# Far and Wide

## TAX UPDATES YOU NEED TO KNOW NOW

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# Objectives

**FEDERAL TAX REFORM UPDATE:**

- Understand the impact of tax reform on financial institutions and their customers.
- Understand impact of tax reform on financial statements.

**NEW HAMPSHIRE TAX UPDATE:**

- Learn about the upcoming tax changes in NH.

**GOP’S 2017**

# Tax Reform Framework


TAX REFORM

MORE *jobs* | FAIRER *taxes* | BIGGER *paychecks*

UNIFIED FRAMEWORK
FOR FIXING
OUR BROKEN TAX CODE

SEPTEMBER 27, 2017

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# Tax Reform

## INDIVIDUALS

1 “ZERO TAX BRACKET”

2 INDIVIDUAL TAX RATE STRUCTURE

3 INDIVIDUAL ALTERNATIVE MINIMUM TAX

4 ITEMIZED DEDUCTIONS

# “Zero Tax Bracket”

## MIDDLE-CLASS FAMILIES WILL SEE LESS OF THEIR INCOME SUBJECT TO FEDERAL INCOME TAX.

Provides tax relief by roughly doubling the standard deduction to:

- $24,000 (currently $12,700) for married taxpayers filing jointly, and
- $12,000 (currently $6,350) for single filers.

In combination, these changes simplify tax filing and effectively create a larger “zero tax bracket” by eliminating taxes on the first $24,000 of income earned by a married couple and $12,000 earned by a single individual.

# Rate Structure

## INDIVIDUALS

“ Under current law, taxable income is subject to seven tax brackets. The framework aims to consolidate the current seven tax brackets into three brackets of 12%, 25% and 35%. ”

Under Current law, individual income tax rates are 10, 15, 25, 28, 33, 35, and 39.6 percent.

# Alternative Minimum Tax

**INDIVIDUALS**

“The nonpartisan Joint Committee on Taxation (JCT) and the Internal Revenue Service (IRS) Taxpayer Advocate have both recommended repealing the AMT because it no longer serves its intended purpose and creates significant complexity.

This framework substantially simplifies the tax code by repealing the existing individual AMT, which requires taxpayers to do their taxes twice.”

# Itemized Deductions

“In order to simplify the tax code, the framework eliminates most itemized deductions, but retains tax incentives for home mortgage interest and charitable contributions.

These tax benefits help accomplish important goals that strengthen civil society, as opposed to dependence on government: homeownership and charitable giving.”

# Tax Reform

## BUSINESSES

1. TAX RATE STRUCTURE FOR SMALL BUSINESSES
2. TAX RATE STRUCTURE FOR CORPORATIONS
3. “EXPENSING” OF CAPITAL INVESTMENTS
4. INTEREST EXPENSE
5. OTHER BUSINESS DEDUCTIONS AND CREDITS

# Rate Structure

**SMALL BUSINESSES**

## THE FRAMEWORK:

- Limits the maximum tax rate applied to the business income of small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25%.
- Contemplates that the committees will adopt measures to prevent the recharacterization of personal income into business income to prevent wealthy individuals from avoiding the top personal tax rate.

# Rate Structure

## CORPORATIONS

**THE FRAMEWORK:**

- Reduces the corporate tax rate to 20% – which is below the 22.5% average of the industrialized world.
- Aims to eliminate the corporate AMT, as recommended by the non-partisan JCT.

The committees also may consider methods to **reduce the double taxation** of corporate earnings.

# Capital Investments

## “EXPENSING”

**THE FRAMEWORK:**

Allows businesses to immediately write off (or “expense”) the cost of new investments in depreciable assets other than structures made after September 27, 2017, for at least five years.

This policy represents an unprecedented level of expensing with respect to the duration and scope of eligible assets.

The committees may continue to work to enhance unprecedented expensing for business investments, especially to provide relief for small businesses.

# Interest Expense

The deduction for net interest expense incurred by C corporations will be partially limited.

The committees will consider the appropriate treatment of interest paid by non-corporate taxpayers.

