Tax Reform Highlights
What Contractors Need to Know

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Punchlist of Today’s Topics

- 20% Flow-Thru Deduction
- Depreciation
- Like-Kind Exchanges
- Method of Accounting
- Limitation on Deduction of Business Interest
- Limitation on Deduction of Net Business Loss
- Changes in Net Operating Loss Rules
- AMT
- Fiscal Year C Corporations
- Meals and Entertainment

20% Flow-Thru Deduction

- New corporate tax rates…this is the reason why we have a new 20% flow-thru deduction.

Taxable Income	2017	2018
$0 - $50,000	15%	21%
$50,001 - $75,000	25%	21%
$75,001 - $10,000,000	34%	21%
Over $10,000,000	35%	21%

20% Flow-Thru Deduction

- ***<u>Old law:</u>***
  - ➢C corporation income taxed at top rate of 35%
    - 50.5% after individual tax paid on dividends
  - ➢Flow-thru income taxed at top rate of 39.6%
- ***<u>New law:</u>***
  - ➢C corporation income taxed at flat rate of 21%
    - 39.8% after individual tax paid on dividends
  - ➢Flow thru income taxed at top rate of 37%
    - 20% deduction reduces that top rate to 29.6% (37% x 80%)

20% Flow-Thru Deduction

- Flow-thru trades or businesses include:
  - Sole proprietorships
  - Single member LLCs
  - Partnerships
  - S Corporations

- Deduction is calculated at the individual (or estate or trust) level, not at the flow-thru entity level.

- Deduction generally equals:
  - 20% x *qualified business income ("QBI")* from each of the taxpayer's flow-thru trades or businesses
  - Additional limitations then apply

20% Flow-Thru Deduction

- QBI *includes:*
  - Interest income on A/R and N/R for services or goods provided
  - Ordinary depreciation recapture on the sale of business assets
  - Sec. 481(a) adjustments for changes in accounting method made in tax years ending *after* 12/31/17
  - Deduction for Sec. 1231 *losses* on the sale of business assets
  - Deduction for reasonable compensation *paid by an S corporation* for services provided by a shareholder-employee
  - Deduction for guaranteed payments *paid by a partnership* for services or use of capital
  - Deduction for suspended losses or deductions that were disallowed under the basis, at-risk, or passive activity rules in tax years beginning *after* 12/31/17 that are freed up in the current year
  - Deduction for NOL carryovers deducted in the current year, but only if attributable to a prior year excess business loss converted to NOL

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20% Flow-Thru Deduction

- QBI *excludes:*
  - Interest income on working capital, reserves, etc.
  - Sec. 1231 *gains* on the sale of business assets
  - Sec. 481(a) adjustments for changes in accounting method made in tax years ending *before* 1/1/18
  - Reasonable compensation *received by an S corporation shareholder* for services provided as a shareholder-employee
  - Guaranteed payments received by a partner for services or use of capital
  - Deduction for suspended losses or deductions that were disallowed under the basis, at-risk, or passive activity rules in tax years beginning *before* 1/1/18 that are freed-up in the current year
  - Deduction for NOL carryovers deducted in the current year, but only if not attributable to a prior year excess business loss converted to NOL

20% Flow-Thru Deduction

- Total deduction is always limited to 20% of the taxpayer's *total ordinary taxable income*
  - Excludes income that is already taxed at favorable capital gains rates, such as long-term capital gains or qualified dividend income.
- If the taxpayer's *total taxable income* (from all sources) exceeds certain thresholds, two additional limitations will apply:
  - W-2/property limitation
  - Specified service trade or business ("SSTB") limitation

20% Flow-Thru Deduction

- Total taxable income thresholds:

  - *If your taxable income is <u>under</u> $315,000 (MFJ) or $157,500 (all other filers) –*
    - Don't even worry about these two additional limitations.

  - *If your taxable income is <u>over</u> $415,000 (MFJ) or $207,500 (all other filers) –*
    - The W-2/property limitation will apply.
    - Income that flows thru to you from a SSTB will not be eligible for the 20% deduction at all.

