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List of Substantive Changes and Additions

PPC’s Guide to Buying or Selling a Business

Twenty-fourth Edition (May 2018)

Highlights of this Edition

The following are some of the important update features of the 2018 edition of ***PPC’s Guide to Buying or Selling a Business***.

- **New deduction for qualified business income.** The Tax Cuts and Jobs Act (TCJA) added a new deduction of up to 20% of a taxpayer’s qualified business income that greatly impacts the choice of entity when buying or selling a business. This edition of the *Guide* explains how to quantify the impact of this deduction when analyzing the choice of entity, including how to identify qualified business income and how to compute the deduction with the various limits that may apply to it.
- **Changes to NOL deductions and limit on excess business losses.** The TCJA eliminates the two-year carryback of NOL deductions but allows an indefinite carryover. The Act also added a new limitation on excess business losses. The interaction of these new rules must be analyzed when either buying or selling a business, especially in a bargain purchase.
- **New limit on business interest expense.** The TCJA limits the amount of business interest expense that can be deducted annually up to 30% of taxable income, which impacts the financing of buying a business. The *Guide* explains important exceptions to the limitation and how the limitation is calculated for different business entity types to assist buyers in determining the financing of transactions and in planning for interest deductions of the integrated business going forward.
- **Bonus depreciation and Section 179 expensing.** The TCJA significantly changed the provisions that allow taxpayers to currently expense some or all of their acquired assets. This edition of the *Guide* explains the changes so that buyers can analyze whether to structure the transaction as a stock or asset deal and to assist buyers in planning for depreciation and amortization deductions.
- **Quality of earnings.** Financial due diligence engagements often include an analysis of the quality of earnings of the target business. This edition explains the critical components of this important analysis in buying a business and assists sellers to prepare for this part of the transaction process.

In addition to these featured items, your *Guide* includes the following update items:

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 1 Purchase/Sale Transaction Profiles	1. Tax Cuts and Jobs Act (TCJA) tax reform provisions that impact buying or selling a business are summarized. Changes include the new corporate flat tax rate, repeal of corporate AMT, new individual tax rates, deduction for qualified business income, excess business losses, and repeal of the NOL carryback provisions.	Section 101
	2. The Quick Access Federal Tax Data Sheet is updated to provide a three-year summary of ordinary income, capital gain, and qualified dividend tax rates applicable to individuals, rates applicable to specialized types of gains (including qualified small business stock), Section 179 and bonus depreciation provisions, and gift and estate tax rates, to name a few, as amended by the TCJA.	Appendix 1D
Chapter 2 A Systems Approach to Buy/ Sell Engagements	1. The discussion of auditor independence in consulting engagements has been updated and expanded based on the AICPA <i>Code of Professional Conduct</i> .	Section 204
	2. The Sample Buyer's Side Acquisition Assistance Engagement Letter has been updated based on the most recent AICPA guidelines.	Appendix 2V
Chapter 3 Due Diligence and Closing the Deal	1. Noted that the technical termination rules for partnerships were repealed by the TCJA.	Section 302
	2. The <i>Quality of Earnings</i> analysis for financial due diligence engagements is summarized.	Section 303
	3. Added discussion of representations and warranty insurance.	Section 307
Chapter 4 Choosing the Business Entity	1. Reviewed changes by TCJA to corporate and individual federal tax rates.	Section 401
	2. Included an example illustrating the after-tax results of operating a retail business as an S or C corporation, post TCJA, depending on the facts and circumstances.	Section 401
	3. Noted that C corporations can still deduct state and local income taxes incurred in carrying on a trade or business, while the TCJA limits the deductibility of state and local income taxes for individual owners of pass-through entities.	Section 401
	4. Explained the employer and employee level changes to the transportation fringe benefit rules following changes by the TCJA.	Section 401
	5. Discussed the expanded \$25 million cash method privilege added to the Code by the TCJA, as well as the new rule for computing average annual gross receipts.	Section 401
	6. Noted how the TCJA changed the corporate and individual alternative minimum tax (AMT).	Section 401
	7. Updated the tax rate used in computing the S corporation built-in gains tax and the net passive investment income tax.	Section 402
	8. Updated discussion of case addressing whether a partner's contribution of his or her unsecured note, without more, increases basis.	Section 403

