



**Overview of Key Tax Reform Provisions for
Bowling Proprietors**

April 2018

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INTRODUCTION

The Tax Cuts and Jobs Act (H.R. 1), signed into law on December 22, 2017, provides for many changes to the individual and corporate provisions in the federal tax code. Below is an overview of some of the revised provisions in the tax code impacting bowling proprietors. Please note the various dates the provisions go into effect and expire.

Due to the number of changes and also some new concepts introduced in the law, there is a need for guidance from the IRS and possibly from Congress in the form of technical corrections on the application of several of these provisions. Additionally, with changes to the federal tax code, many states have already embarked on various reforms to their state's tax code; some will conform to part or all of the federal reforms while others will depart from it.

INDIVIDUAL

Individual Rate: To determine regular tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her regular taxable income. The rate schedules are broken into several ranges of income, known as income brackets, with the marginal tax rate increasing as a taxpayer's income increases. Separate rate schedules apply based on an individual's filing status. Below is a comparison of the 2017 tax rates to the new rates in effect beginning in 2018:

Ordinary income tax rates compared: Tax reform legislation as enacted vs. 2017 law											
2017 law (tax year 2018)						Tax reform legislation as enacted (tax years 2018-2025)					
Single			Married couples filing joint			Single			Married couples filing joint		
Ordinary Income	Taxable income over	But not more than	Ordinary Income	Taxable income over	But not more than	Ordinary Income	Taxable income over*	But not more than	Ordinary Income	Taxable income over*	But not more than
10%	-	\$9,525	10%	-	\$19,050	10%	-	\$9,525	10%	-	\$19,050
15%	\$9,525	\$38,700	15%	\$19,050	\$77,400	12%	\$9,525	\$38,700	12%	\$19,050	\$77,400
25%	\$38,700	\$93,700	25%	\$77,400	\$156,150	22%	\$38,700	\$82,500	22%	\$77,400	\$165,000
28%	\$93,700	\$195,450	28%	\$156,150	\$237,950	24%	\$82,500	\$157,500	24%	\$165,000	\$315,000
33%	\$195,450	\$424,950	33%	\$237,950	\$424,950	32%	\$157,500	\$200,000	32%	\$315,000	\$400,000
35%	\$424,950	\$426,700	35%	\$424,950	\$480,050	35%	\$200,000	\$500,000	35%	\$400,000	\$600,000
39.6%	\$426,700		39.6%	\$480,050		37%	\$500,000		37%	\$600,000	

* Under the Act, the income thresholds for the individual rate brackets will be adjusted for inflation using the Chained Consumer Price Index for All Urban Consumers. This is a permanent change.

Individual Alternative Minimum Tax (AMT):

New Law:	<p>The AMT exists to be sure everyone pays a “minimum” level of tax despite using various exclusions, deductions, and credits to reduce their regular tax.</p> <p>The individual AMT is NOT repealed, but the exemption amounts have increased. AMT exemptions are \$70,300 for single or head of household, \$109,400 married taxpayers filing jointly, and \$54,700 married taxpayers filing separate. The phase-out thresholds are increased to \$500,000 and \$1 million for single and joint filers respectively. These are to be adjusted for inflation.</p>
Considerations:	<p>Due to the increase in the exemption, increase in the phase-out amount of the exemption, and the elimination/limiting of several of the key triggers of the tax (state income tax and miscellaneous deductions), it is likely that fewer taxpayers will be subject to AMT. However, since it still is in effect, careful planning will consider whether a taxpayer is subject to the tax.</p>

Standard deduction:

New Law:	<p>The standard deduction is nearly double to \$12,000 for single taxpayers and \$24,000 for married taxpayers filing jointly.</p> <p>Personal exemptions are repealed.</p>
Considerations:	<p>Increasing the standard deductions will allow many individuals to avoid itemizing their deductions. However, individuals who itemize should make note of changes to itemized deductions (e.g. state and local income or sales and property tax, charitable contributions, mortgage interest) under the new law.</p>

Charitable Contributions:

New Law:	<p>The AGI limit for gifts of cash to public charities and certain other organizations is increased to 60% from 50%. This increase is temporary and expires at the end of 2025.</p> <p>Charitable deductions are now denied for payments made in</p>
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	<p>exchange for college athletic event seating rights. This provision is permanent.</p> <p>Another change is that the exception to contemporaneous written acknowledgement requirement was repealed (meaning that the written acknowledgement must be obtained now for any contribution of \$250 or more).</p> <p>This provision is effective for 2018.</p>
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State and Local Tax Deduction:

<p>New Law:</p>	<p>An itemized deduction of up to \$10,000 (\$5,000 for married taxpayers filing separately) for the aggregate of nonbusiness (1) state and local property taxes, and (2) state and local income taxes or sales taxes is permitted.</p> <p>Nonbusiness foreign real estate property taxes are no longer deductible. It does not appear that the \$10,000 limitation is indexed for inflation.</p> <p>Significantly, prepayments of state and local income tax for 2018 made in 2017 are treated as paid as of the last day of 2018. Recent guidance from the IRS indicates that prepayments in 2017 of 2018 property taxes will be deductible only if those taxes were actually assessed in 2017. Here is the guidance: https://www.irs.gov/newsroom/irs-advisory-prepaid-real-property-taxes-may-be-deductible-in-2017-if-assessed-and-paid-in-2017</p>
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Estate, Gift, and Generation Skipping Transfer Taxes:

<p>New Law:</p>	<p>Estate, gift, and generation-skipping (GST) taxes were not repealed, but the exclusion and exemption amounts were increased.</p> <p>The applicable exclusion amount (the amount that each citizen is entitled to transfer either during life or, if otherwise unused, at death without incurring a current tax) and the GST tax exemption (the amount that may be transferred to skip-persons outright or in trust without giving rise to a present or future GST tax) is doubled to \$11.2 million from its existing \$5.6 million for transfers</p>
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	<p>occurring after December 31, 2017.</p> <p>The exemption will adjust each year for inflation and will expire Dec. 31, 2025, reverting back to 2017 figures.</p>
Considerations:	<p>Regulations will be needed to address various issues, including the treatment of clawback issues relating to the increased exemption amounts, when the increased levels are used to make gifts, and where the levels are potentially reduced by the time of the donor's death given this provision expires at the end of 2025.</p> <p>To note, many states have much lower thresholds and proper planning can alleviate some of the burden.</p>

Retirement Planning:

New Law:	<p>As of 2018, taxpayers are no longer permitted to recharacterize contributions and conversion of Roth IRAs. However, recharacterization of regular, annual contributions will be permitted. So someone who converts a traditional IRA to a Roth IRA cannot change his or her mind after the conversion.</p>
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Affordable Care Act – Individual Mandate:

New Law:	<p>The individual mandate to maintain insurance coverage was repealed as part of the new tax law. HOWEVER, this provision is not in effect until 2019.</p> <p>To note, unlike other provisions in the new law, the repeal of the individual mandate does not expire after 2025.</p>
Considerations:	<p>For 2017 and 2018, the information will still need to be gathered from individuals on their insurance coverage. The IRS has stated that for the upcoming filing season, they will not accept electronically filed tax returns where the taxpayer does not address the health coverage requirements of the ACA (meaning did they have coverage, or have an exemption, or whether they will make a shared responsibility payment).</p> <p>2017 penalty:</p> <ul style="list-style-type: none"> • Higher of 2.5% of yearly household income, or • \$695 per person (\$347.50 per child under 18)

BUSINESS

Pass-Through Entities (Partnerships, S corporations, or Sole Proprietorships) - Deduction for Qualified Business Income (QBI) (Section 199A): In general, partnerships and S corporations (*i.e.*, corporations subject to the provisions of subchapter S of the Code) are treated as pass-through entities for federal income tax purposes. Thus, no federal income tax is imposed at the entity level. Rather, income of such entities is passed through and taxed to the owners at the individual level. A business entity organized as a limited liability company (“LLC”) under applicable State law generally is treated as a partnership for federal income tax purposes if it has two or more members; a single-member LLC generally is disregarded as an entity separate from its owner for federal income tax purposes.