  - *If your taxable income is <u>between</u> $315,000 and $415,000 (MFJ) or $157,500 and $207,500 (all other filers) –*
    - The W-2/property limitation will phase in.
    - Deduction for income from a SSTB will phase out.

20% Flow-Thru Deduction

- W-2/property limitation is the *greater* of:

  - 50% x taxpayer's allocated share of the flow-thru entity's total W-2 wages or

OR

  - 25% x taxpayer's allocated share of the flow-thru entity's total W-2 wages plus 2.5% x taxpayer's allocated share of the flow-thru entity's unadjusted basis of tangible depreciable property

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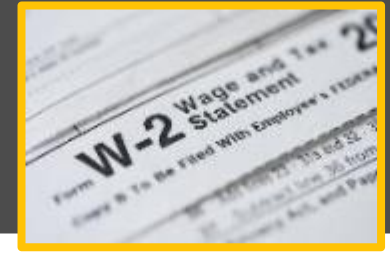
20% Flow-Thru Deduction



- Taxpayer's allocated share of the flow-thru entity's total W-2 wages:
  - Includes not only W-2 wages paid by the flow-thru entity itself, but also wages paid by another entity to common law employees or officers of the flow-thru entity (e.g., wages paid by a PEO, employee leasing firm, etc. – whether that other entity is related to the flow-thru entity or not).
  - Includes W-2 wages paid by an S corporation to its shareholders, but does not include guaranteed payments paid b a partnership to its partners.
  - IRS has provided three alternative methods for a flow-thru entity to determine the amount of W-2 wages, but the easiest and most likely to be used by most taxpayers, is the one referred to as the "unmodified box method". Total W-2 wages under this method equal to the lesser of:
    - Total entries in Box 1 of all W-2s
    - Total entries in Box 5 of all W-2s



20% Flow-Thru Deduction

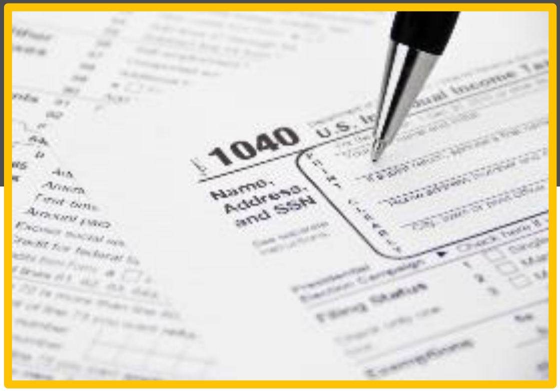
- Taxpayer's allocated share of the flow-thru entity's *unadjusted* basis of tangible depreciable property:

  - Does *not* include basis of land or of intangible assets.
  - Uses original cost immediately after the date the asset was acquired, not reduced by bonus depreciation, Sec. 179 expense, or regular depreciation.
  - Only includes assets used in the production of QBI, not assets held for investment or personal-use.
  - Can only include assets that are owned on the last day of the tax year!
  - Can only include assets if their depreciable period has not ended before the end of the current tax year. Depreciable period ends on the later of:
    a) 10 years after the date the asset was first placed in service or
    b) The last day of the last full year in the asset's regular tax life
    c) Generally: personal property 10 years, real property 27 or 39 years

20% Flow-Thru Deduction

- Specified Service Trade or Business limitation
  - ➢Includes several specifically listed business types.
    - Health, law, accounting, actuarial science, performing arts, ***consulting***, athletics, financial services or brokerage services.
    - Specifically excludes architects and engineers.
  - ➢Also includes "*any trade or business where the skill or reputation of its employees or owners is its principal asset*".
    - There was initially a lot of concern that the IRS would interpret this catch-all category very broadly.
    - How many businesses do you know say their employees are their most valuable asset?
    - Fortunately, recent guidance limits this category to basically famous athletes, Trump, and the Kardashian-Jenner sisters.

