



Tax Cuts and Jobs Act of 2017

For the MBA Directors and Officers Seminar

BKD
CPAs & Advisors

WHAT BUSINESSES & INDIVIDUALS NEED TO KNOW

MAY 9, 2018



WHAT WE'LL COVER TODAY

1

What's in the tax bill?

2

What are some tax planning considerations?

3

What questions can we help with?



BUSINESS PROVISIONS

Tax rates

Corporate Tax Rate

Flat rate of 21 percent effective January 1, 2018
(Previously top rate of 35 percent)

Alternative Minimum Tax

Repealed
(Previously 20 percent)

Personal Service Corporations

Flat rate of 21 percent effective January
1, 2018
(Previously flat rate of 35 percent)

Bank
Deferred Tax Inventory
Est. as of 12.31.2017

Holding Company

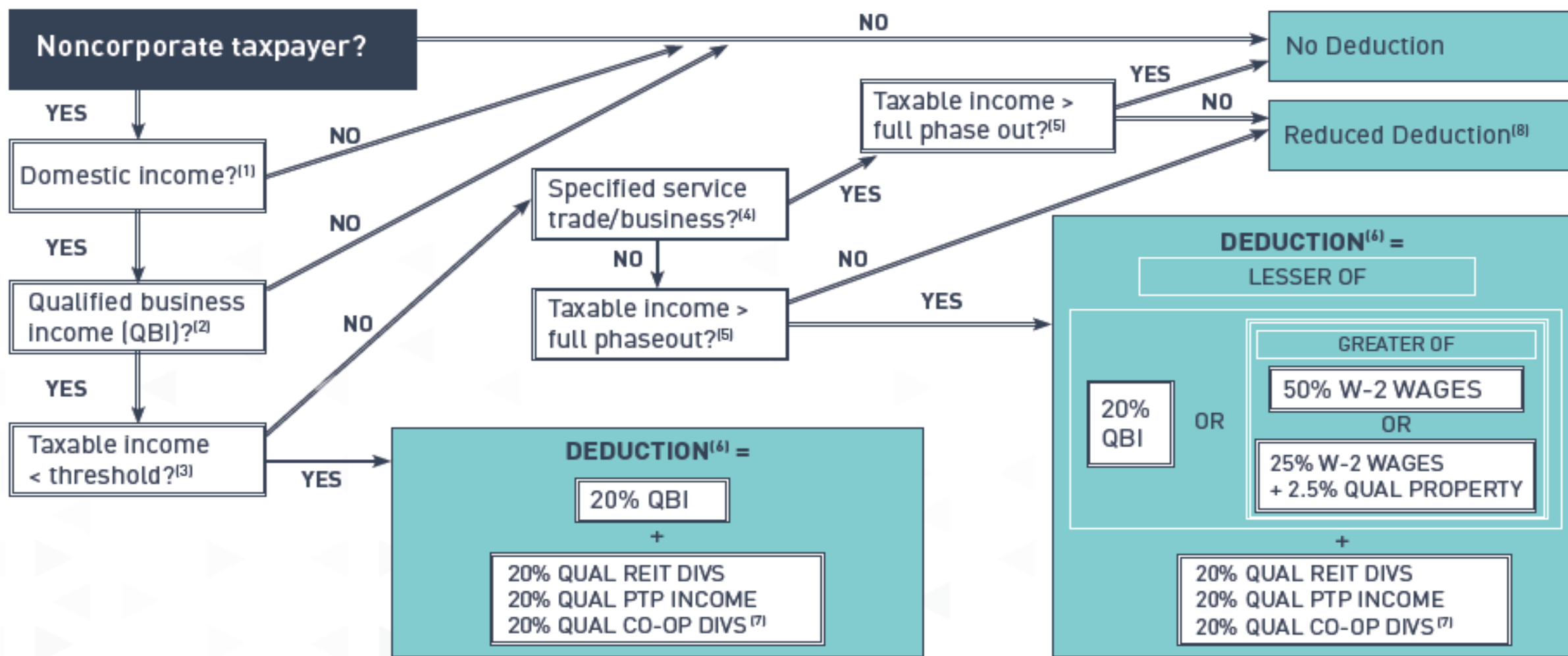
| Temporary Differences | 12.31.2016 Balance Deferred Inventory | 2017 Est. M-1 | Est. as of 12.31.2017 Deferred Inventory Balance | DTA/DTL Current Rate 38.50% | DTA/DTL New Rate 25.94% | Impact to the Income Stmt |
|-----------------------|------------------------------------------|------------------|-----------------------------------------------------|-----------------------------------|-------------------------------|------------------------------|
| *None* | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

