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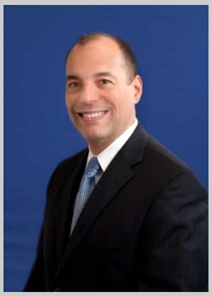
January 2018

In The News
Tax Law 2018



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As you are likely aware, new tax laws have been enacted for 2018. While I am not able to cover the full tax law in this article, I do want to mention a few key points.

First, if you are considering converting to a C-corporation, it may not make sense to convert your pass-through entity to an entity taxed as a C-corporation, despite the corporate income tax rates being reduced to 21%.

In the past, it made sense to have your business taxed as a S-corporation because the tax consequences flowed through to the owner's income tax return (Form 1040) and created a single level of tax. On the other hand, if an entity was taxed as a C-corporation, then the entity paid income tax at the corporate level, and when the profits were distributed to the owners, the owners were taxed again. Thus, the income was subject to what is referred to as the "double-tax."

Although a tax rate of 21% sounds appealing, it is beneficial only if you can retain your profits in the C-corporation. If you need the cash flow of your business to live on, then there may not be any benefit to being taxed as a C-corporation because you would not retain profits in the C-corporation and thus it would be subject to the "double-tax."

Further, there is a tax deduction for "qualified businesses" taxed as a flow through entity and certain small service business entities. This brings some tax relief for certain S-corporations and partnerships. I strongly recommend you talk with your CPA before you convert your entity to a C-corporation. I believe you will find the reduced tax rate for a C-corporation will only benefit large businesses.

Another change that every business owner should review is the limitation on entertainment expenses. Meals remain deductible at the 50% threshold; however, in-house meals for employees are no longer deductible in full. Instead, such expenses are deductible like any other meal at 50%. Finally, deductions for entertainment expenses are almost nonexistent.

The final point I want to discuss is the increase in the estate tax exemption amount. The amount was increased to approximately $11,000,000 per person; therefore, a married couple can pass around $22,000,000 (with the right planning) without estate tax consequences.

However, even with the increased exemption amount, you should still address your estate planning. The key to estate planning remains the same: making sure your assets are distributed at your death as you desire. You need to consider children from prior marriages, trusts for children to offer protection from divorce and creditors, as well as the distribution of closely held assets, such as a business or commercial real estate. These are just examples; each plan is different for every person.

Be forewarned, the increase in the estate tax exemption amount is temporary under the current law. In 2026, it reverts back to the law as it existed in 2017. If you have an estate in excess of $22,000,000, then this is a great opportunity to take advantage of the increased exemption amount with some advanced planning.

Please contact us if you have questions or would like to further discuss these key points.