

A decorative graphic consisting of two overlapping yellow ribbon-like shapes, one on the left and one on the right, extending across the top of the slide.

Tax Cuts and Jobs Act Highlight for Businesses

**Francis Liu, CPA, CA, CPA (WA)
Tax Partner, Davidson & Company LLP**

Corporate Tax Rate

- Old rules
 - 15%/25%/34%/35% graduated rate
 - Dividends-received deduction (“DRD”) is 80% and 70% for 20%-or-more and less-than-20%-owned corporations, respectively
- New rules (for tax years beginning after December 31, 2017)
 - 21% flat rate
 - DRD reduced to 65% and 50% respectively
 - 20% corporate AMT repealed

Bonus Depreciation

- Old rules
 - 50% bonus depreciation allowance
 - New property only
- New rules
 - IRC Section 168: property placed in service after September 27, 2017 (and before January 1, 2023)
 - 100% Bonus depreciation for “qualified property” (tangible property with recover period of 20 years or less)
 - Includes used property

Interest Deductions

- Old rules
 - IRC Section 163(j) limits interest deduction where debt equity ratio exceeds 1.5:1 and net interest expense exceeds 50% of adjusted taxable income
- New rules
 - Deduction generally capped at 30% of adjusted taxable income
 - “level the playing field” between businesses that capitalize through equity and those that borrow
 - Exception for small businesses grossing on average \$25m or less for past 3 years

Sale of Partnership Interest

- Codifies look-through rule and overrides Grecian Magnesite Mining v. Commissioner, 149 T.C. No. 3 (July 13, 2017)
- Old rules
 - Court decision rejects 26 years of IRS practice (Rev. Rul. 91-32)
 - Held that generally foreign person's sale of partnership interest that is engaged in U.S. trade or business is foreign sourced
- New rules
 - Hypothetical sale of all assets at FMV
 - New 10% withholding tax

Net Operating Losses (NOL)

- Old rules
 - NOL fully deductible
 - Carry forward 20 years/back 2 years
- New rules
 - For losses arising in tax years beginning after December 31, 2017
 - Deduction generally limited to 80% of taxable income
 - Carry forward indefinitely, no carry back

One-Time Deemed Repatriation Tax

- U.S. shareholders of Controlled Foreign Corporations (CFC)
- One-time tax on earnings and profits of CFCs accumulated after 1986
- Measurement date:
 - November 2, 2017; or
 - December 31, 2017
- 15.5% tax rate for cash and liquid assets, 8% tax rate for other assets
- Tax may be paid over 8 years
- Also hits U.S. individuals shareholders
- \$339B expected by U.S. Treasury

Questions???

**THANK
YOU!**