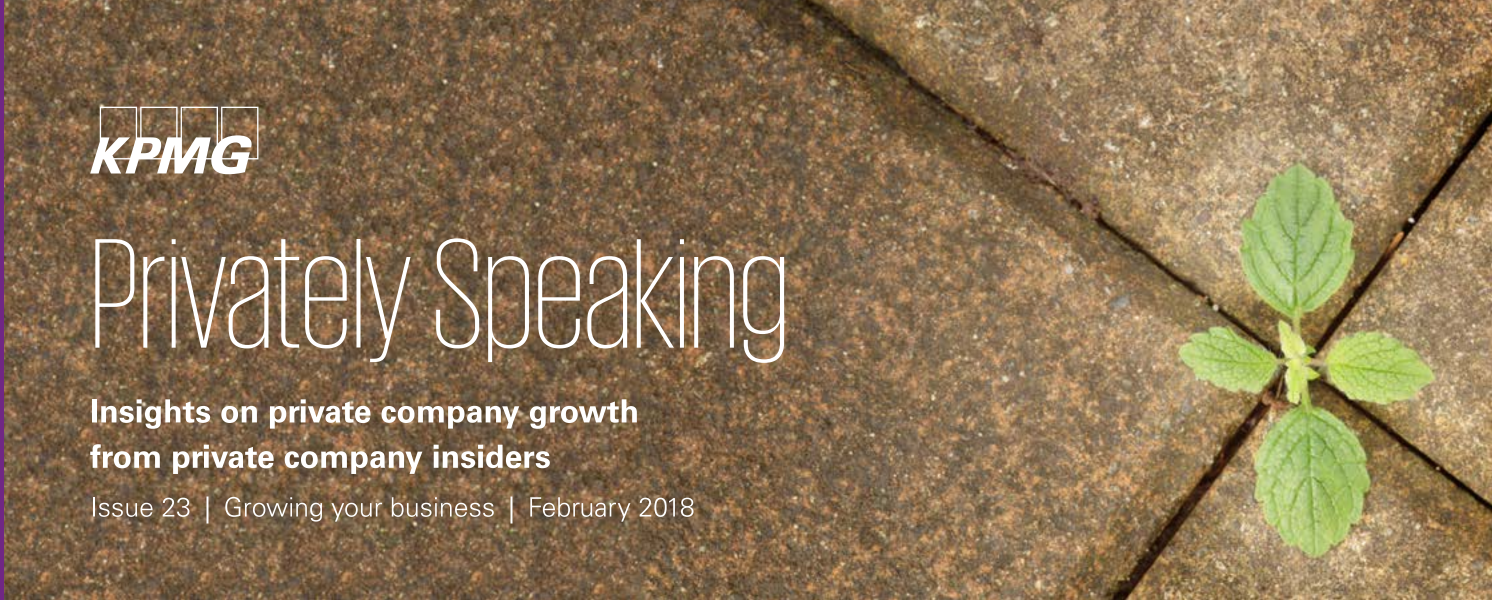

KPMG

# Privately Speaking

**Insights on private company growth from private company insiders**

Issue 23 | Growing your business | February 2018

## What tax reform means for you and your privately held company

President Trump's recent tax reform package represents the biggest change to our tax system since the 1980s. Do you know how it will affect you and your organization?

After decades of talking about business tax reform, the Senate and House of Representatives finally agreed on a package. And, in late December, President Trump signed H.R. 1 into law. You might have spent your holidays reading all about it.

You may have read that it is the biggest revision to the U.S. tax code in decades, that it includes substantial changes to the taxation of individuals and businesses, and that it provides a net tax reduction of approximately $1.456 trillion over the 10-year "budget window." It is, in a word, massive.

But—even with all your reading—you probably still might not know how the tax package will impact you and your **privately held company**. That is not surprising; H.R.1 is extremely complex.

### Good news that may come with big headaches

For the most part, business owners and investors were optimistic about the passage of H.R.1. And rightfully so—there are lots of potential benefits for businesses and individuals in this tax package. It slashes both corporate and personal taxes, offers a raft of new deductions, and creates some interesting benefits for S-Corporation owners, individuals, and owners of pass-through entities.

But it is also incredibly complex. Indeed, rather than simplifying the tax code, the recent revisions have resulted in much more complexity than ever before. Most privately held organizations may struggle to understand and properly respond.

"The legislation is clearly pro-business and—besides the headline drop in overall tax rates—it offers great advantages for business owners and investors. But I worry that a lot of companies will miss out on the bigger opportunities because they do not fully understand what is in the tax package."

—**Bill Jackson,** National Tax Leader, KPMG's Private Markets Group

**30 years of talk, 3 months of action**

Ever since the 1980s, Washington has talked of tax reform. But little ever happened.

Then, in 2016, ahead of the elections, the House GOP released their "Blueprint" for tax reform, broadly focused on slashing business taxes and reforming the system governing international business income tax. The Blueprint never progressed beyond conceptual form, but it did spark renewed debate about the need for tax reform—an issue that quickly took center stage during the elections.