# Business Deductions & Credits

**OTHER**

Because of the framework's substantial rate reduction for all businesses, the current-law domestic production ("section 199") deduction will no longer be necessary.

The framework explicitly preserves business credits in two areas where tax incentives have proven to be effective in promoting policy goals important in the American economy: research and development (R&D) and low-income housing.

# Framework's Business Tax Reform

**KEY TAKEAWAYS**

- Top Corporate Tax Rate reduced from 35% to 20%.
- Elimination of the Corporate AMT.
- Depreciable assets other than building structures to be immediately expensed "for at least 5 years."
- Elimination of the Domestic Production Activities Deduction while the Research & Development Tax Credit and Low Income Housing Tax Credits remain in place.

# Analysis of Impact of Tax Reform on Earnings

**CURRENT TAXES**

| | |
|---|---|
| Assumptions: | |
| Taxable Income: | 1,000,000 |
| Gross Deferred Taxes: | 5,000,000 |

| ***Federal Tax Rate*** | ***Current Taxes*** | ***Impact on Earnings*** |
|---|---|---|
| 34% | 340,000 | - |
| 30% | 300,000 | 40,000 |
| 25% | 250,000 | 90,000 |
| 20% | 200,000 | 140,000 |
| 15% | 150,000 | 190,000 |

# Analysis of Impact of Tax Reform on Earnings

**DEFERRED TAXES**

| | |
|---|---|
| Assumptions: | |
| Taxable Income: | 1,000,000 |
| Gross Deferred Taxes: | 5,000,000 |

| ***Federal Tax Rate*** | ***Net Deferred Tax Asset*** | ***Impact on Earnings*** |
|---|---|---|
| 34% | 1,700,000 | - |
| 30% | 1,500,000 | (200,000) |
| 25% | 1,250,000 | (450,000) |
| 20% | 1,000,000 | (700,000) |
| 15% | 750,000 | (950,000) |

# Analysis of Impact of Tax Reform on Earnings

**DEFERRED & CURRENT TAXES**

| | |
|---|---|
| Assumptions: | |
| Taxable Income: | 1,000,000 |
| Gross Deferred Taxes | 5,000,000 |

| Federal Tax Rate | Deferred Taxes | Impact on Earnings | Current Taxes | Impact on Earnings | Net Impact on Earnings |
|---|---|---|---|---|---|
| 34% | 1,700,000 | - | 340,000 | | |
| 30% | 1,500,000 | (200,000) | 300,000 | 40,000 | (160,000) |
| 25% | 1,250,000 | (450,000) | 250,000 | 90,000 | (360,000) |
| 20% | 1,000,000 | (700,000) | 200,000 | 140,000 | (560,000) |
| 15% | 750,000 | (950,000) | 150,000 | 190,000 | (760,000) |

# Business Update

## NEW HAMPSHIRE TAX RATES

### HOUSE BILL 517

Reduces the rate of the RSA 77- A BPT and the RSA 77-E BET.

- For taxable periods ending on or after December 31, 2019, HB 517 reduces the BPT rate to 7.7% and the BET rate to .6%.
- For taxable periods ending on or after December 31, 2021, HB 517 reduces the BPT rate to 7.5% and the BET rate to .5%.

Pursuant to existing law, for taxable periods ending on or after December 31, 2018, the BPT rate is reduced to 7.9% and the BET rate is reduced to .675%, contingent upon combined unrestricted general and education trust fund revenues of $4.64 billion being collected during the biennium ending June 30, 2017.

Business Update

NEW HAMPSHIRE

## INTERNAL REVENUE CODE § 179 DEDUCTION

### HOUSE BILL 517
### (CHAPTER 156, SECTION 218, LAWS OF 2017)

Amends RSA 77-A:3-a to provide that a taxpayer may calculate expense deductions pursuant to Internal Revenue Code (IRC) § 179 not to exceed $500,000 for property placed in service on or after January 1, 2018.

For property placed in service from January 1, 2017 through December 31, 2017, the maximum IRC § 179 deduction is $100,000.