20% Flow-Thru Deduction



Simple Example:

Facts:

Married Couple, Filing Jointly	
Wage Income	200,000
S-Corp Income – all QBI	700,000
Share of S-Corp's Wages = $800,000	
Standard Deduction	(24,000)
Taxable Income (Pre-199A Deduction)	876,000

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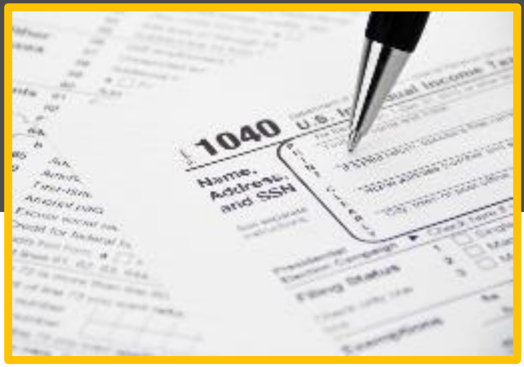
20% Flow-Thru Deduction



Simple Example (continued)

199A Deduction Calculation:

1) QBI from S corporation 700,000
x 20%
140,000

OR Lesser = $140,000

2) Share of W-2 Wages from S corporation 800,000
(Taxable income>$315,000) x 50%
400,000

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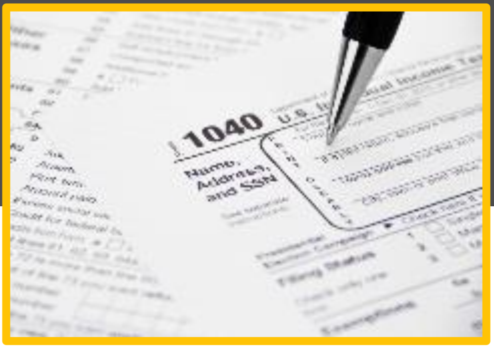
20% Flow-Thru Deduction



Wage Income	200,000
S-Corp Income – all QBI	700,000
Standard Deduction	(24,000)
Taxable Income (Pre 199A)	876,000
IRC 199A Deduction	(140,000)
Taxable Income (Post 199A)	736,000

IRC 199A Deduction	140,000
Top Marginal Tax Rate	X 37%
Tax Savings	51,800

20% Flow-Thru Deduction

- Taxpayers do *not* need to itemize to claim this deduction.
- Deduction applies for both regular tax and AMT purposes, but does not reduce self-employment tax.
- If taxpayer has *net negative QBI* from all trades or businesses:
  - There is no current year flow-thru deduction.
  - The net negative QBI amount is carried to the next tax year and treated as a negative QBI from a separate trade or business in that year's calculation.
- If taxpayer has *net positive QBI, but at least one trade or business is negative:*
  - The negative QBI's must reduce each positive QBI proportionately. The resulting reduced QBI's are then used when applying the wage and property limitations to that trade or business.

20% Flow-Thru Deduction

- Taxpayers can elect to *aggregate* their various trades or business, prior to applying limitations.
    - ➢Specific rules exist as to what trades or businesses can or cannot be aggregated (e.g., same year-end, excludes service businesses, etc.)
    - ➢These are *not* the same rules as for grouping trades or businesses for the passive activity loss limitation rules.
    - ➢*Planning strategy:* Aggregating can provide a higher-income taxpayer with a greater overall deduction, especially if one trade or business has low QBI but high W-2 wages and/or property amounts, while another has high QBI but low W-2 wages and/or property amounts.
    - ➢*Planning strategy:* Self-rental can be aggregated with operating business (subject to some limitations), insuring the rental qualifies as a trade or business, as well as maximizing the deduction.

Depreciation – Bonus

- Bonus percentage increased from 50% to 100%.
  - Stays at 100% thru 2022.
  - Phases down 20% each year from 2023-2026.

- Increased percentage applies to property *acquired* and *placed in service* after 9/27/17.
  - *Purchased assets* – taxpayer cannot have been a binding written commitment, to purchase asset or have asset constructed, that was dated prior to 9/28/17.
  - *Self-constructed assets* – construction must have started after 9/27/17.

