TAX REFORM: IMPACT ON STARTUPS

PROVISION	CHANGE	PROJECTED IMPACT
Corporate Tax Rate	Reduced corporate rates to a flat **21%**	Reduces tax burden for C-corps Combined with Qualified Small Business Stock benefits, C-corps can be the entity of choice for some startups
Qualified Business Income (QBI)	Individuals may take a **20%** deduction of QBI from partnerships, S corps and sole proprietorships, subject to limitations	Levels the playing field for flow-throughs when compared to C-corps which benefit from a significantly decreased tax rate
Domestic Production Activities Deduction (DPAD)	Eliminated	Most likely will be offset by overall tax rate reduction and new QBI deduction
Interest Expense Deduction	Businesses subject to disallowance of net interest expense over **30%** of adjusted taxable income, EBITDA for 4 years then EBIT after Unlimited carryforward Exemption for businesses **under $25 million** in gross receipts and real property trades or businesses	Highly leveraged businesses over the income limit may have their interest expense limited Will most likely not impact early stage startups, but could impact later stage startups
Research and Experimental (R&E) Expense Deduction	Requires taxpayers to capitalize and amortize R&E expenditures over a **five year** period, and 15 years for non-U.S. based development	Taxpayers can no longer immediately write-off R&E expenses, losing out on significant tax deductions early on. This includes software development costs as well
Net Operating Loss Deductions	Allowed only to the extent of **80%** of taxable income All carrybacks generally **repealed** with some exceptions NOLs generated effectively after the provision are allowed to be carried forward **indefinitely**	Could cause startups with large prior year losses to be taxed in years when they wouldn't have been under the old law, which should be factored into their entity choice decision
Resarch and Development (R&D) Tax Credit	No change to credit or ability for certain startups to use the R&D credit to offset payroll taxes	Startups can still benefit from significant incentives and tax savings on research and development expenses, including software development costs
Cash Method of Accounting	Businesses are now eligible for the cash method of tax accounting if average annual gross receipts for the prior three years is **less than $25 million**	Helps startups implement and maintain a simpler method of accounting

To learn more about our services or arrange meeting with our team, please contact:
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