The recently enacted Tax Cuts and Jobs Act (TCJA) has altered the tax landscape for a lot of businesses. Here are two examples of the changes coming in 2018.

New Corporate Tax Rate

The prior-law graduated corporate tax rates have been consolidated into one 21% flat rate. The separate rate for personal service corporations of 35% has been repealed. These changes are effective for tax years beginning after Dec. 31, 2017. For fiscal-year corporations, the calculation of tax will be determined using a blended rate based on the number of months at the old versus the new rate structure.

Choice of Entity

Due to the low corporate tax rate, the TCJA reopens the discussion of whether a business should be conducted as a C corporation or pass-through entity (such as a partnership, S corporation, or sole proprietorship). In general, choosing the right business entity involves various factors, and there is no automatic right answer. Before converting a business to a C corporation, owners should consider the following:

- The TCJA creates a new deduction for Qualified Business Income (QBI) from pass-through entities. The deduction can be up to 20% of QBI, but is only available for 2018-2025 unless Congress extends it.
- C corporations are subject to double taxation, meaning that corporate income is taxed once at the entity level and again when it's distributed to shareholders as dividends.
- It's important to consider the tax consequences of a potential exit strategy. Significant assets that are likely to appreciate (such as real estate) are generally difficult to get out of a corporation without double taxation.
- Other new factors to consider are reduced tax rates on individuals for 2018-2025 and very generous first-year depreciation allowances.

C corporations are now more attractive thanks to the 21% rate, but pass-through entities will still be preferred in some cases. We would need to analyze your particular circumstances to determine if a C corporation is right for you.

Please contact us if you have questions about the new law and how various provisions might apply to you. We would be happy to schedule a tax planning meeting to discuss your specific tax situation. Planning ahead can help you minimize your tax bill and position you for greater success.

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