- Eligible property was expanded to include not just **new** property, but **used** property as well.
  - Significant for contractors who regularly purchase used construction equipment.
  - Can’t be acquired from a related party and other anti-abuse rules apply.

Depreciation – Bonus

- Applies to personal property and land improvements – assets that have regular depreciation lives of 20 years or less.
  - The increase of the bonus percentage from 50% to 100% can *potentially* make the tax savings from cost segregation studies of real property even greater.

- Also applies to real property, but only if it meets the definition of "*Qualified Improvement Property*" and thus has a 15 year depreciation life instead of 39 years*
  - More on this fiasco later.

- The bonus depreciation deduction is:
  - Not limited to a maximum dollar amount per year
  - Not phased out if taxpayer acquires too many qualifying assets in a year
  - Not limited to the taxpayer's business income

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Depreciation – Sec. 179 Expensing

- Unlike bonus depreciation, the Sec. 179 deduction *is*:
  - Limited to a maximum dollar amount each year
  - Phased out if taxpayer acquires too many qualifying assets in a year
  - Limited to the taxpayer's business income

- TCJA increased the maximum deduction from $500,000 to $1 million.

- A dollar-for-dollar phaseout of the Sec. 179 deduction begins once total qualifying asset purchases exceeds $2.5 million (was $2 million prior to TCJA).

Depreciation – Sec. 179 Expensing

- Since *bonus depreciation* = 100%, can now be claimed on used property, and is NOT subject to all these Sec. 179 limitations, why should we even care about Sec. 179 anymore?

  - TCJA expanded the definition of qualifying assets for purposes of Sec. 179 to include the following improvements to nonresidential real property placed in service after the property was placed in service, assets that are NOT eligible for bonus depreciation:
    - Roofs; HVAC systems; Fire protection, alarm and security systems

  - Maximizing Sec. 179 and carrying forward disallowed amount may be preferable over creating an NOL using 100% bonus.
    - Sec. 179 carryforward can be used to offset 100% of next year's income
    - NOL carryforward can be used to offset only 80% of next year's income

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Depreciation – Sec. 179 Expensing

- Since *bonus depreciation* = 100%, can now be claimed on used property, and is NOT subject to all these Sec. 179 limitations, why should we even care about Sec. 179 anymore (cont.)?
  - Bonus depreciation won’t be 100% forever
  - Bonus phases out starting in 2023 and is gone after 2026
  - So Sec. 179 will become an even more more relevant planning tool once that phasedown period for bonus depreciation begins in 2023.

Depreciation – Real Property

- Asset lives for regular tax depreciation purposes remain the same under TCJA, despite initial proposals to shorten:
  - Residential property – 27.5 years
  - Nonresidential property – 39 years
- After 12/31/17, we have a single Qualified Improvement Property category, which has a 15-year life* for regular tax purposes and replaces three former asset categories:
  - Qualified Leasehold Improvement Property
  - Qualified Restaurant Property
  - Qualified Retail Improvement Property

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Depreciation – Real Property

- Qualified Improvement Property (“QIP”)
  - Includes any improvement to the interior portion of a nonresidential building.
  - Improvement must be placed in service after the date the building itself was placed in service (how long after???).
  - Does *not* include expenditures that are attributable to the enlargement of the building, an elevator or escalator, or any internal structural framework of building.

- *Technical correction required
  - In the rush to pass the bill, the statute doesn’t actually say what Congress thought it said.
  - Absent such a correction:
    - QIP has a 39 year tax life, not a 15 year tax life as intended.
    - With a tax life longer than 20 years, QIP will NOT be eligible for bonus depreciation beginning in 2018.

Like-Kind Exchanges

- The TCJA now limits the use of like-kind exchanges under Sec. 1031 to *real property* only – not *personal property* such as equipment or vehicles.

- A transition rule allows like-kind exchanges of personal property to be completed if the taxpayer has either disposed of the old property or acquired the new property on or before 12/31/17.