Bank

| Temporary Differences | 12.31.2016 Balance Deferred Inventory | 2017 Est. M-1 | Est. as of 12.31.2017 Deferred Inventory Balance | DTA/DTL Current Rate 38.50% | DTA/DTL New Rate 25.94% | Impact to the Income Stmt |
|------------------------------------|------------------------------------------|------------------|-----------------------------------------------------|-----------------------------------|-------------------------------|------------------------------|
| Allowance for Loan Loss | 2,200,000 | 100,000 | 2,300,000 | 885,500 | 596,563 | (288,938) |
| 585 Allowance | (1,200,000) | (50,000) | (1,250,000) | (481,250) | (324,219) | 157,031 |
| OREO | 100,000 | 20,000 | 120,000 | 46,200 | 31,125 | (15,075) |
| Non-accrued Loan Interest | 20,000 | - | 20,000 | 7,700 | 5,188 | (2,513) |
| Depreciation | (500,000) | (40,000) | (540,000) | (207,900) | (140,063) | 67,838 |
| Accrued Bonuses | 250,000 | 20,000 | 270,000 | 103,950 | 70,031 | (33,919) |
| Deferred Compensation | 1,750,000 | 50,000 | 1,800,000 | 693,000 | 466,875 | (226,125) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| | 2,620,000 | 100,000 | 2,720,000 | 1,047,200 | 705,500 | (341,700) |
| Other Comprehensive Income | | | | | | |
| Provision for Unrealized Gain/Loss | 1,100,000 | (500,000) | 600,000 | (231,000) | (155,625) | 75,375 |
| | | | | Net Unreal Gain | 444,375 | |
| | | | | Net Unreal Gain | 369,000 | |

Pass-Through Business Deduction

Effective in 2018, new Internal Revenue Code Section 199A provides a deduction of 20 percent of domestic qualified business income (QBI) from a partnership, S corporation or sole proprietorship to noncorporate taxpayers, i.e., individuals, trusts & estates. Provision sunsets December 31, 2025.



See next page for footnotes.

Pass-Through Business Deduction

- (1) Domestic: Effectively connected with conduct of trade/business within U.S. & Puerto Rico
- (2) Qualified business income (QBI): Net amount of items of income, gain, deduction & loss with respect to any qualified trade or business, except:
 - Reasonable compensation
 - Guaranteed payments
 - Investment income
 - Short-term & long-term capital gain/loss
 - Dividend income
 - Interest income

(Note overall loss treated as loss for purposes of calculation in subsequent year)

- (3) Threshold = \$157,500 (single) | \$315,000 (married filing jointly (MFJ)), indexed
- (4) Specified service business: Any trade or business involving performance of services in fields of:
 - Health
 - Law
 - Accounting

- Actuarial science
- Performance arts
- Investing & investment management, trading or dealing in securities, partnership interests or commodities
- Consulting
- Athletics
- Financial services
- Brokerage service
- Principal asset is reputation or skill of one or more of its employees or owners

- (5) Full phaseout = \$207,000 (single) | \$415,000 (MFJ), indexed
- (6) Deduction = Limited to 20 percent of excess of taxable income over the sum of any net capital gain
- (7) Qual co-op divs = Limited to taxable income less net capital gain
- (8) Reduced deduction: Wage limitation phases in & the deduction for specified service businesses phases out on a pro-rata basis between the threshold & full phase-out amounts



BUSINESS PROVISIONS

Cost recovery

Bonus Depreciation

- 100 percent through 2022 for qualified property placed in service after September 27, 2017
- 80, 60, 40 & 20 percent for property placed in service in 2023–2026, respectively
- Definition of qualified property expanded by removing requirement that original use begin with taxpayer
- Specified property included & excluded

(Previously 40, 30 & 20 percent bonus depreciation for qualified property in 2018–2020, respectively; property must be new to qualify)



