

➤ NEW PASS-THROUGH DEDUCTIONS

The Tax Cuts and Jobs Act (TCJA) created the new tax code Section 199A that allows certain business owners to avoid tax on 20 percent of their business profits. To maximize deduction, eligible pass-through entities and sole proprietorships must be correctly positioned in areas like compensation, employee wages, asset purchases, entity type and business activities.

➤ TAX RATE CHANGES: SHOULD I BECOME A C CORP?

While the top individual tax rate drops to 37 percent, the corporate rate cut to 21 percent may entice pass-through owners. Changing to a corporate structure may not be the best path forward, and requires current and future evaluation of tax landscape and business strategy. Don't overlook other factors like the second level of federal tax on corporations and state income tax considerations. Your RKL advisor can help you evaluate these and all other tax decisions.

➤ NEW ACCOUNTING METHODS AVAILABLE

The new tax rules will now allow businesses up to \$25 million in gross receipts to take advantage of accounting methods that used to only apply to much smaller businesses. Your business may now be eligible to report on cash basis or modify its accounting for inventories.



FOCUSED. ON YOU.

› OTHER KEY PROVISIONS:

- Net interest expense deduction capped at 30 percent of adjusted taxable income
- Excess business losses of \$250,000 (\$500,000 for joint filers) may not be deducted in the current year; instead, they will be carried forward as a net operating loss in the following year
- New three-year holding period for certain carried interests in particular real estate or investment funds
- Bonus depreciation increased to 100 percent and expanded to used assets for first time (phase-out begins in 2023)
- Section 179 expensing allowance increased to \$1 million, subject to phase-out

WHAT DIDN'T CHANGE

TCJA keeps rules in place regarding active and passive investors, net investment income taxes and self-employment taxes.

STATE & LOCAL CONSIDERATIONS

Make sure to review state and local tax circumstances with your advisor as different jurisdictions may vary on several federal tax reform provisions.

› DISCLAIMER

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