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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's Guide to Choice of Business Entity

Twenty-second Edition (June 2018)

Highlights of this Edition

The following are some of the important update features of the twenty-second edition of *PPC's Guide to Choice of Business Entity*.

- **2017 Tax Cuts and Jobs Act (TCJA).** The Tax Cuts and Jobs Act (TCJA) contains the most significant changes in tax law in the past 30 years. The many changes it instituted has business owners evaluating whether they should change the type of entity from which their existing business is operated or for which a new business venture should be established. The following are some of the major TCJA changes covered in this edition of the *Guide*:
 - **Change in tax rates.** For tax years beginning after 2017, corporations are subject to a flat 21% tax rate. Tax rates for individuals have also been changed with the highest marginal tax rate being 37%. The change in tax rates, coupled with the new qualified business income (QBI) deduction, has created a renewed interest in the choice of entity which is a major focus in this edition of the *Guide*.
 - **New deduction for qualified business income.** The TCJA revised IRC Sec. 199A, providing for a new deduction of up to 20% of a taxpayer's qualified business income, including income from pass-through entities. This edition explains how to identify qualified business income and compute the deduction, including the various limits that may apply to it.
 - **Limit on excess business losses.** For tax years beginning after 2017, the TCJA limits a noncorporate taxpayer's net business losses—including pass-through losses. This limit is applied at the owner level, after the passive loss limitation. This edition explains how the loss is limited and the treatment of the disallowed amount.
 - **Limit on excess business interest expense.** For tax years beginning after 2017, business interest expense is subject to a new limitation found in IRC Sec. 163(j). This edition details the computation of this new limitation. In addition, new worksheets are included to compute the limitation for C corporations, S corporations and partnerships.
 - **Interactive worksheets.** For Checkpoint subscribers of this product, the following interactive tools are available:
 - Choice of Entity Tax Analyzer
 - Worksheets for computing the limit on business interest expense for C corporations, S corporations and partnerships
 - Qualified business income deduction worksheet

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

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 2 General Considerations in Entity Selection	1. Addressed the effect of the Tax Cuts and Jobs Act (TCJA) on the choice of entity selection process.	Section 201
	2. Updated the list of advantages for C corporations for the following changes made by the TCJA: <ul style="list-style-type: none"> • Noted the change in the corporate tax rate to a flat 21%. • The repeal of corporate alternative minimum tax (AMT). • An individual taxpayer's limit on the ability to deduct state and local taxes. 	Section 202
	3. Updated the discussion on tax rates for the changes made by the TCJA.	Section 204
	4. Added a discussion on the new qualified business income deduction under IRC Sec.199A that is available to owners of pass-through entities (including sole proprietorships that have qualified business income. This deduction is intended to offset the new 21% flat-rate that is now applicable to C corporations.	Section 204
	5. Added a discussion on the new business interest expense limitation added by the TCJA.	Section 204
	6. Added a discussion regarding the excess business loss limitation added by the TCJA that affects taxpayers other than C corporations.	Section 204
Chapter 3 Proprietorships	1. Noted the suspension of the miscellaneous itemized deductions subject to the 2% floor for tax years beginning after 2017 and before 2026.	Section 301
	2. Added a detailed discussion on the new qualified business income deduction that is intended to create some parity for pass-through entities with the reduced corporate tax rates.	Section 303
	3. Noted the changes made by the TCJA to relax the alternative minimum tax (AMT) rules for individuals. Also noted that for tax years beginning after 2018, corporations are no longer subject to AMT.	Section 304
	4. Addressed the new business interest expense limitation under IRC Sec. 163(j).	Section 304
	5. Added a new worksheet that can be used to calculate the qualified business income deduction. An interactive version of this worksheet is available on Checkpoint for subscribers of this product.	Appendix 3A
	6. Added a flowchart to illustrate the calculation of the qualified business income deduction.	Appendix 3B
Chapter 4 Partnerships	1. Updated for the repeal of the technical termination rules for partnerships.	Section 402
	2. Noted changes made by the TCJA to the rules regarding substantial built-in losses when partnership interests are transferred.	Section 403
	3. Updated the discussion regarding the ability to use the cash method of accounting for changes made by the TCJA.	Section 403