- Despite this change, a taxpayer may still want to structure a sale and purchase of personal property (such as a vehicle) as an exchange:

    - To minimize the sales tax implications of the transaction or

    - If their state income tax law still allows tax-free exchanges of personal property because the state's income tax statutes do not yet conform with current federal income tax statutes

Like-Kind Exchanges

- Any gain on the sale of personal property will still be able to be partially, or even fully, offset by the taxpayer’s use of the new 100% bonus depreciation on the purchase of replacement personal property
  - Remember, however, that the exclusion of personal property from like-kind exchange treatment is a *permanent* exclusion, while the 100% expensing provision is only *temporary*, phasing out for property placed in service beginning in 2023 and then expiring for property placed in service after 2026.
  - The negative impact of the exclusion of personal property from like-kind exchange treatment will therefore increase once that phase-out period for bonus depreciation begins in 2023.

Method of Accounting – Overall Method

- ***<u>Old Law:</u>***
  - Only sole proprietors, S corporations, and partnerships (if the partnership did not have a partner that was a C corporation) could use the cash method of accounting, as long as they were not a tax shelter (as previously defined).
  - C corporations and partnerships with at least one partner that was a C corporation were required to use the accrual method of accounting, unless their 3 year average gross receipts did not exceed $5 million and they were not a tax shelter. This $5 million test had to be met for *all* prior tax years, not just the current year.
  - Special rules and gross receipts thresholds applied to all taxpayers that were required to maintain inventory, regardless of their entity type. (More on this next.)

Method of Accounting – Overall Method

- ***New Law:***

  - The average gross receipts limit for C corporations and partnerships with at least one C corporation partner increased from $5 million to $25 million for tax years beginning after December 31, 2017. In addition, the test now only needs to be satisfied for the current tax year, not all prior years.

  - The prohibition against being a tax-shelter still applies.

  - Taxpayers who currently are using the accrual method because their average gross receipts exceeded $5 million, but are now eligible to change to the cash method under the $25 million increased threshold, will need to file a Form 3115 requesting a change in accounting method.

Method of Accounting – Inventory

- ***<u>Old Law:</u>***

  - Taxpayers were required to maintain inventories if the “production, purchase or sale of merchandise was a material income-producing factor”.

  - Those taxpayers were also then generally required to use the overall accrual method of accounting, *regardless of their level of gross receipts*.

  - Exceptions were provided for:
    - Small taxpayers with average annual gross receipts of not more than $1 million.
    - Taxpayers in certain specified industries with gross receipts of not more than $10 million.
    - These taxpayers were allowed to account for their inventory as non-incidental materials and supplies and, more importantly, could use the overall cash method of accounting, as long as they were not a tax shelter.



Method of Accounting – Inventory

- ***New Law:***

  - The average gross receipts limits of $1 million and $10 million are eliminated and replaced with a single $25 million average gross receipts test for tax years beginning after 12/31/17.

  - Qualified taxpayers can then utilize the overall cash method of accounting (as long as they are not a tax shelter) and can choose to either:
    - treat inventories as non-incidental materials and supplies, or
    - conform their tax reporting of inventories to their financial accounting treatment

  - Taxpayers who currently are currently maintaining inventories/utilizing the accrual method of accounting, but are no longer required to under these new rules, will need to file a Form 3115 requesting a change in accounting method.

Method of Accounting – Inventory/UNICAP

- ***Old Law:***

  - The UNICAP rules generally require a business to include certain direct and indirect costs in the tax basis if those costs are either:
    - Related to real or personal property *produced* for sale or for use in the business
    - Related to real or personal property *acquired* for resale

  - There was an exception for *small resellers*, if they had $10 million or less of average annual gross receipts.

  - There was no similar exception for *small producers*.

Method of Accounting – Inventory/UNICAP

- ***New Law:***

  - For tax years beginning after December 31, 2017, any *producer* or *reseller* that meets a $25 million gross receipts (up from $10 million) test is exempted from the application of the UNICAP rules.