BUSINESS PROVISIONS

Cost recovery

Section 179 Expensing

- Up to \$1 million
- Phaseout beginning at \$2.5 million of assets placed in service
- Definition of qualified property expanded to include certain improvements to nonresidential real property, including roofs, HVAC systems, fire protection & alarm systems & security systems

(Previously up to \$520,000; phaseout beginning at \$2,070,000 of assets placed in service)



BUSINESS PROVISIONS

Accounting methods

Uniform Capitalization Rules for Inventory

Required when gross receipts > \$25 million for property acquired for resale or manufactured property

(Previously gross receipts > \$10 million for property acquired for resale; no threshold for manufactured property)

Percentage-of-Completion Method

Required when gross receipts > \$25 million

(Previously gross receipts > \$10 million)

Cash Method of Accounting

Allowed for C corporations with < \$25 million in gross receipts

(Previously allowed for C corporations that do not exceed \$5 million gross receipts test)



BUSINESS PROVISIONS

Interest Expense Deduction

- Deduction would be limited to
 - Business interest income
 - Floor plan financing interest
 - 30 percent of entity's adjusted taxable income
- Limit does not apply to
 - Businesses with average gross receipts of \$25 million or less
 - Regulated public utility business
 - Real property businesses
- Excess carried forward indefinitely

(Deduction previously allowed for interest expense)

Net Operating Loss (NOL)

- Deduction limited to 80 percent
- No carryback; carried forward indefinitely (except property/casualty insurance companies)

