

## Tax Cuts and Jobs Act of 2017 (TCJA) Key General Business Tax Provisions

Item	IRC §	Effective Date	New Law	Before Law Change
<b>Expensing and Depreciating Property</b>				
Section 179 Deduction Limits	179(b)	For property placed in service in tax years beginning after 2017	The maximum Section 179 deduction and phaseout threshold are increased to \$1 million and \$2.5 million, respectively. These amounts will be indexed for inflation after 2018.	The maximum Section 179 deduction was \$520,000 for 2018. In addition, the qualifying property phase-out threshold was \$2,070,000.
Section 179 Deduction Qualifying Property	179(f)	For property placed in service in tax years beginning after 2017	The definition of <i>Section 179 property</i> is expanded to include certain tangible personal property used predominantly to furnish lodging and certain improvements to nonresidential real property (roofs, HVAC, fire protection and alarm systems and security systems).	Such property was not included in the definition of <i>Section 179 property</i> .
Immediate Expensing of Qualifying Business Assets	168(k)	Property acquired and placed in service after 9/27/17 and before 2023 (2024 for certain property with longer production periods and certain aircraft)	<p>The additional (bonus) first-year depreciation deduction allowed for qualified property is increased to 100% and applies to new and used property. In later years, this first-year deduction phases down as follows:</p> <ul style="list-style-type: none"> <li>- 80% for property placed in service in 2023.</li> <li>- 60% for property placed in service in 2024.</li> <li>- 40% for property placed in service in 2025.</li> <li>- 20% for property placed in service in 2026.</li> </ul> <p>For certain property with longer production periods and certain aircraft, the phase down is as follows:</p> <ul style="list-style-type: none"> <li>- 80% for property placed in service in 2024.</li> <li>- 60% for property placed in service in 2025.</li> <li>- 40% for property placed in service in 2026.</li> <li>- 20% for property placed in service in 2027</li> </ul> <p>The definition of qualified property is expanded to include certain qualified film or television productions and qualified live theatrical productions. And while qualified improvement property is removed from the qualified property list in IRC Sec. 168(k), it remains qualified as it is now MACRS property with a recovery period of 20 years or less (see Real Property—Recovery Period on Page 12).</p>	An additional (bonus) first-year depreciation deduction of 50% was allowed for qualified property placed in service, generally, before 2018. The deduction generally phased down to 40% for property placed in service in 2018, 30% for property placed in service in 2019 and none for property placed in service after 2019. To qualify, the property generally had to be new and be (1) MACRS property with a recovery period of 20 years or less, (2) water utility property, (3) computer software other than computer software covered by IRC Sec. 197 or (4) qualified improvement property.

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Item	IRC §	Effective Date	New Law	Before Law Change
<b>Expensing and Depreciating Property (Continued)</b>				
<b>Luxury Automobile Depreciation Limits Increased</b>	280F	Passenger autos placed in service after 2017	The annual limit on the amount of depreciation allowed for passenger autos for which bonus depreciation is not claimed for 2018 is \$10,000 for the placed-in-service year, \$16,000 for the second year, \$9,600 for the third year and \$5,760 for the fourth and later years. These amounts will be indexed for inflation for autos placed in service after 2018. For passenger autos eligible for bonus depreciation, the increase to the first-year depreciation limit remains \$8,000.	2018 amounts were not released but the 2017 applicable amounts were: \$3,160 for the placed-in-service year, \$5,100 for the second year, \$3,050 for the third year and \$1,875 for the fourth and later years. Increased limits applied to certain trucks and vans.
<b>Farming Equipment-Recovery Period</b>	168(b) and (e)	Property placed in service after 2017	The recovery period of new machinery or equipment used in a farming business (other than any grain bin, cotton ginning asset, fence or other land improvement) is five years. Use of the 150% declining balance depreciation method for these assets is no longer required.	The recovery period of such property was seven years and 150% declining balance depreciation was required.
<b>Real Property-Recovery Period</b>	168(e) and (g)	Property placed in service after 2017	The separate definitions of <i>qualified leasehold improvement</i> , <i>qualified restaurant</i> and <i>qualified retail improvement property</i> are eliminated. A 15-year recovery period (20 years for ADS) and straight-line method applies for qualified improvement property. <i>Qualified improvement property</i> means any improvement to an interior portion of a building which is nonresidential real property if such improvement is placed in service after the date such building was first placed in service. In addition, the ADS recovery period for residential rental property is shortened to 30 years.	Qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property were 15-year MACRS property. The ADS recovery period for residential rental property was 40 years.

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<b>General Deductions, Exclusions and Credits</b>				
Interest Expense	163(j)	Tax years beginning after 2017	Regardless of its form, every business is subject to a net interest expense disallowance. Net interest expense in excess of 30% of the company's adjusted taxable income is disallowed. Adjusted taxable income is generally defined as taxable income computed without regard to deductions for depreciation, amortization, depletion or the Section 199 deduction. However, taxpayers (other than tax shelters) with average annual gross receipts for the prior three years of \$25 million or less are exempt from this limitation.	Interest paid or accrued by a business generally is deductible in the computation of taxable income subject to a number of limitations.
Net Operating Losses (NOLs)	172	NOLs arising in tax years beginning after 2017	NOLs cannot be carried back but carry forward indefinitely. The NOL deduction is limited to 80% of taxable income. Exceptions: The two-year carryback rule still applies to certain losses incurred in a farming business, and property and casualty insurance companies can carry their NOLs back two years and forward 20 years to offset 100% of taxable income.	An NOL generally could be carried back two years and carried over 20 years to offset taxable income in such years. Extended carryback periods were allowed for NOLs attributable to certain specified liability, farming and casualty and disaster losses.
Domestic Producers Deduction	199	Tax years beginning after 2017	The domestic producers deduction is repealed	A deduction equal to 9% of the income earned from certain manufacturing and other production activities conducted within the U.S. was allowed.
Like-Kind Exchanges	1031	Exchanges completed after 2017	Like-kind exchanges are allowed only with respect to real property that is not held primarily for sale. However, under a special transition rule, the like-kind exchange rules continue to apply to exchanges of personal property if the taxpayer has either disposed of the relinquished property or acquired the replacement property on or before 12/31/17.	Nontaxable like-kind exchanges were available to exchanges of both real and personal property held for productive use in a trade or business or for investment.

