HORNE
CPAs & BUSINESS ADVISORS

WHAT TO EXPECT FROM THE TAX CUTS & JOBS ACT

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If you can recall the lyrics from the Schoolhouse Rock jingle "I'm Just a Bill," you know that passing a bill into law can take some time. After much discussion, The House Committee on Ways and Means passed the Tax Cuts & Jobs Act. This Act will move to a vote by the entire House and has a long way to go before it is enacted into law. While we still anticipate changes to this proposal, there are a few items listed that contractors should take note of in the upcoming months.

THE BOTTOM LINE

Although the Tax Cuts & Jobs Act isn't a law yet, its proposed changes could greatly affect contractors.

Exemptions & Deductions

Currently taxpayers are allowed a personal exemption of $4,050 for themselves and each person they claim. Under current tax law, the personal exemption is disallowed for taxpayers whose income is above $436,300.

The proposed legislation would eliminate *all* personal exemptions regardless of income levels. The child tax credit for children under seventeen will increase from $1,000 to $1,600, and alimony will no longer be deductible.

Pass-Through Entities

There is good news for Pass-through Entities (S-Corps, LLCs, Partnerships, and Sole Proprietorships). Currently, Pass-through Entities are fully taxed at the individual's tax rates, which can be as high as 39.6%.

The committee is proposing for 30% of income to be taxed at 25%, and the remaining income to be taxed at the individual rate. Additionally, the proposed legislation would enact a special pass-through rate of 9% on the first $75,000 of pass through income, with this rate being phased out for pass-through income that exceeds $150,000. All income from passive companies would be taxed at 25%.

C-Corps

The proposed legislation would set a flat 20% tax rate on C-Corp profits. However, don't rush out and change your company to a C-Corp. The money you distribute from your company will be taxed again as either a dividend or wages on your personal tax return. There isn't any talk about decreasing dividend or salary tax rates under the proposed House legislation.

Depreciation

There are two ways to accelerate depreciation on all fixed assets, except for real estate. You may have heard the term Section 179. This is the term for fully deducting fixed asset purchases up to $500,000 in the first year. However, once you purchase over $2,010,000 in assets in one year, you phase-out and cannot take Section 179.

The proposed legislation will allow you to deduct up to $5,000,000 in assets until your purchases exceed $20,000,000.

There is another accelerated depreciation term called bonus depreciation or Section 168k. For new fixed asset purchases in 2017, you can deduct 50% the first year. The new bill would increase this to 100%.

The Committee aims to make this retroactive for purchases after September 2017. Increasing the allowable accelerated depreciation for listed automobiles was not included in the proposed legislation and is set to remain at $11,360.

Alternative Minimum Tax (AMT)

One large benefit on the proposal would be the repeal of the alternative minimum tax (AMT), which widely affects contractors. Under AMT, net operating loss can only be used up to 90%, state taxes are not deducted and long term contracts are taxable, even if they are deferred for your method of accounting.

AMT was originally designed to prevent abuse by the wealthy, but over the years it has not followed inflation. Alternative minimum tax is now seen on over five million taxpayers.

Accounting Methods

Another positive change for contractors would be an increased threshold before being subjected to the percentage of completion (POC) accounting method for long-term contracts. Currently, if companies have revenue over $10,000,000, they are required to report their taxable income on the POC method.

The new law would allow any company under $25,000,000 to have the choice of filing as Completed Contract or other permissible exempt contract method.

A majority of the administration is pushing to have comprehensive tax legislation passed by Thanksgiving, but we don't think this is likely. We will continue to monitor the bills progress and how it will affect you. If you have any questions do not hesitate to contact us.

QUESTIONS?

If you have any questions on how the Tax Cuts & Jobs Act could affect you, HORNE can help.

Contact Tracie Dupuy at tracie.dupuy@hornellp.com or 601.326.1146.