Like-Kind Exchange

- Deferral of gain limited to real property not held primarily for sale

R&D Credit

- Explicitly retained

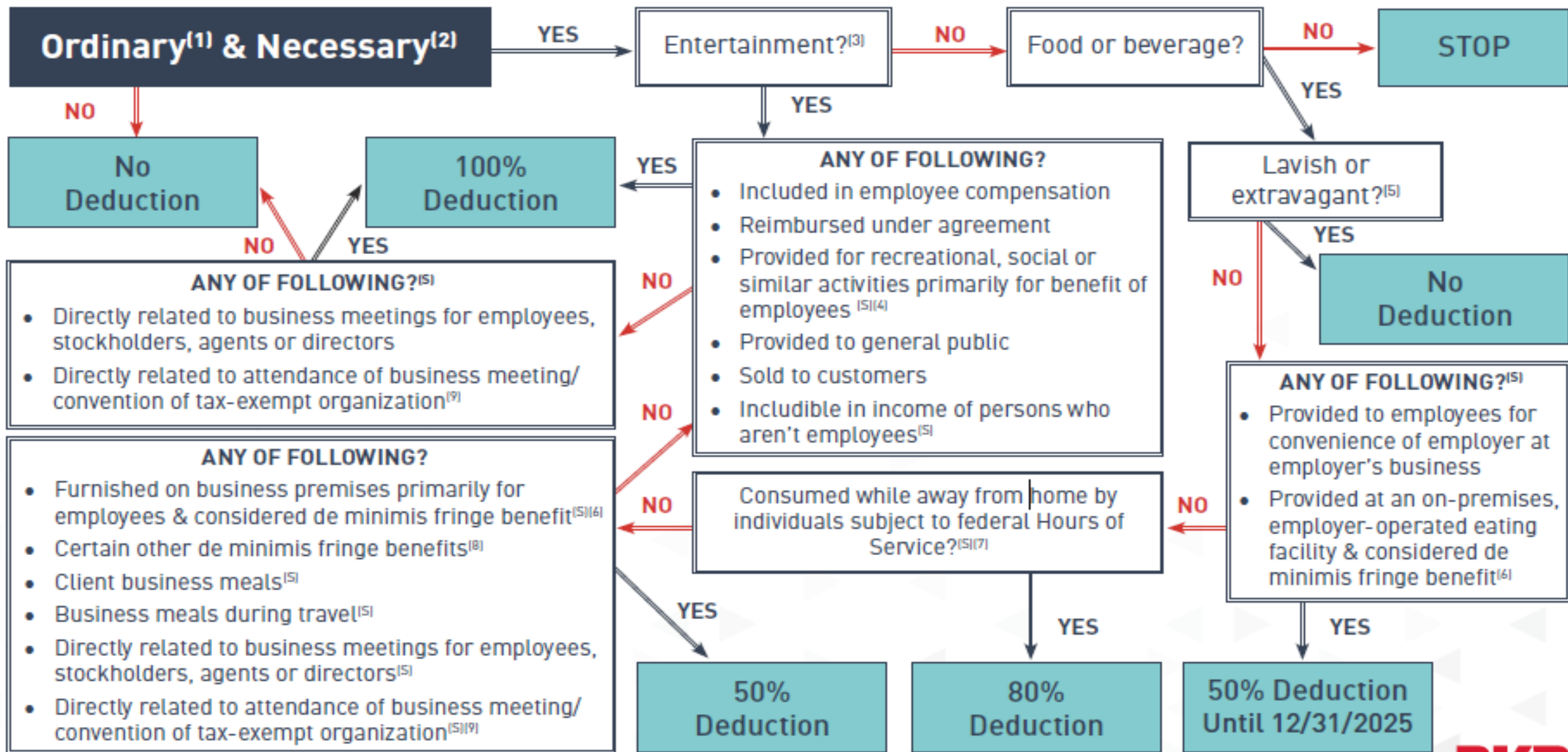
Domestic Production Activities

- Repealed



BUSINESS PROVISIONS

MEALS & ENTERTAINMENT DEDUCTION AFTER THE TAX CUTS AND JOBS ACT



See next page for definitions.

DEFINITIONS

- (1) **Ordinary:** Not defined in the Internal Revenue Code (IRC) or Treasury Regulations; generally refers to items common in taxpayer's business
- (2) **Necessary:** Generally refers to items appropriate & helpful to taxpayer's business
- (3) **Entertainment:** An activity of the type generally considered to constitute entertainment, amusement or recreation, *e.g.*, entertaining at night clubs. This may include meals provided at such activities; however, it's unclear what meals constitute entertainment at this point absent IRS guidance.
- (4) **Recreation:** Except when provided for employees who are officers, shareholders or other owners who own a 10 percent or greater interest in the business or any other highly compensated employees as defined in IRC Section 414(q)
- (5) **Lavish or extravagant:** No deduction allowed to the extent food or beverage expense is lavish or extravagant under the circumstances. In addition, taxpayer (or employee) must be present at the furnishing of such food or beverages
- (6) **De minimis fringe benefit:** Includes any service or property so small that accounting for it would be unreasonable & impractical, *e.g.*, coffee, doughnuts, etc. After 12/31/2025, de minimis fringe benefits related to meals provided at an on-premises, employer-operated eating facility are nondeductible
- (7) **Federal Hours of Service:** Individuals subject to the U.S. Department of Transportation's (DOT) Hours of Service limitations for purpose of this provision:
 - Certain air transportation employees such as pilots, crew, dispatchers, etc.
 - Certain interstate truck operators & bus drivers
 - Certain railroad employees such as engineers
 - Certain merchant mariners
- (8) **Certain other de minimis fringe benefits:** De minimis fringe benefits other than:
 - Related to meals provided at an on-premises, employer-operated eating facility
 - Provided for recreational, social or similar activities primarily for benefit of employees
 - Furnished on business premises

Example: coffee provided primarily for an employee while away from taxpayer's business premises
- (9) **Tax-exempt organization:** Under IRC Section 501(c)(6) & 501(a), this includes business leagues, chambers of commerce, real estate boards, boards of trade, etc.
- (S) **Substantiated:** No deduction allowed unless taxpayer substantiates expense by adequate records or sufficient evidence corroborating taxpayer's own statement to include:
 - Amount of each separate expense
 - Time & place
 - Business purpose
 - Business relationship to the taxpayer of the persons entertained



BUSINESS PROVISIONS

International

Untaxed Accumulated Foreign Earnings

- 15.5 percent for cash & cash equivalents
- 8 percent otherwise
- Payable over eight years

(Previously not addressed)

Future Foreign Earnings

- Territorial system with base erosion provisions
- 100 percent of foreign-sourced portion of dividends paid by foreign corporation to U.S. corporate shareholder owning 10 percent or more of foreign corporation's stock is exempt from U.S. taxation
- No foreign tax credit or deduction allowed for any foreign tax paid or accrued with respect to any exempt dividend