  - Taxpayers who currently are currently applying UNICAP to their inventory, but are no longer required to under these new rules, will need to file a Form 3115 requesting a change in accounting method.

Method of Accounting – Long-Term Contracts

- ***Old Law:***

    - Taxpayers were required to utilize the percentage-of-completion (“PCM”) method of accounting for their long-term contracts unless:
        - Their average gross receipts for the prior 3 years did not exceed $10 million and
        - The contract was expected to be completed within two years

    - Taxpayers and contracts that met these two requirements could utilize the completed contract method or any other permissible exempt contract method
        - PCM
        - Exempt contract PCM
        - Completed contract method
        - Cash
        - Accrual or accrual excluding retention

Method of Accounting – Long Term Contracts

- ***New Law:***

  - Average gross receipts limit increased from $10 million to $25 million.

  - The contract must still be expected to be completed within two years of its commencement.

  - Taxpayers who are currently using PCM, but are no longer required to under these new rules, will need to file a Form 3115 requesting a change in accounting method.

  - Unlike the prior three changes, this change is implemented on a cut-off basis, meaning the change would only apply to contracts that are entered into after December 31, 2017.

Method of Accounting – Long Term Contracts

- PCM Accounting and AMT
  - Contractors must still use the PCM for *AMT* purposes, even if they are not required to use it for *regular* tax purposes.
  - However, the TCJA completely repealed AMT for C corporations, making the need to use PCM for AMT purposes rather irrelevant.
  - TCJA also made changes for individuals that limit their likelihood of being subject to AMT – although larger contractors with increasing volume and revenue each year still need to closely monitor the potential impact of AMT on their individual investors.



Limitation on Deduction of Business Interest

- The tax deduction for *business interest* expense is now limited to the sum of business interest income plus 30% of *adjusted taxable income.*
- Previously existing debt is *<u>not</u>* grandfathered in.
- Calculation is done at the entity level in the case of C corporations and flow-thru entities and at the individual level in the case of sole proprietors and single-member LLCs.
- Business interest expense that exceeds this new limitation is carried forward indefinitely:
  - At the entity level for C corporations and S corporations
  - At the partner level for partnerships (in a way that may convert the ordinary interest deduction into a reduction in capital gain on disposal of partnership interest)

Limitation on Deduction of Business Interest

- So, what is *adjusted taxable income* for purposes of this limitation? It is the taxpayer's taxable income without regard to:

  - Any income, gain, deduction or loss that is not allocable to a trade or business
  - Any business interest income or expense
  - The 20% flow-thru deduction
  - The amount of any NOL deduction
  - The amount of depreciation, amortization, or depletion expense (for tax years beginning *before* 1/1/22 only)

Limitation on Deduction of Business Interest

- Small taxpayer exemption – the good news

  - ➢Less than $25 million average gross receipts for prior 3 tax years (need to test this every year). Gross receipts include:
    - Sales, not reduced by COGS
    - Income from investments – interest, dividends, rents
    - Net taxable gain from the sale of capital assets or business assets

  - ➢Aggregation rules for related entities (parent-sub, brother-sister, other)

  - ➢Not available if you are a tax shelter…
    - You may be surprised by the definition of a tax shelter for this purpose.
    - A partnership or S corporation that allocates more than 35% of its losses for the year to owners that are not active in the business (passive owners).



Limitation on Deduction of Business Interest

- If you don't meet the small taxpayer exception, but you are a "*real property trade or business*", you can elect out of this 30% limitation

  - Real property trade or business = real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business

  - The election is irrevocable

  - If you make the election, *there is a price to pay*: you must use ADS depreciation for your residential real property, nonresidential real property, and Qualified Improvement Property
    - Longer depreciation lives
    - No bonus depreciation

  - You can still use regular depreciation and claim bonus on your personal property and land improvements



Limitation on Deduction of Net Business Loss

- **Old law:**

  - Deduction of pass-thru losses was subject to three limitations:
    - Taxpayer’s tax basis in the activity
    - Taxpayer’s amount at-risk in the activity
    - The application of the passive loss rules

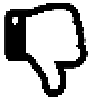
  - Pass-thru losses that were disallowed by any of these three hurdles in a given year were suspended and carried forward to subsequent tax years, where they were once again subject to the same three limitations.