For property placed in service prior to January 1, 2017, the maximum IRC § 179 deduction is $25,000.

Business Update

NEW HAMPSHIRE

## INTERNAL REVENUE CODE CONFORMITY

### HOUSE BILL 517
### (CHAPTER 156, SECTION 229, LAWS OF 2017)

Amends RSA 77-A:1, XX to conform the BPT to the IRC of 1986 in effect on December 31, 2016 for taxable periods beginning on or after January 1, 2018, subject to the adjustments required pursuant to RSA 77- A:3-b.

# Agenda

**PARTNERSHIP TAX AUDIT PROCEDURES**

## UNDERSTAND HOW PARTNERSHIP TAX AUDIT PROCEDURES IMPACT YOUR INVESTMENTS IN PARTNERSHIPS.

- Summary of “Old” rules
- Discussion of new rules
- Do partnership/LLC agreements need to be changed
- Due diligence on entry and exit from partnerships

# TEFRA Partnerships

## AND IRS AUDIT PROCEDURES

### TEFRA AUDIT PROCEDURES APPLIED TO ALL PARTNERSHIPS EXCEPT:

- Electing large partnerships (100 or more members).
- Small partnerships which have 10 or fewer who are individuals, C corps or deceased partner's estate.
- Under TEFRA rules items are divided between partnership items, nonpartnership items and affected items.
- Partnership items are determined at entity level and nonpartnership items as the partner level.

# TEFRA Partnerships

## AND IRS AUDIT PROCEDURES

- Partnership item is any item that must be taken into account at the partner level by IRS regulations.
- Nonpartner item is any other item. This is in reference to the partner. E.g., partner compensation not related to the partnership or dividends/interest/rent not from the partnership.
- Affected item is one that is impacted by a partnership item. This refers to the partner return.
- Adjustments are determined at the partnership level and tax is assessed on the partners.
- There is no audit of the individual partner returns.
- Notice is given to all partners of an Audit.

# Bipartisan Budget Act of 2015

## BBA AUDIT RULES

- New single set of partnership audit rules for tax years beginning after 12/31/2017.
- Purpose is to streamline partnership audits and collections.
- New rules are expected to raise $10 billion as audits and collection will be easier.
- Rules will apply to virtually all partnership unless certain elections are made.

# Bipartisan Budget Act of 2015

## BBA AUDIT RULES

- IRS will assess the tax on the partnership, rather than the partners.
- Partners will not have joint and several liability.
- Partners will have no rights to participate in the audit, litigation or recourse at partnership level.
- Partnership designates a Partnership Representative who has broad powers to bind partnership and partners.
- PR is not required to inform partners of an audit.
- **AGREEMENT CONSIDERATIONS:**
  Designate PR and delineate rights, responsibilities and obligations to partners.

# BBA Audit Rules

## PUSH-OUT ELECTION

- The partnership may make a push-out election to the partners within 45 days of receiving final partnership adjustment notification.
- There are specific requirements for this election including a safe harbor tax, interest, and penalty computation.
- Partner may pay safe harbor amount or amend return and compute tax for audit period.
- Partner has no rights to contest interest penalties as those rights are retained at partnership.
- **AGREEMENT CONSIDERATIONS:**
  Should the PR be permitted to make a push-out election?