(Previously worldwide income tax based on residence & source)



INDIVIDUAL PROVISIONS

Tax brackets: single

| Bracket | 2018 Ordinary Rates | | 2018 Capital Gains Rates | |
|--------------------------|---------------------|------------------------|--------------------------|------------------------|
| | Current Law* | Conference Agreement*^ | Current Law* | Conference Agreement*^ |
| \$0–\$9,525 | 10% | 10% | 0% | 0% |
| 9,526–38,600 | 15% | 12% | 0% | 0% |
| 38,601–38,700 | 15% | 12% | 0% | 15% |
| 38,701–82,500 | 25% | 22% | 15% | 15% |
| 82,501–93,700 | 25% | 24% | 15% | 15% |
| 93,701–157,500 | 28% | 24% | 15% | 15% |
| 157,501–195,450 | 28% | 32% | 15% | 15% |
| 195,451–200,000 | 33% | 32% | 15% | 15% |
| 200,001–424,950 | 33% | 35% | 15% | 15% |
| 424,951–425,800 | 35% | 35% | 15% | 15% |
| 425,801–426,700 | 35% | 35% | 15% | 20% |
| 426,701–500,000 | 39.6% | 35% | 20% | 20% |
| More than 500,000 | 39.6% | 37% | 20% | 20% |

*Plus 3.8 percent net investment income tax on unearned income when modified adjusted gross income exceeds \$200,000 (\$250,000)

^Expires after December 31, 2025



INDIVIDUAL PROVISIONS

Tax brackets: married filing jointly

| Bracket | 2018 Ordinary Rates | | 2018 Capital Gains Rates | |
|--------------------------|---------------------|------------------------|--------------------------|------------------------|
| | Current Law* | Conference Agreement*^ | Current Law* | Conference Agreement*^ |
| \$0–\$19,050 | 10% | 10% | 0% | 0% |
| 19,051–77,200 | 15% | 12% | 0% | 0% |
| 77,201–77,400 | 15% | 12% | 0% | 15% |
| 77,401–156,150 | 25% | 22% | 15% | 15% |
| 156,151–165,000 | 28% | 22% | 15% | 15% |
| 165,001–237,950 | 28% | 24% | 15% | 15% |
| 237,951–315,000 | 33% | 24% | 15% | 15% |
| 315,001–400,000 | 33% | 32% | 15% | 15% |
| 400,001–424,950 | 33% | 35% | 15% | 15% |
| 424,951–479,000 | 35% | 35% | 15% | 15% |
| 479,001–480,050 | 35% | 35% | 15% | 20% |
| 480,051–600,000 | 39.6% | 35% | 20% | 20% |
| More than 600,000 | 39.6% | 37% | 20% | 20% |

*Plus 3.8 percent net investment income tax on unearned income when modified adjusted gross income exceeds \$200,000 (\$250,000)

^Expires after December 31, 2025

Alternative Minimum Tax

- 28 percent top rate
- Exemption of \$70,300 single (\$109,400 MFJ)
- Phaseout begins at \$500,000 single (\$1 million MFJ)
- Sunsets December 31, 2025

(Previously 28 percent top rate; exemption of \$55,400 single (\$86,200 MFJ); exemption amounts begin phaseout at \$123,100 & \$164,100, respectively)



INDIVIDUAL PROVISIONS



INDIVIDUAL PROVISIONS

Standard Deduction

- \$12,000 single (\$24,000 MFJ)
- Sunsets December 31, 2025
(Previously \$6,500 (\$13,000 MFJ))

Personal Exemption

- Repealed
- Expires December 31, 2025
(Previously \$4,150 subject to phaseout based on AGI)

Child Tax Credit

- \$2,000 (\$1,400 refundable)
- Phaseout beginning at \$200,000 single (\$400,000 MFJ)
- Sunsets December 31, 2025

(Previously \$1,000; phaseout at \$75,000 single (\$110,000 MFJ)) 13



Medical & Dental Expense

- Deduction for qualified out-of-pocket medical expenses paid or incurred during year to extent exceed
 - 7.5 percent of AGI for 2017 & 2018
 - 10 percent of AGI beginning in 2019