But once Congressional Republicans moved tax reform to the "front burner" in September 2017, momentum quickly picked up pace. In late September, the so-called Unified Framework on Tax Reform was released and by December 20, both the House and the Senate were voting on the final bill. Two days later, it was signed into law by the president.

### A catalyst to growth?

Reduced tax rates tend to mean more business capital which, in turn, may lead to greater flexibly for investment and growth. But the new tax package contains more growth accelerators than just reduced liabilities.

Take, for example, the new rules on bonus depreciation that allow taxpayers to immediately write off the cost of plant and equipment acquisitions, meaning that businesses will essentially enjoy a 21 percent reduction in the initial cost of new and used assets.

### Here today, gone by 2025

While the overall corporate tax reduction is here to stay, most of the changes affecting individual taxpayers (including the deduction for certain owners of pass-through businesses) are scheduled to cease to apply after December 31, 2025, and to revert to their pre-2018 form. Future legislation would be required to make the provisions effective beyond 2025.

> "The tax package offers a lot of benefits to growing businesses. But, particularly if you are planning on expanding overseas, it also creates significant challenges. If you were not thinking about tax as part of your long-term planning, you definitely need to consider it now."
>
> **—Bill Jackson,**
> National Tax Leader,
> KPMG's Private
> Markets Group

## Besides the rate cut…

It is hard to see past the considerable headline rate cuts. But, once you do, here are 10 other aspects of the new tax reform package that you may want to keep in mind:

**1** **AMT exemptions were increased. This could mean lower individual taxes for many individual business owners.**

**2** **Excess business losses were limited to $500,000. Individuals who tend to use their business losses to offset income may be impacted.**

**3** **A new 20 percent deduction for certain qualified business income for certain noncorporate taxpayers (including income from publicly traded partnerships).**

**4** **If you are planning to buy a house in 2018, mortgage interest will only be deductible with respect to up to $750,000 of any newly incurred acquisition indebtedness. Interest on home equity indebtedness is no longer deductible.**

**5** **The percentage limitation for certain charitable contributions was increased to 60 percent. This means you can take a deduction for cash donations to public charities for up to 60 percent of your adjusted gross income.**

**6** **Deductions for miscellaneous items were repealed. Items such as tax preparation fees and investment fees are no longer deductible, which may change the Return on Investment equation on some investments.**

**7** **Moving expense deductions were repealed and moving allowances became taxable. This will make any business-related move more expensive and may impact the competition for talent.**

**8** **Net investment income tax rates remained at 3.8 percent. The headline here is that the tax remains on capital gains and investment income.**

**9** **The estate, gift, and generation-skipping transfer (GST) tax exemption amount is doubled to $10 million (indexed for inflation) through 2025.**

**10** **Standard deductions were raised. For married taxpayers filing a joint return, the deduction is now $24,000. This should help simplify the tax process for many (mostly middle-income) families.**

## Find out everything you can

As a business owner or investor, you are keen to learn everything you can about the new tax law and its impact on you, your customers, and your stakeholders. But the journals and media may not be giving you enough. So here are some sources from KPMG to help get you started.

- **KPMG's dedicated Tax Reform Web page**
- **Tax Reform 101: Video Webcast**
- **New Tax Law: Issues for Partnerships, S-Corporations, and Their Owners**
- **Tax Reform Thursdays: Tax Reform and Passthroughs Webcast replay**
- **Q&A: Tax reform in the U.S. (IFRS)**

To learn more about the new tax reform package or to discuss the impact of tax reform on you and your business, please contact:

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## Top ten questions to ask your tax adviser regarding tax reform:

1. How will the new tax reform impact my business?
2. Should I be restructuring the business to take advantage of reduced corporate tax rates?
3. How will the new tax code impact my current growth strategy and plans for international expansion?
4. What can I do in the short-term to maximize the benefits of tax reform?
5. Will I need to change the way I currently incentivize my workforce?
6. How can we use the new temporary 100% expensing of certain business assets rules to drive growth and investment?
7. How will the new tax law changes influence the way we raise capital in the future?
8. Should this influence the timing of my exit from the business?
9. What will it cost to comply with the new tax rules?
10. How will the individual states address the tax reform?

## Do not miss a thing

The environment for private companies is changing rapidly, and new opportunities are emerging every day.

Do not let an opportunity pass you by—sign up to receive KPMG's ***Privately Speaking*** series and make sure you are making the best decisions possible for your private company.

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***Privately Speaking*** **focuses on the issues that matter most to privately held entities, including private equity and venture-capital-backed companies.**

KPMG LLP's (KPMG) Private Markets Group understands what it takes to drive private company growth. In each edition of ***Privately Speaking***, we share our insights—along with practical and actionable tips—to help boards, executives, and management grow, strengthen, and transition their privately held businesses.

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