



S Corporation Association Update

January 22, 2019

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1. Treasury Issues Final 199A Regs

Brian Reardon, BReardon@S-Corp.org

Treasury issued the much-anticipated final rules on the 199A pass-through business deduction. The deduction adopted by Congress was needed to preserve parity for pass-through businesses ineligible for the new 21-percent corporate tax, but it was also really complicated. Here are links to the key documents released Friday afternoon:

- [199A Final Rules](#)
- [2019-11 Revenue Procedure for Calculating 199A W-2 Wages](#)
- [Notice 2019-07 on 199A Rental Real Estate Safe Harbor](#)

Bottom Line: Treasury did a herculean job of putting together some workable rules for the deduction, even if we're not completely happy with all the details. (More on that to come.)

2. Interest Deduction Cap Rules Hurt Manufacturers

Brian Reardon, BReardon@S-Corp.org

S Corp manufacturers be warned! Proposed Treasury [rules](#) implementing the 30-percent interest deduction cap (Section 163(J)) could hurt you! The Tax Cuts and Jobs Act capped deductions of interest expenses to just 30 percent of EBITDA (earnings before interest, taxes, depreciation and amortization). But the new rules disregard any depreciation allocated to inventory. Because manufacturers are required to allocate depreciation on their facilities to inventory, they lose the DA! As KPMG observed:

The proposed rules would also clarify that any amount incurred as depreciation, amortization, or depletion, but allocated to and capitalized with respect to inventory property under section 263A and included in cost of goods sold, is not a deduction for depreciation, amortization, or depletion for purposes of determining ATI.

KPMG observation: Depreciation expense attributable to manufacturing facilities is considered allocable to inventory whether the inventory is on hand at year end or not, so even depreciation allocable to current sales may not be added back to ATI.

S-Corp is working with the US Chamber and National Association of Manufacturers on a response. Comments are due February 26th. Please contact us if these proposed rules will affect you.

3. Tony's Annual Letter

Brian Reardon, BReardon@S-Corp.org

In case you missed it, you can read our Chairman's Annual Letter [here](#). It does a great job of recapping our efforts to date and laying out the plan for 2019 and beyond. As Tony writes:

Main Street Employers have a great story to tell – they employ the majority of workers and contribute the most to our national income. Taking this story to Capitol Hill is a priority for S-Corp and our Main Street Employer coalition. Last year, we produced this [whiteboard](#) to educate policymakers and businesses, and we invested in helpful studies by [EY](#), the [American Action Forum](#), and others.

What's the goal? Reestablish parity between pass-through businesses and public C corporations, including making sure pass-through businesses are able to fully their state and local income taxes! Make sure to read Tony's letter and let us know if fixing SALT in your state would help your bottom line.

4. S-Corp In the News

Brian Reardon, BReardon@S-Corp.org

[Tax Cuts and Jobs Act](#), *Politico Pro Morning Tax*

Jan. 22, 2019

"Other takeaways: There might be some quibbling here or there from pass-through advocates — not to mention those 30 owners of Major League Baseball teams. But all in all, these final rules might be best described as taxpayer friendly. Brian Reardon of the S Corporation Association said the administration did a "good job of getting very complex rules out the door quickly" and "a nice job of making sense out of the statutes that were passed by Congress," even as he argued the final rules could have improved further on the proposed guidance that Treasury and the IRS rolled out in August."

[Business Owners Get Rules On 20 Percent Tax Break](#), *Financial Advisor*

Jan. 21, 2019:

Lobbyists had wanted Treasury to make the rules easier for taxpayers who own multiple pass-through entities. That didn't happen, according to Brian Reardon, president of the S Corporation Association.

“Disappointed,” he wrote in an email. “They had a chance to broaden the tax benefit while making it much simpler for businesses to comply with, but they chose not to.” He added that for larger pass-through businesses, “these rules are going to be very complex and require a lot of planning.”

Federal Tax Workaround Push to Target N.Y., N.J. in 2019, Bloomberg

Jan. 2, 2019:

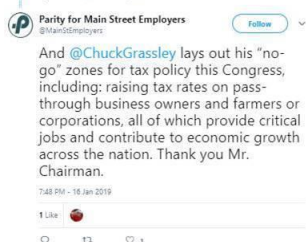
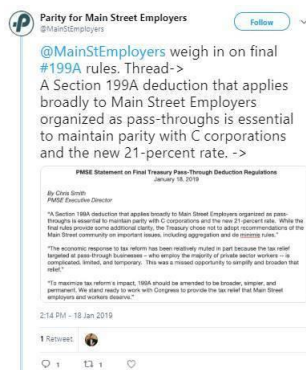
“The S-Corporation Association of America is targeting New York, New Jersey, Michigan, and Arkansas with a plan to allow pass-through entities—such as S-Corps, LLCs, and partnerships—elect to pay their state taxes at the entity level, then providing a corresponding credit to the companies’ owners.

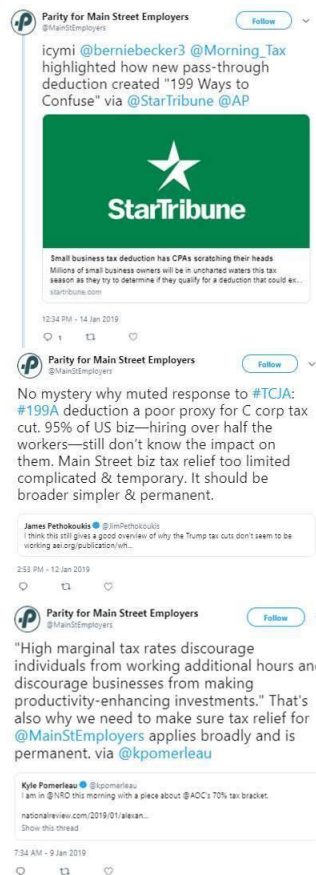
This workaround wouldn’t decrease state revenue, but it would save pass-through businesses millions of dollars because the 2017 tax law created a disparity between a lower effective tax rate for corporations (now 21 percent) taxed as entities, and pass-through companies considered individuals. Under the proposal, pass-through businesses, just like corporations, wouldn’t be held to the SALT deduction cap.

“The risk is minimal, and the gain is substantial,” Brian Reardon, S-Corporation Association president, told Bloomberg Tax Jan. 2. The potential reward: the proposal could save Michigan businesses \$190 million annually.”

5. Social Media Update

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