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	9. Updated tax rate used in computing the required payment when a partnership uses a nonconforming tax year.	Section 403
	10. Added an electronic worksheet that helps practitioners and business owners analyze the effect of the TCJA changes on the choice of entity decision.	Section 407
	11. Added a series of common scenarios addressing whether the business should be conducted as a C corporation or a partnership.	Section 407
	12. Summarized the new qualified business income (QBI) deduction added to the Code by the TCJA, including the special taxable income rules applicable to specified service businesses and the wage/investment deduction limit.	Section 408
	13. Explained and illustrated (via a new example) how to determine the business's effective tax rate following the TCJA, which is an important factor in the choice of entity decision.	Section 408
	14. Since double taxation remains a primary concern to using a C corporation, even after the tax rate cut, listed planning options that can reduce or even eliminate double taxation.	Section 408
	15. Added a summary of the important business-related provisions in the TCJA.	Appendix 4A
	16. Updated the "Side-by-side Comparison of Entity Choices" for changes by the TCJA.	Appendix 4B
	17. Updated the "Checklist for New Business Entities" for changes by the TCJA.	Appendix 4D
Chapter 5 Valuation of a Closely Held Business	1. Updated discussion on valuation discounts to reflect the withdrawal of proposed regulations under IRC Sec. 2704.	Section 502
Chapter 6 Buying and Selling Assets	1. The TCJA permits 100% bonus depreciation on new, as well as, used assets.	Section 600
	2. Noted recent changes in individual and corporate tax rates.	Section 600
	3. Updated the classification of certain intangible assets eligible for capital gains treatment.	Section 602
	4. Noted the new breakpoints for 0%, 15%, and 20% individual capital gains rates.	Section 602
	5. Discussed new qualified improvement property rules under the TCJA.	Section 602
	6. Noted the new NOL rules for corporations and how they will apply to strategies to avoid or reduce the S corporation built-in gains tax.	Section 604
	7. Covered the repeal of the technical termination rules for partnerships for years beginning after 2017, including how this affects planning.	Section 605
	8. Noted recent changes to the basis adjustment provisions of IRC Sec. 743.	Section 605
	9. Updated the discussion on like-kind exchanges for changes made by the TCJA.	Section 607

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Chapter 7 Buying a Corporate Business Using Stock Transactions	1. Noted recent changes to tax rates, net operating loss limitations, and certain deductions that could impact taxpayer decisions to structure transactions as stock or asset sales or purchases.	Section 701 and 704
	2. Included TCJA impact on Section 382 limitation calculations.	Section 706
	3. Expanded discussion of a seller's tax treatment for the sale of Section 1244 stock.	Section 701
	4. Described the change to IRC Section 47 Rehabilitation Credit made by TCJA for tax years after December 31, 2017.	Section 702
	5. Discussed new provisions under IRC Sec. 1371(f) allowing an eligible terminated S corporation to make distributions of AAA after the post-termination transition period ends.	Section 702, Appendix 7P
	6. Updated the discussion for a revenue procedure providing taxpayers with a safe harbor method for valuing certain stock received by a target corporation's shareholders in a reorganization to determine if continuity of interest is met.	Section 705
Chapter 8 Taxable Stock Purchases Treated as Asset Acquisitions	1. The analysis of the tax impact of a Section 338(h)(10) election has been updated to take into account the new tax rates from the TCJA.	Appendix 8D
Chapter 9 Installment Method Reporting	1. Added discussion of the interplay of the new Section 163(j) business interest expense deduction with the installment sales rules.	Section 902
	2. Noted that the corporate AMT is repealed for post-2017 tax years.	Section 902
Chapter 10 Tax Treatment of Buyer/Seller Expenses and Payments	1. Alerted readers to automatic method procedures available for taxpayers conforming to new GAAP revenue recognition.	Section 1000
	2. Added discussion on capitalization of regulatory approval expenses with respect to IRC Sec. 263(a).	Section 1000
	3. Alerted readers to TCJA changes for nondeductible executive compensation.	Section 1001
Chapter 12 Capital Structure and Owner Cash Flow Considerations	1. The new 30% limitation of business interest expense under IRC Sec. 163(j) is discussed in detail.	Section 1203
Chapter 13 Tax Accounting and Reporting Issues	1. Alerted readers to the impact of TCJA bonus depreciation provisions on purchaser and seller decisions for asset versus stock transactions.	Section 1301
	2. Updated the discussion on taxpayers qualifying to use the cash method of accounting using the gross receipts test.	Section 1302
	3. Updated the discussion on inventory requirements for taxpayers meeting the \$25 million gross receipts test.	Section 1302
	4. Updated the discussion on income inclusion under IRC Sec. 451(b).	Section 1302
	5. Added a discussion on the financial statement conformity rule under the TCJA.	Section 1302

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Chapter 14 Related Party Rules	<ol style="list-style-type: none"> 1. Clarified the “no rule” status for intentionally defective grantor trusts. 2. With the increased estate tax basic exclusion amount, taxpayers may want the step-up in basis at death. Cautioned about using trusts that are not included in the gross estate and, therefore, taxpayers do not get a step-up in basis at death. 	Section 1405 Section 1405
Chapter 15 Buy/Sell Agreements	<ol style="list-style-type: none"> 1. Updated discussion to reflect the TCJA repeal of the corporate alternative minimum tax. 2. Updated discussion to reflect the TCJA changes in the dividends received deduction. 	Section 1502 Section 1502
Chapter 17 Assisting Clients in Developing Busi- ness Plans	<ol style="list-style-type: none"> 1. Sample letters have been updated based on the most recent AICPA guidelines. 	Appendix 17A, Appendix 17C, Appendix 17D
Chapter 19 Using an Employee Buyout to Sell a Business	<ol style="list-style-type: none"> 1. The new Section 83(i) election is discussed in detail. 	Section 1903