Limitation on Deduction of Net Business Loss

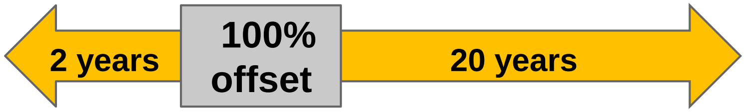
- **New law:**

  - Old law limitations of basis, at-risk and passive loss rules still apply

  - TCJA added a fourth hurdle for tax years beginning after 12/31/17 and before 1/1/26
    - “Excess business losses” will no longer be allowed as a deduction in the current year
    - “Excess business losses” are total net business losses in excess of $500,000 (MFJ) or $250,000 (all others)

  - These excess business losses will carryover to the following year, but not as a pass-thru loss. Instead, they will carryover to the following year as a Net Operating Loss.
    - So not subject to the $500,000/$250,000 limit again in future years 
    - But subject to the new NOL rules 

Changes in Net Operating Loss Rules



- ***<u>Old law:</u>***

  - NOL carryover could offset 100% of regular taxable income (90% of AMT income)

  - NOL's could be carried back two years and forward 20 years
    - This allowed contractors with a "bad year" due to a depressed economy or significant loss jobs to carryback their current year loss to a prior year and obtain a refund of taxes they had paid in that prior year, helping with current year cash flow.
    - The loss of the carryback option will cause "bad years" to be even more painful to the construction industry.



Changes in Net Operating Loss (“NOL”) Rules

80% offset

Forever

- ***<u>New law:</u>***

  - An NOL created in a taxable year *beginning after* 12/31/17 can only offset 80% of regular taxable income (90% of AMT income).

  - An NOL created in a taxable year *ending after** 12/31/17 can no longer be carried back to prior tax years, but will now carryforward indefinitely to subsequent tax years (* unintended error in the statute, technical corrections should change this to *beginning after*, the same effective date as the 80% rule).

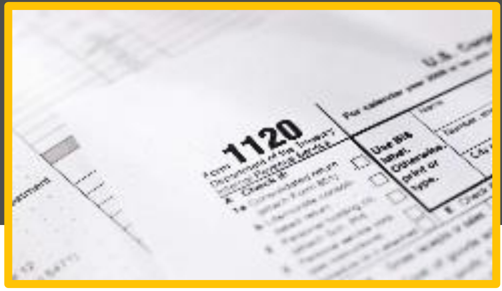
  - NOL’s created in prior tax years are still subject to the old law – they carryforward for only 20 years, but they can still offset 100% of regular taxable income.

Alternative Minimum Tax

- New law eliminated AMT for C corporations, but unfortunately not for individuals

- However, the new law *does* reduce the likelihood of AMT actually applying to individual taxpayers
  - ➢ Increases the AMT exemption amount
  - ➢ Increases the income level where the AMT exemption phases out
  - ➢ Reduces two significant AMT adjustments
    - $10,000 cap on the itemized deduction for state and local taxes (income and property taxes)
    - Eligibility to use bonus depreciation on used property

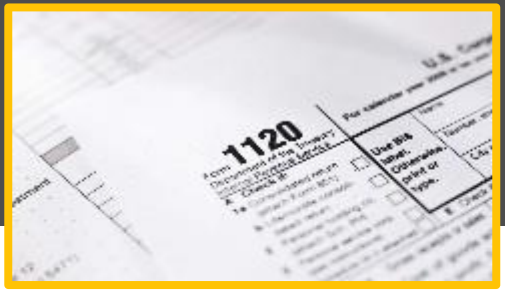
Fiscal Year C Corporations



- Because the TCJA changed the corporate income tax rates effective 1/1/18, C corporations that have a tax year that straddles that date must use a blended rate to calculate their regular tax liability for that tax year.