New Law:	<p>The new law provides a 20% deduction for pass through entities on “domestic qualified business income subject to certain limitations based on (1) taxable income and (2) the type of trade/business income that is applicable.</p> <p>Qualified business income for a taxable year means the net amount of domestic qualified items of income, gain, deduction, and loss with respect to the taxpayer’s qualified trades or businesses. For an S corporation, qualified business income does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer. For a partnership, it does not include any amount paid by a partnership to a partner who is acting other than in his or her capacity as a partner for services rendered with respect to the trade or business and it does not include any amount that is a guaranteed payment for services actually rendered to or on behalf of a partnership to the extent that he payment is in the nature of remuneration for those services. Qualified business income also does not include certain investment-related income, gain, deductions, or loss.</p> <p>Limitations: (1) A limitation based on W-2 wages and capital is phased in when the taxpayer’s taxable income exceeds a \$157,500 (\$315,000 married taxpayers filing joint returns) threshold amount. (2) A disallowance of the deduction with respect to specified service trades or businesses (<i>i.e.</i> some of these services include those in fields of health, law, consulting, athletics, financial services, and brokerage services) is also phased in when taxable income exceeds the threshold amount. These limitations are phased-in if taxable income exceeds the threshold amount but is below \$207,500 (\$415,000 married taxpayers filing jointly) (the phase-in range).</p>
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	<p>This provision is in effect on December 31, 2017 and expires after December 31, 2015.</p>
<p>Considerations:</p>	<p>There are several questions on how this deduction will be applied and more guidance is needed given the statutory language is vague. Acting IRS Commissioner David Kautter says his agency is working on fleshing out the deduction, but that the rules will not be released until late summer or early fall. Upcoming regulations will be effective beginning after December 31, 2017.</p> <p>Taxpayers and practitioners are asking for clarity on the following key issues to make decisions on various issues like cash-flow and entity structure:</p> <ul style="list-style-type: none"> • Definition of section 199A Qualified Business Income (QBI) • Aggregation method for calculation of QBI of pass-through businesses • Deductible amount of QBI for a pass-through entity with business in net loss • Qualification of wages paid by an employee leasing company • Application of section 199A to an owner of a fiscal year pass-through entity ending in 2018 • Availability of deduction for Electing Small Business Trusts (ESBTs)

Corporate Tax Rate:

<p>New Law:</p>	<p>The corporate rate is reduced to a flat 21% for tax years beginning in 2018. Prior brackets and the special tax rate for personal service corporations are eliminated.</p>
<p>Considerations:</p>	<p>With the reduction of the corporate tax rate to 21%, this may cause a need for an evaluation of choice of entity for current and future business plans.</p>

Special Rules on Conversion of S Corporation to C Corporations:

New Law:	<p>Any section 481(a) adjustment of an eligible terminated S corporation attributable to the revocation of its S corporation election (i.e. a change from the cash method to the accrual method) is taken into account ratably during the six-taxable-year period beginning with the year of change.</p> <p>An eligible terminated S corporation is any C corporation which (1) is an S corporation the day before the enactment of the law; (2) during the two year period beginning on the date of such enactment revokes its S corporation election under Section 1362(a); and (3) all of the owners of which on the date the S corporation election is revoked are the same owners (and in identical proportions) as the owners on the date of such enactment</p> <p>In the case of a distribution of money by an eligible terminated S corporation, the accumulated adjustments account shall be allocated to such distribution, and the distribution shall be chargeable to accumulated earnings and profits, in the same ration as the amount of the accumulated adjustments account bears to the amount the accumulated earnings and profits.</p> <p>Any increase in tax due to the Section 481(a) adjustment, rather than the Section 481(a) adjustment itself, is taken into account ratably during the six year tax period beginning with the year of change.</p>
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Corporate Alternative Minimum Tax:

New Law:	<p>The corporate AMT is repealed.</p>
Considerations:	<p>If a business has AMT credits, they will be refundable from 2018 – 2020 to equal 50% of the excess of the credit for the year over the amount of the credit allowable for the year against regular tax liability. In 2021, the limit will be 100%, so all remaining credits will be allowed.</p>

Depreciation and Full Expensing of Qualified Property (Section 168 and 179):

<p>New Law:</p>	<p>Section 168 bonus depreciation was modified to allow for full expensing of qualified property placed into service after September 27, 2017 and before January 1, 2023.</p> <p>There is a new phase-down schedule for years after 2022 (80% - 2023; 60% - 2024; 40% - 2025; 20% - 2026 and forward).</p> <p>For the 2017 year, if property was purchased and placed in service after September 27, there is an election to apply the 50% bonus rather than 100%.</p> <p>Another change is that the requirement that the original use of qualified property must begin with the taxpayer has been removed. So, both new and used property is available for bonus depreciation. So property qualifies under this provision so long as the property was not used by the taxpayer prior to the time of acquisition.</p> <p>The law makes no changes to section 168(k)(7), which permits a taxpayer to elect out of bonus depreciation on an asset-class-by-asset-class basis.</p> <p>Additionally, the new law also expands the definition of Section 179 property to include personal property connected with lodging for residential rental property. In addition, improvement to nonresidential real property was expanded to include roofs, HVAC, fire/alarm systems and security systems.</p>
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Interest Expense Deduction (Section 163):

