

WHAT TAX REFORM MEANS FOR MANUFACTURERS & DISTRIBUTORS

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FIRM POSITION

Jonathan is a Partner in RKL's Tax Services Group. He provides strategic tax planning and compliance solutions to privately held businesses and their owners, including family owned, management owned and private equity owned enterprises. Jonathan applies his specialized tax expertise to develop strategies for minimizing tax liabilities, evaluating tax consequences of alternative business decisions and frequently consults with businesses undergoing structural changes or complex transactions like mergers, acquisitions and sales.

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WHAT CAN YOU EXPECT?

REAL ANSWERS!

- Business: Corporate and Pass-through
- Deductions
- Tax Credits
- What to do between now and December 31, 2018



BUSINESS PLANNING FOR M&D

- Corporate rate
- §199A
- Bonus depreciation
- AMT repealed
- Interest limitations
- NOL changes
- Business loss limitations
- Small business exemptions
- Tax Credits
- DPAD repeal
- Foreign

› C Corporations

TAX RATES

Remember that deferred tax assets and liabilities should have been revalued using the **new 21% Federal rate**. Keep this in mind for provision-to-return adjustments.

Fiscal filers have a blended rate for current year taxes.

› C Corporations

C CORPS WITH PROFITABLE FOREIGN SUBSIDIARIES:

Must include in 2017 U.S. taxable income, the total amount of unremitted foreign earnings that were never repatriated back to the U.S.

Should we elect to pay this additional tax liability over an eight-year period instead of all at once?

» Business Changes

CORPORATE AMT REPEAL

Remember that AMT credit carryovers to tax years beginning after 12/31/17 can still be utilized. They are partially refundable in 2018 – 2020 and fully refundable in 2021.

» Business Changes

LAST CHANCE TO DO AN NOL CARRYBACK!

NOLs arising from a tax year ending after 12/31/17 are not eligible for the two-year NOL carryback. NOLs arising from a tax year beginning 1/1/18 and after will be limited to 80% of taxable income.

› Choice of Entity

SHOULD I SWITCH TO A C CORP?

- Annual distributions to owners?
- Succession/exit strategy?
- Double layer of tax
- State considerations
- §1202 gain exclusion potential

› §199A

Entity structure?

Industry?

Wages?

Depreciable assets?

Taxable income level?

› §199A

How can you best avoid being caught in the qualified service provider definition?

› §199A

Make **self-employed retirement plan contributions** to further reduce taxable income and potentially increase 199A deduction.

› §199A

Are your **wages** from a business you own set at the proper level to maximize the Section 199A deduction?

› Depreciation

- 100% Bonus Depreciation
- Expanded Section 179
- 1031 exchange for equipment no longer allowed

Given immediate tax depreciation deductions, coupled with labor shortages, is it time for your business to further explore robotics and automation?

➤ Depreciation

Are there prior cost segregation studies that were never done?

It's never too late to do a look-back cost segregation study and claim 2017 deductions at higher tax rates!

Form 3115 needs to be filed by extended due date of 2017 return (C Corps still have time!).

› Depreciation

100% **bonus depreciation opportunity** applies for new and used assets placed in service after 9/27/17. So, consider taking advantage of this on 2017 tax returns (C Corps still have time!).

› Depreciation

MERGERS & ACQUISITIONS:

Consider impact of being able to **deduct 100% bonus depreciation on personal property**; even greater incentive for buyers to want an asset deal.

› Depreciation

MULTI-YEAR PLANNING:

In future years, if 100% bonus is going to go away (assuming it's not extended), it might be worth electing **OUT** of bonus in those years.

Stay tuned!

› Interest Limitation

Should I accelerate the pay-down of high cost borrowing to avoid limitations on **annual interest expense** deductions?

› Interest Limitation

Consider changing your **capital structure** to avoid the interest expense limitations.

Perhaps preferred equity may be a better solution to debt, despite different legal rights?

› Interest Limitation

Certain businesses can elect out of the limitation...

The trade-off is deferring some depreciation benefits (ADS depreciable lives must be used).

› Other Deductions

- Remember that Domestic Production Activities Deduction (“DPAD”) goes away
- Further restrictions on Meals & Entertainment Deductions
 - Make sure to update chart of accounts to make it easier to track what’s deductible vs. non-deductible.

› Accounting Methods

SMALL BUSINESS ALERT:

Consider accounting method changes that **defer income** or **accelerate deductions**. Possibilities include the expanded use of cash method, UNICAP exception, percentage of completion exception and requirement to keep inventory.

Automatic changes can be made through extended due date of 2018 return.

› Credits

R&D AND WOTC:

These credits survived.

Can you take advantage of them?

Lower tax rates make deductions worth less and credits worth more (proportionately speaking).

› Credits

STATE CREDITS:

Are my federal deductions for payments under state or local tax credit programs still deductible?

*Recent IRS & Treasury Department guidance indicates these payments will still be deductible as **business expenses**.*

Remember to consider PA EITC Program.

› International

CAN I STILL USE AN IC-DISC?

Yes, the provisions incentivizing companies to export products overseas survived tax reform and are still viable.

Consider using an IC-DISC to defer tax in the U.S. and take advantage of the tax rate arbitrage between ordinary income & qualified dividends (not as beneficial for C Corps anymore but still relevant for pass-throughs).

› What should I do NOW?

- Maximize 2017 deductions
- Last year for NOL carrybacks
- Electing to change entity classification for the 2018 tax year?
- Maximize 199A deduction
- Accounting method changes
- 2018 estimated tax planning

FOCUSED. ON YOU.

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