State & Local Income, Real Estate & Personal Property Tax Expense

- Combined deduction for amounts not paid or accrued in a trade or business capped at \$10,000
- Amounts paid in 2017 for income taxes imposed for 2018 or later treated as paid in 2018



INDIVIDUAL PROVISIONS

Itemized deductions

Home Mortgage Interest Expense

- Deduction for mortgage interest paid or incurred up to \$750,000 of acquisition indebtedness after December 15, 2017
- Deduction for interest paid on home equity loans eliminated *if not for home improvements*

Gifts to Charity

- Deduction for cash contributions limited to 60 percent of AGI

Miscellaneous Itemized Deductions

- Repealed



INDIVIDUAL PROVISIONS

Itemized deductions



INDIVIDUAL PROVISIONS

Pass-Through Business Deduction

- Deduction = 20 percent of
 - Domestic qualified business income from partnership, S corporation or sole proprietorship
 - Qualified REIT dividends
 - Qualified cooperative dividends
 - Qualified PTP income
 - Available to individuals, trusts & estates
 - Sunsets December 31, 2025
 - Limitations apply
- (Not previously addressed)



INDIVIDUAL PROVISIONS

Pass-Through Business Deduction

- Two limitations apply when taxable income exceeds \$157,500 single (\$315,000 MFJ)
 - 1) Limit = greater of
 - 50 percent of W-2 wages paid with respect to business *OR*
 - 25 percent of W-2 wages paid plus 2.5 percent of unadjusted basis (immediately after acquisition) of all qualified property
 - 2) Not allowed for “specified service trade or businesses” once income exceeds threshold amounts
- Threshold amounts index for inflation & phaseout over next \$50,000 (\$100,000) of taxable income



INDIVIDUAL PROVISIONS

Nonpassive Losses

- Limits amount of deduction for nonpassive losses from pass-through entity to \$250,000 for single filers (\$500,000 MFJ)
- Excess loss treated as NOL
- Sunsets December 31, 2025

(Not previously addressed)

Carried Interest

- Capital gains rate after three-year holding period
(Previously capital gains rate after one-year holding period for interests received in exchange for performance of services)



TRANSFER TAX PROVISIONS

Estate Tax

40 percent rate with \$11.2 million basic exclusion amount per taxpayer⁽¹⁾

(Previously 40 percent rate with \$5.6 million basic exclusion amount⁽¹⁾)

Gift Tax

40 percent rate with \$11.2 million basic exclusion amount per taxpayer⁽¹⁾; \$15,000 annual exclusion⁽¹⁾

(Previously 40 percent rate with \$5.6 million basic exclusion amount⁽¹⁾; \$15,000 annual exclusion⁽¹⁾)

Generation-Skipping Transfer Tax

40 percent rate with \$11.2 million basic exclusion amount per taxpayer⁽¹⁾

(Previously 40 percent rate with \$5.6 million basic exclusion amount⁽¹⁾)

⁽¹⁾Expires after December 31, 2025, & reverts back to amounts provided prior to January 1, 2018, except amounts would continue to be indexed for inflation using chained measurement of the consumer price index where applicable

⁽¹⁾Exclusion amount adjusted for inflation annually

PLANNING STRATEGIES FOR BUSINESSES

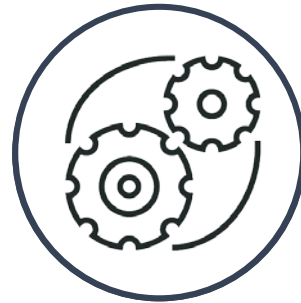
Consider strategies to accelerate deductions & defer income if you expect lower rates



Capital
improvement
planning



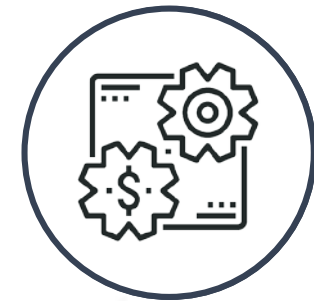
Accounting
method
changes



R&D credit
studies



Cost
segregation
studies



E&P studies



PLANNING STRATEGIES FOR INDIVIDUALS

1

Evaluate timing of when you receive income

2

Recognize losses & defer gains

3

Evaluate IRA & annuity distributions

4

Consider impact of AMT

5

Evaluate timing of your itemized deductions

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Questions?

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Thank You!