# BBA Audit Rules

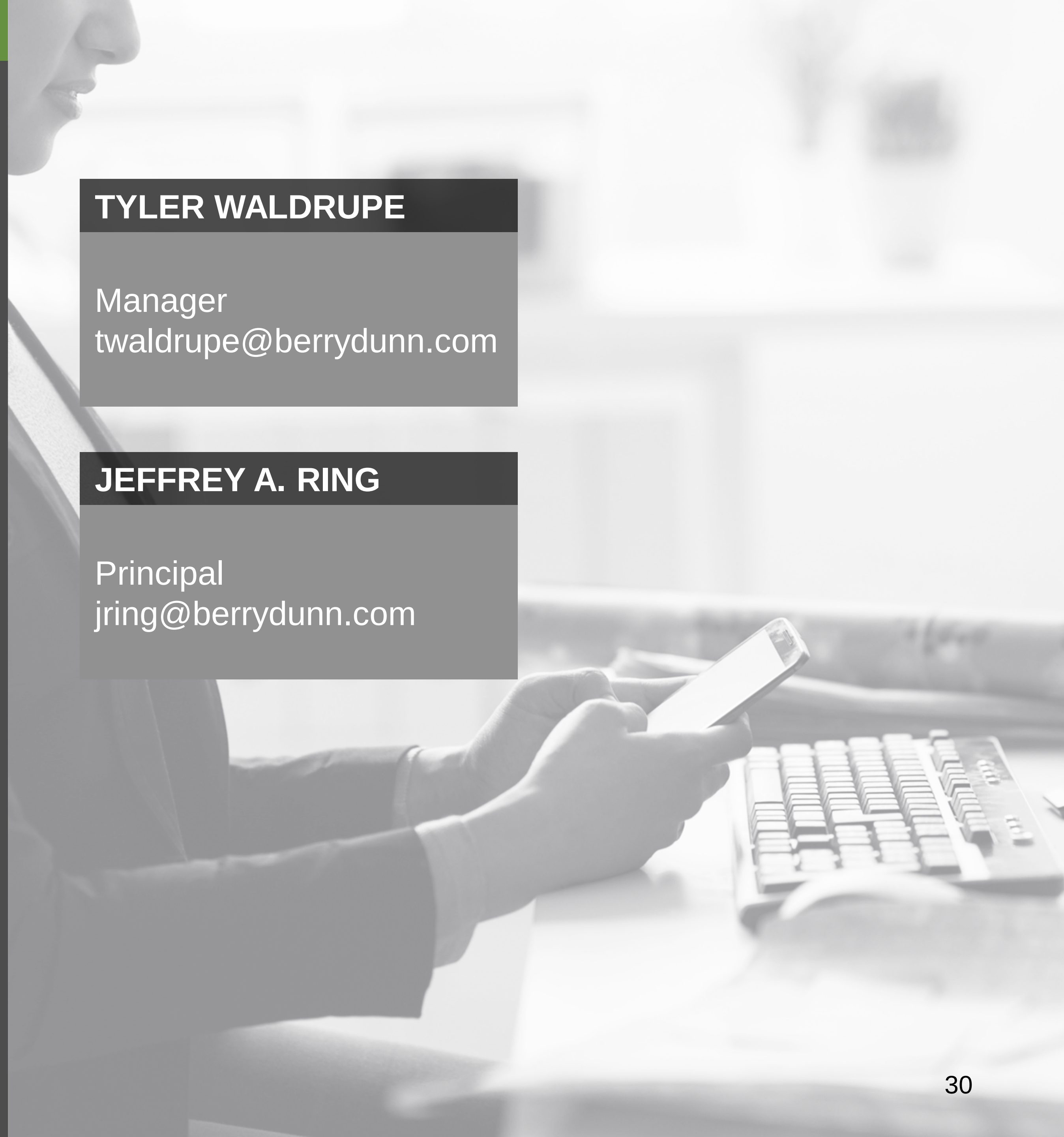
## ELECT OUT OF BBA RULES

- If less than 100 partners which are individuals, corporations or estates can elect out.
- Annual election at time return is filed. Must be considered and decided at time return filed. Presumably by the PR.
- If electing out, tax assessed at partner level. This means on the partners who were partners in the year under audit. May not be current partner group.
- **AGREEMENT CONSIDERATIONS:**
  Should the PR make this election annually? Should there be criteria developed to help make this decision?

# BBA
## CONSIDERATIONS

- Determine eligibility to elect out of BBA rules and if election is desired.
- Determine who should be PR and under what circumstance they should be replaced.
- Consider limitation on PR authority. How will PR be indemnified or protected?
- Dissolution: Consider separate agreement/escrow as partners at dissolution are liable for audit adjustments on open years.
- Consider liability on entrance into and exit from partnerships.
- Consider other agreements or parties that may be effected or have questions such as regulators, offering materials, etc.

# Contact Us

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