<p>New Law:</p>	<p>Interest deduction on business interest is limited to (1) business interest income, plus (2) 30% of the taxpayer's adjusted taxable income. This limitation applies at the taxpayer level and there are special rules for partnerships and S corporations.</p> <p>For business interest that is not otherwise allowed as a deduction is treated as paid or accrued in the succeeding tax year, and may be carried forward indefinitely.</p>
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	<p>This provision on interest expensing applies to all taxpayers <u>except small businesses</u> whose average annual gross receipts for the three taxable year period ending with the prior tax year do not exceed \$25 million.</p> <p>Business interest and business interest income is defined as that allocable to a trade or business and not investment interest and income, within the meaning of Section 163(d). Adjusted taxable income is computed without regard to any (1) item of income, gain, deduction, or loss, which is not allocable to the trade or business; (2) business interest income or expense; (3) any deduction allowed under Section 199A(i.e. the 20% deduction for certain pass-through income,); (4) the NOL deduction; and (5) depreciation, amortization, or depletion for tax years beginning before January 1, 2022 (but taking into account depreciation, amortization, and depletion thereafter).</p>
<p>Considerations:</p>	<p>For those businesses subject to the interest limitations, there will be additional planning needed related to debt financing decisions.</p> <p>The IRS has released guidance on the business interest limitation. Please review it here: https://www.irs.gov/pub/irs-drop/n-18-28.pdf.</p>

Net Operating Losses:

<p>New Law:</p>	<p>For 2018 and forward, except in certain situations (specific farming losses for one), the two year carryback has been repealed.</p> <p>The NOL carryforward period is indefinite, but only 80% of taxable income can be reduced by the NOL. This is another provision that may affect the calculation of the tax provision for deferred tax assets generated by NOLs.</p>
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Fringe Expenses (Section 274):

<p>New Law:</p>	<p>No deduction is allowed for entertainment expenses (whether directly related or associated with trade business). This includes any activity that is considered to be entertainment, amusement or recreation, and includes</p>
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	<p>membership dues for clubs organized for business, pleasure, recreation or social purposes.</p> <p>Taxpayers may still generally deduct 50% of food/beverage expenses associated with operating their trade/business (for work travel).</p> <p>Historically transit passes, van pool transportation, free/subsidized parking, bicycle subsidy were excludable fringe benefits. Employers are no longer allowed to deduct these (except bicycle reimbursements) reimbursements (they are still excludable to employee if provided). Bicycle reimbursements are taxable to the employee, but are allowed as a deduction.</p> <p>Employee achievement awards (for safety or length of service) are no longer excludable from an employee's income. Section 132(a) excludes working condition fringe benefits for an employee if the employee could deduct the expenses as an unreimbursed employee expense.</p>
<p>Considerations:</p>	<p>With changes to fringe benefit exclusions and deductions, businesses may make different decisions about company parties and benefits offered to employees.</p> <p>Taxpayers and practitioners are seeking guidance on the following issues related to changes to Section 274 to properly account for changes in the deductibility of these items, revise their accounting systems and expense and reimbursement policies, and comply with them on their tax returns and financial statements:</p> <ul style="list-style-type: none"> • Client-Related Business Meals • Employer-Provided Business Meals • Employer-Provided Snacks and Other Food Products • Employer-Hosted Recreational, Social, and Similar Activities • Advertising • Charitable Contributions Qualified Transportation • Transportation and Commuting • Membership Dues

New Credit for Paid Family and Medical Leave (Section 455):

New Law:	<p>A new employer credit is created for paid family and medical leave. The provision permits eligible employers (employers who allow all qualifying full-time at least two weeks of annual paid family and medical leave and allow part-time employees a commensurate amount of leave on a pro rata basis) to claim a business credit for 12.5 percent of the wages paid to qualifying employees during any period in which such employees are on family and medical leave if the payment rate under the program 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 points by which the rate of payment exceeds 50%.</p> <p>The credit is effective for wages paid in tax years beginning after December 31, 2017, but does not apply to ages paid in tax years beginning after December 31, 2019.</p>
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RESOURCES

The information above has been quoted or derived from the following sources:

- Tax Cuts and Jobs Act (H.R. 1; signed into law on December 22, 2017): <https://www.congress.gov/bill/115th-congress/house-bill/1/text>
- Association of International Certified Professional Accountants' (AICPA) Tax Reform Resource Center: <https://www.aicpa.org/interestareas/tax/resources/specializedguidance/taxreform.html>
- Deloitte's "Reshaping the code: Understanding the new tax reform law." <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/us-tax-reform-report.pdf>
- IRS News Releases and Statements on Tax Reform: <https://www.irs.gov/newsroom/tax-reform>
- IRS Notice 1036 - Updates the income-tax withholding tables for 2018: <https://www.irs.gov/pub/irs-pdf/n1036.pdf>
- Joint Committee on Taxation's "Overview of the Federal Tax System as in effect for 2018." <https://www.jct.gov/publications.html?func=startdown&id=5060>