

Provision	Summary of Changes	Implications for Retail
<p>Reduced Corporate Tax Rate</p>	<p>Reduces the top corporate tax rate from 35% to 21%.</p> <p>Allows a 20% deduction of taxable income for certain pass through entities</p> <p>Effective Date: Taxable years after Dec. 31, 2017.</p>	<p>Industry View: Positive</p> <p>What's at stake: The drop in the corporate tax rate is great news for retailers. Historically, corporate taxable income is subject to tax under a four-step graduated rate structure, with the top corporate tax rate of 35% on taxable income in excess of \$10 million. Now, the new corporate tax rate will stand at 21%.</p> <p>For tax years beginning after Dec. 31, 2017, and before Jan. 1, 2026, taxpayers who have domestic "qualified business income" (QBI) from a partnership, S corporation, or sole proprietorship are entitled to deduction of the lesser of such QBI or 20% of taxable income. The deduction reduces taxable income, not adjusted gross income, and eligible taxpayers are entitled to the deduction whether or not they itemize.</p>
<p>Bonus Depreciation</p>	<p>Companies will be able to fully expense certain capital expenditures on personal property, including acquisitions of used property, starting with assets placed in service after Sept. 27, 2017, in 2018.</p> <p>Effective date: 100% expensing of personal property is effective for assets placed in service after Sept. 27, 2017 through Dec. 31, 2022.</p> <p>The percentage of allowable expensing will be phased out at a rate of 20% per year from 2023 (80%) to 2026 (20%), starting with</p>	<p>Industry View: Positive</p> <p>What's at stake: The bonus depreciation provision allows growing retailers to immediately recover investments for equipment and other personal property. This is likely to encourage more capital spending on new stores.</p> <p>The repair regulations will still apply to store "refreshes" or remodels which continue to allow a 75% deduction of these expenditures. With the remainder taken over the life of the asset.</p> <p>Real Property placed in service after Dec. 31, 2017 will need to be capitalized over 39 years unless it</p>

	assets placed in service after Sept 27, 2017, in 2018.	can be expensed under Section 179. (See Box on Qualified Retail Property below.) The taxpayer may elect out of bonus depreciation.
Qualified Retail Property	Eliminates the separate definitions of “qualified leasehold improvement property,” “qualified restaurant property,” and “qualified retail improvement property” and now provides for a single definition for Qualified Improvement Property (QIP). Effective Date: Taxable years after Dec. 31, 2017.	Industry View: Mixed What’s at stake: While it appears that Congress intended to provide a 15-year recovery period for QIP under the MACRS general depreciation system, the provisions set forth in the Act do not provide a 15-year recovery period for QIP at this time. Therefore, the property will not be eligible for bonus depreciation after Dec. 31, 2017. At this point, Qualified Retail Improvement property is generally eligible for 50% bonus depreciation to the extent acquired and placed in service by Sept. 27, 2017, and generally eligible for 100% bonus depreciation if acquired and placed in service from September 28, 2017, to December 31, 2017. QIP placed in service on or after January 1, 2018, is recovered more than 39 years and is not bonus eligible until such point as a technical correction to the Act is enacted.
Repeal of the Corporate Alternative Minimum Tax (AMT)	Conforming to the repeal of the corporate AMT, the bill also repeals the election to accelerate AMT credits in lieu of bonus depreciation. Effective Date: Taxable years after Dec. 31, 2017.	Industry View: Positive What’s at stake: Under present tax law, an AMT is imposed on a corporation to the extent the corporation’s tentative minimum tax exceeds its regular tax. This tentative minimum tax is computed at the rate of 20 percent on the AMTI in excess of a \$40,000 exemption amount that phases out. The repeal of the corporate AMT allows the use of credits, particularly the R&D credit, to

		further reduce tax liability. Absent this repeal, this credit would not be allowed to reduce a minimum tax liability and would provide no value to a taxpayer.
Amortization of Research and Experimental (R&E) Tax Deduction	<p>Companies will be required to write off research expenses, including software development expenditures, over a longer period of time.</p> <p>Effective date: Effective for taxable years after Dec. 31, 2021.</p>	<p>Industry View: Negative</p> <p>What's at stake: In the past, retailers could immediately deduct software development expenditures. Now, they must amortize expenses over 5 years. For example, in the past, installing a new pricing system costing \$7 million would warrant a \$7 million deduction immediately. Now this deduction will be spread throughout 5 years.</p>
Limitations on Interest Deductibility	<p>Revises Section 163(j) and expands its applicability to every business, including partnerships. Generally, it caps deduction of interest expense to interest income plus 30% of adjusted taxable income, which is computed without regard to deductions allowable for depreciation, amortization, or depletion. Disallowed interest is carried forward indefinitely. Contains a small business exception.</p> <p>Effective date: Effective for taxable years beginning after Dec. 31, 2017.</p>	<p>Industry View: Negative</p> <p>What's at stake: This would limit the interest deduction to 30% of EBITDA for four years, then 30% of EBIT thereafter. Taxpayers with a high level of debt to fund operations and expansions will be required to defer the interest expense deduction.</p>
Work Opportunity Tax Credit	<p>The House had a provision in their bill to eliminate the credit, but the final result is no change in this valuable credit for retailers.</p> <p>The WOTC is a tax credit available for employers hiring individuals from one or more of ten targeted groups of employees.</p>	<p>Industry view: Positive</p> <p>What's at stake: Since many retailers often hire employees whose demographics qualify them for this credit, retailers stand to benefit from the continuation of this credit.</p>
\$1 Million Deduction Limitation on Executive	<p>Adds the CFO to the definition of "covered employees" and eliminates the exception for</p>	<p>Industry view: Negative</p> <p>What's at stake: In the past, this</p>