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	4. Noted the suspension of the miscellaneous itemized deductions subject to the 2% of AGI floor for tax years beginning after 2017 and before 2026.	Section 403
	5. Added a discussion on the new qualified business income deduction.	Section 403
	6. Added a discussion on the new business interest expense limitation under IRC Sec. 163(j). In addition, a worksheet has been included which is accessible as an interactive practice aid on Checkpoint.	Section 404
	7. Added a new worksheet for computing the new business interest expense limitation for partnerships. An interactive version of this worksheet is available on Checkpoint for subscribers of this product.	Appendix 4C
Chapter 5 LLCs, LLPs and LLLPs	1. Noted the issuance in 2017 of the Protected Series Act by the Uniform Law Commission providing guidance for series LLCs.	Section 502
	2. Added a discussion regarding identifying when an LLC is the best entity choice.	Section 505
Chapter 6 S Corporations	1. Updated the discussion on the ability to use the cash method based on changes made by the TCJA.	Section 603
	2. Added a discussion on the new qualified business income deduction.	Section 603
	3. Added a discussion on the new business interest expense limitation under IRC Sec. 163(j).	Section 604
	4. Added a new worksheet that can be used to calculate the business interest expense limitation. An interactive version of this worksheet is available on Checkpoint for subscribers of this product.	Appendix 6C
	5. Added a new appendix that includes a table identifying viable ownership transfer options for S corporations.	Appendix 6D
Chapter 7 C Corporations (Including Qualified Small Business Corporations and Personal Service Corporations)	1. Updated for the change in the corporate tax rate to a flat 21% rate.	Throughout
	2. Updated for the change in the dividends received deduction starting in 2018.	Section 703
	3. Noted that NOLs are generally no longer able to be carried back.	Section 704
	4. Updated the discussion for the ability to use the cash method of accounting.	Section 704
	5. Noted that corporate AMT has been repealed for tax years beginning after 2017.	Section 703
	6. Added a discussion on the new limitation for deducting business interest expense.	Section 704
	7. Added a new worksheet that can be used to calculate the business interest expense limitation. An interactive version of this worksheet is available on Checkpoint for subscribers of this product.	Appendix 7C

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 8 Making the Decision	1. Recent changes made by the TCJA have business owners re-evaluating the choice of entity for existing business ventures as well as potential new businesses. Changes in tax rates should not be the only factor to consider when deciding upon a choice of entity. While the other chapters point out the changes specific to each respective entity, this chapter is focused on making the decision of which entity is best for a taxpayer based on their objectives among other factors.	Throughout
	2. For Checkpoint subscribers to this product, a new choice of entity tax analyzer is available that can be used to evaluate the different business entity forms based on the recent changes made by the TCJA.	Paragraph 802.3
	3. To help practitioners narrow the focus in choosing the entity format that best suits a taxpayer's objectives and goals a new checklist has been added that will help identify the taxpayer's primary goals for structuring and operating a business.	Appendix 8A
	4. Several new examples have been added that are intended to compare the tax effect of the new lower corporate tax rate against the new qualified business income deduction. Appendixes 8E and 8F illustrate the results from utilizing the Choice of Entity Tax Analyzer. These appendixes compare federal income and payroll/self-employment tax for corporate and pass-through entities based on the facts contained in Examples 8-5 and 8-6 respectively.	Section 807, Appendix 8E, Appendix 8F
	5. After completing the checklist at Appendix 8A, practitioners should review the table found at Appendix 8G that summarizes major attributes of the various business entities, this will help further narrow the selection of business entity.	Appendix 8G
	6. A new appendix has been added that summarizes the more important business-related provisions that were included in the TCJA.	Appendix 8H
	7. A sample letter has been included that can be adapted to send to clients that are potentially interested in considering a change in entity classification.	Appendix 8I