- This requires the corporation to follow these four steps:
  - Calculate its first tentative tax by applying the old progressive tax rates to its total income for the tax year
  - Calculate its second tentative tax by applying the new 21% flat tax rate to its total income for the tax year
  - Multiply each tentative tax by the proportion of the straddle year to which each tax rate applies
  - Add the results of the two calculations

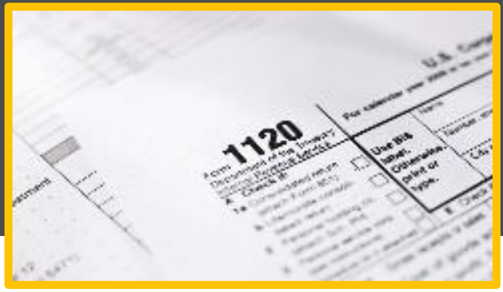
Fiscal Year C Corporations



- *Example:*
  - A C corporation with a June 30 tax year end has taxable income of $1 million.
  - Using the four steps above, its first tentative tax is $340,000.
  - Its second tentative tax is $210,000.
  - The $340,000 is multiplied by 184/365 days to get $171,397.
    The $210,000 is multiplied by 181/365 days to get $104,137.
  - Then, $171,397 and $104,137 are added together for a blended regular tax liability of $275,534.



Fiscal Year C Corporations



- In addition to reducing the regular corporate tax rates, the TCJA also eliminated the alternative minimum tax (“AMT”) for C corporations. When a tax is repealed, the repeal is also treated as a rate change, with the rate for the period after the repeal being zero.

- *Example:*
  - The same C corporation has AMTI (in excess of its AMT exemption amount) of $2,000,000.
  - Using the same four steps above, its first tentative tax is $400,000.
  - Its second tentative tax is $0.
  - The $400,000 is multiplied by 184/365 days to get $201,644.
    The $0 is multiplied by 181/365 days to get $0.
  - So, the blended AMT tax liability is $201,644.

Meals & Entertainment

- ***Entertainment expenses*** went from 50% deductible to 0% deductible.
  - Pre-TCJA
    - 50% deductible if expense was ordinary, necessary and related to the active conduct of the taxpayer's trade or business, taxpayer was present, and expense was not lavish or extravagant.
  - Post-TCJA
    - 0% deduction allowed, period – even if related to the conduct of business and even if there is a substantial and bona fide business discussion associated with the activity.

Meals & Entertainment

- **Entertainment** affected by this change includes (not an all-inclusive list):
  - Golf outings and golf club dues
  - Sporting events
  - Fishing, hunting or trap shooting
  - Theater or concert tickets
  - Sightseeing or tourist activities

- **Entertainment** not affected by this change includes:
  - Holiday party or company picnic for employees – still 100% deductible
  - Team building events for employees – still 100% deductible
  - Happy hour or other social event for employees – still 100% deductible

Meals & Entertainment

- Expenses for ***de minimis* food and beverage for employees** went from 100% deductible to 50% deductible
  - ➢Pre-TCJA
    - 100% deductible if the value was so small (taking into account frequency) as to make accounting for it unreasonable or administratively impractical
  - ➢Post-TCJA
    - 50% deductible

- Includes (not an all-inclusive list)
  - ➢Coffee, soda, water, snacks, etc. provided on the taxpayer's premises for employees
  - ➢Meals or meal money provided to employee(s) on an occasional basis
  - ➢Meals or meal money provided to employee(s) because overtime work necessitates an extension of their normal work schedule

Meals & Entertainment

- Practical implications of these changes
  - Employee expense reports detail
  - Accounting system detail
  - Business decisions

- A handy checklist that covers these new meals and entertainment rules is available at https://www.wipfli.com/services/tax/tax-form-m-and-e

Thank You!

For additional details regarding the TCJA, including business and individual provisions, as well as updates as the IRS and/or Congress issue additional guidance, please see:

https://www.wipfli.com/insights

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