<p>Compensation</p>	<p>commissions and performance-based compensation, including stock options, from the definition of compensation subject to the \$1 million deduction limitation.</p> <p>Effective date: Taxable years after Dec. 31, 2017.</p> <p>A transition rule applies to grandfather payments if the right to participate in the plan is included in a written binding contract in effect on Nov. 2, 2017, and which was not modified on or after this date.</p>	<p>deduction was allowed if performance metrics were included in determining compensation in excess of \$1 million. This change could cause some high-level retail executives' compensation to not be deductible therefore total taxable income for the company will be higher.</p>
<p>Repeal of Domestic Production Activities Deduction (DPAD or Section 199)</p>	<p>DPAD was a tax incentive for businesses that manufactured property, at least partially, within the United States.</p> <p>Effective date: Taxable years after Dec. 31, 2017.</p>	<p>Industry View: Negative</p> <p>What's at stake: Consumer product manufacturers that previously claimed the section 199 deduction will no longer be able to reduce their tax rate by using this benefit. However, this impact will likely be offset by the significant reduction in overall tax rates. Retailers that engage in a manufacturing activity such as food prep or chemical mixing will lose the rate benefit of performing this activity.</p>
<p>Eliminate Ability to Carryback Net Operating Losses (NOL)</p>	<p>This change will generally eliminate taxpayers' abilities to carryback net operating losses, and will limit the use of NOLs to 80 percent of taxable income. NOLs will no longer have an expiration period.</p> <p>Effective date: Effective for losses arising in taxable years after Dec. 31, 2017.</p>	<p>Industry view: Negative</p> <p>What's at stake: Costs incurred in one year will not be able to offset 100% of taxable income in the next year. In situations where retailers' earnings are volatile, the restrictions on the carryback and use of NOLs could present a significant cash flow obstacle.</p>
<p>Transition Tax on Existing Overseas Profits</p>	<p>Imposes a one-time tax on U.S. shareholders on the accumulated, untaxed earnings and profits of controlled foreign corporations (CFC) and certain foreign corporations wherein a domestic corporation owns at least 10 percent, at a rate of 15.5 percent on the foreign corporations' earnings</p>	<p>Industry view: Negative</p> <p>What's at stake: This measure is designed to raise tax revenue from income that has not previously been subject to U.S. taxation. But it's also meant to entice companies to invest some of their foreign profits stateside.</p>

	<p>held in cash and cash equivalent assets, as well as an 8 percent rate on earnings attributable to non-cash assets, regardless of whether or not the amounts are actually distributed.</p> <p>An election may be made to pay the tax over eight years, using a backloaded installment schedule.</p> <p>Effective date: Effective for the last taxable year of a foreign corporation that begins before Jan. 1, 2018 and, with respect to U.S. shareholders, for the taxable years in which such taxable years of the foreign corporations end. Earnings and profits (E&P) generally determined as of Nov. 2, 2017 or Dec. 31, 2017, whichever is higher.</p>	<p>To help get the bill over the line during reconciliation, the rate of tax was increased from that proposed in both Houses. The effective tax rate is significantly higher than it was when the American Jobs Creation Act of 2004 temporarily created the last tax holiday on the repatriation of foreign earnings at an effective tax rate of 5.25 percent.</p>
--	---	---

By Scott Ziemer

This article originally appeared in BDO USA, LLP's "Consumer Business Compass" blog (January 17, 2018). Copyright © 2018 BDO USA, LLP. All rights reserved. www.bdo.com

Warren Averett is an independent member of the BDO Alliance USA. This article was borrowed with permission from BDO USA, LLP



HOW TAX REFORM WILL IMPACT RETAIL AND CONSUMER PRODUCTS

This article originally appeared in BDO USA, LLP's "Selections" blog (January 12, 2018). Copyright © 2018 BDO USA, LLP. All rights reserved. www.bdo.com