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<b>General Deductions, Exclusions and Credits (Continued)</b>				
<b>Research and Experimental (R&amp;E) Expenses</b>	174	Amounts paid or incurred in tax years beginning after 2021	Specified R&E expenses must be capitalized and amortized ratably over five years (15 years if R&E is conducted outside of the U.S.). Specified R&E expenses include costs for software development and exploration for ore and other minerals.	Taxpayers currently deducted R&E expenses paid or incurred in connection with a trade or business. Alternatively, taxpayers could capitalize their R&E expenditures and amortize them ratably over the useful life of the research (not to exceed 60 months) or a period of 10 years.
<b>Fringe Benefits Deduction</b>	274	Amounts paid or incurred after 2017	<p>The following changes are made to the fringe benefit rules:</p> <ul style="list-style-type: none"> <li>- Deductions for entertainment expenses are disallowed.</li> <li>- The 50% limit on the deductibility of business meals is expanded to those provided in an in-house cafeteria or otherwise on the employer's premises.</li> <li>- The deduction for employee transportation fringe benefits is eliminated. However, the exclusion from income for such benefits received by an employee is retained.</li> <li>- The deduction for transportation expenses that are the equivalent of commuting for employees is eliminated, except as provided for the safety of the employee.</li> </ul> <p>For amounts paid or incurred after 2025, an employer's deduction for expenses associated with meals provided for the convenience of the employer on its business premises, or provided on or near the employer's business premises through an employer-operated facility that meets certain requirements, is disallowed.</p>	<p>Entertainment expenses directly related to (or associated with) the active conduct of a trade or business generally are 50% deductible. Similarly, a deduction for any expense for food or beverages generally is allowed for 50% of the otherwise deductible amount, subject to some exceptions.</p> <p>Certain employee fringe benefits are deductible by the employer and excluded from the employee's gross income.</p>

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<b>General Deductions, Exclusions and Credits (Continued)</b>				
<b>Excessive Employee Compensation</b>	162(m)	Tax years beginning after 2017	<p>The exceptions to the deduction limit for excess employee compensation attributable to commissions and performance-based compensation are repealed.</p> <p>Note: These changes do not apply to written binding contracts that were in effect on 11/2/17 (unless the contract is materially modified).</p>	<p>A deduction limit of \$1 million generally applied for compensation paid by a publicly-held corporation during any tax year to a covered employee. However, there were exceptions for commissions, performance-based compensation (including stock options), payments to a tax-qualified retirement plan and amounts that are excludable from the executive's gross income.</p>
<b>Credit for Employer-Paid Family and Medical Leave</b>	45S	Tax years beginning after 2017 and before 2020	<p>Businesses can claim a general business credit equal to 12.5% of the amount of wages paid to qualifying employees during any period in which such employees are on family and medical leave if the rate of payment is 50% of the wages normally paid to an employee. The credit is increased by 0.25 percentage points (but not above 25%) for each percentage point by which the rate of payment exceeds 50%. All qualifying full-time employees have to be given at least two weeks of annual paid family and medical leave.</p>	<p>No provision.</p>

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<b>Accounting Method Changes</b>				
Inclusion Year	451(b)	Tax Years Beginning after 2017	An accrual method taxpayer subject to the all events test for an item of gross income must recognize such income no later than the tax year in which such income is taken into account as revenue in an applicable financial statement (AFS) or another financial statement under rules specified by the IRS, but there is an exception for taxpayers without such a financial statement. This rule is subject to an exception for long-term contract income under IRC Sec. 460. If an accounting method change is needed to conform to this new rule, such change will be treated as initiated by the taxpayer and made with IRS consent.	For an accrual basis taxpayer, an amount is included in gross income when all the events have occurred that fix the right to receive such income and the amount thereof can be determined with reasonable accuracy (that is, when the all events test is met), unless an exception permits deferral or exclusion, or a special method of accounting applies.
Cash Method of Accounting	448(c), 471(c), 263A(i)	Tax Years Beginning after 2017	The availability of the cash method is expanded to include taxpayers (other than tax shelters) that satisfy a \$25 million gross receipts test, regardless of whether the purchase, production or sale of merchandise is an income-producing factor. In addition, such taxpayers are not required to account for inventories under IRC Sec. 471 or 263A. Instead, they may treat inventories as non-incidentals materials and supplies or conform to their financial accounting treatment of inventories.	A C corporation and a partnership that has a C corporation as a partner generally may not use the cash method. An exception is made if the entity's average annual gross receipts do not exceed \$5 million for all prior years. Taxpayers maintaining inventory generally must use the accrual method, subject to exceptions for certain taxpayers with gross receipts of \$1 million or less or, for certain industries, \$10 million or less.
Long-Term Contracts	460(e)	Contracts entered into after 2017	The exemption from the requirement to use the Percentage of Completion Method (PCM) is expanded to contracts for the construction or improvement of real property if the contract (1) is expected to be completed within two years and (2) is performed by a taxpayer that meets a \$25 million gross receipts test.	Construction companies with average annual gross receipts of \$10 million or less in the prior three years are generally exempt from the PCM.

