HERSMAN SERLES ALMOND, PLLC

520 Kirkland Way, Suite 300
Kirkland, WA 98083
Telephone: (425) 822-6557

Dear Client,

We wanted to reach out to you to suggest that we set up a time to discuss tax planning and to alert you of changes in the law that might affect this planning. As you may be aware, major tax reform legislation has been signed into law this year that 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 begin planning now for how they will affect you moving into 2018.

The corporate 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.

The 2017 tax act also significantly reforms international rules. This has made planning more difficult, particularly for businesses that must consider the impact of international tax rules.
Below are highlights of the 2017 tax act.

**Business Deductions and Credits**

• *Section 179 Expensing:*

o The expensing limitation is increased to $1 million and the phase out amount 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.

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o Beginning in 2018, the deduction for income attributable to domestic production activities is repealed.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

• *NOL Deduction:*

o Beginning in 2018, the limit on the NOL deduction is 80% of the taxpayer's taxable income and provides that amounts carried to other years be adjusted to account for the limitation. Amounts are only to be carried <u>forward</u> indefinitely.

**Corporations**

• *Corporate Tax Rate:*

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

• *Alternative Minimum Tax:*

o Beginning in 2018, the alternative minimum tax is repealed.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

**Pass-Through Entities**

• *Pass-Through Tax Rate:*

o Beginning in 2018, generally a 20% deduction for qualified business income is provided in lieu of tax rate changes. Special rules apply when computing the deduction. The deduction expires after December 31, 2025.

**International**

• *Base Erosion:*

o U.S. shareholders of CFCs are subject to current U.S. taxation on "global intangible low-taxed income" (GILTI) with a 37.5% deduction for foreign-derived intangible income. There is a revised definition of intangible property for purposes of §367(d) and §482. Clarification of the Commissioner's authority to specify the method used to determine value of intangible property has also been provided. There is now a denial of deduction for certain related-party amounts paid or accrued in hybrid transactions or with hybrid entities. Dividends received by an individual shareholder of a surrogate foreign corporation are not eligible for reduced rates on dividends in §1(h).

Please contact us to discuss tax planning opportunities in preparation for the new rules that are generally going into effect for 2018.

Respectfully yours,

*Hersman Serles Almond, PLLC*