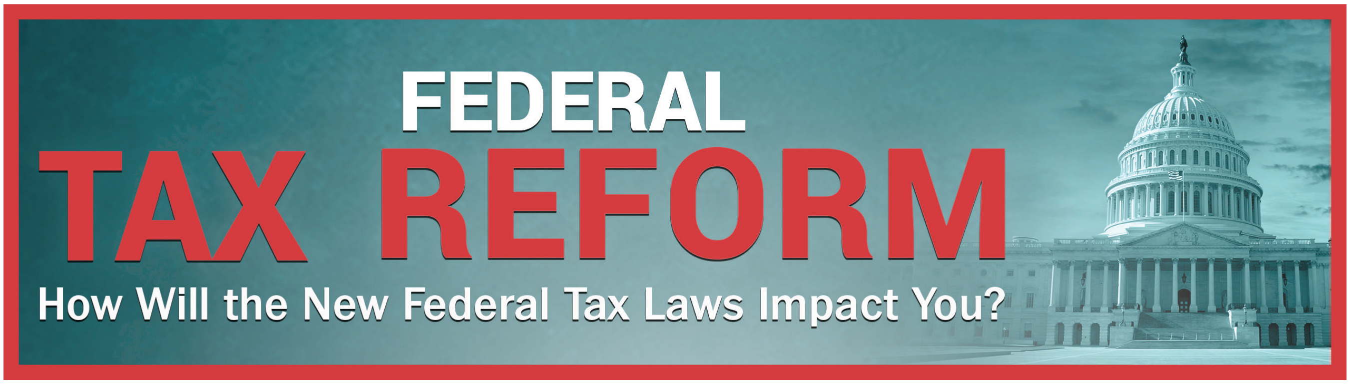
Bowles Rice
ATTORNEYS AT LAW

Important Information from the Bowles Rice Tax Team



Changes to the Rules Governing Choice of Accounting Methods by Taxpayers

The TCJA includes a number of changes to the rules governing the choice of accounting methods by taxpayers.

In certain situations, the Act raises the gross receipts limit used to determine which taxpayers can use the cash method of accounting:

- The exception from the uniform capitalization (UNICAP) rules for small taxpayers is expanded for tax years beginning after Dec. 31, 2017, to apply to taxpayers whose average annual gross receipts for the immediately preceding three years didn't exceed $25 million (up from $10 million under pre-TCJA law), and is made available to both producers and resellers of both real and personal property, rather than just resellers (as under pre-TCJA law).

- The TCJA provides that, for tax years beginning after Dec. 31, 2017, taxpayers that have average annual gross receipts of $25 million or less during the preceding three years (up from $10 million under pre-TCJA law) aren't required to account for the cost of goods sold using inventories under Code Sec. 471 (and, thus, aren't required to use the accrual method of accounting), but rather may use a method of accounting for inventories that either (1) treats inventories as non-incidental materials and supplies, or (2) conforms to the taxpayer's financial accounting treatment of inventories.

- The TCJA provides that, in tax years beginning after Dec. 31, 2017, corporations and partnerships that have a corporation as a partner satisfy the gross-receipts test for the tax year if the taxpayer's average annual gross receipts are under $25 million for the three tax-year period ending with the tax year that precedes the tax year for which the taxpayer is being tested. The $25 million limit is adjusted for inflation for tax years beginning after 2018. Under pre-Tax Cuts and Jobs Act law, the three-year testing period ended with the tax year before the tax year for which the taxpayer was being tested, and a corporation or partnership having a corporation as a partner didn't satisfy the gross receipts test unless the average annual gross receipts of the entity for the three-tax-year period ending with the earlier tax year did not exceed $5 million (unadjusted for inflation).

- The TCJA provides that, in tax years beginning after Dec. 31, 2017, a farming business owned by a C corporation (or partnerships with such a C corporation as a partner) is exempt from the rule requiring such corporations to use the accrual method if the corporation meets an inflation-adjusted $25 million gross-receipts test for the tax year. This limit replaces both the non-inflation-adjusted $25 million limit for family corporations and the $1 million limit for non-family corporations in effect before the TCJA.

The Act requires (or allows) taxpayers in certain circumstances to recognize income for tax purposes no later than the year in which it's recognized for financial reporting purposes:

- The Tax Cuts and Jobs Act provides that, for an accrual basis taxpayer, the all events test with respect to any item of gross income (or portion thereof) in tax years beginning after Dec. 31, 2017, won't be treated as met any later than (and, thus, these taxpayers must recognize income no later than) the tax year in which the income is taken into account as income on (1) an applicable financial statement (AFS) or (2) under rules specified by IRS, another financial statement.

- The Tax Cuts and Jobs Act allows taxpayers in tax years beginning after Dec. 31, 2017, to defer the inclusion of income associated with certain advance payments to the end of the tax year following the tax year of receipt if that income also is deferred for financial statement purposes.

These changes may have an impact on your choice of accounting method, and cause you to want you to review and, possibly, revise those choices.

Questions?

Please contact a member of the Bowles Rice Tax Team if you wish to discuss how these or any of the many other changes in the TCJA could affect your particular tax situation, and the possible planning steps you might consider in response to it.

Mike Caryl
(304) 264-4225
mcaryl@bowlesrice.com

Bob Kiss
(304) 347-1736
rkiss@bowlesrice.com

Marc Monteleone
(304) 347-1132
monteleone@bowlesrice.com

Alison Cox
(304) 264-4211
aacox@bowlesrice.com

David DeJarnett
(304) 264-4232
ddejarnett@bowlesrice.com

Emily Lambright
(304) 347-1124
elambright@bowlesrice.com

Kin Sayre
(304) 264-4226
ksayre@bowlesrice.com

Melissa Hall
(724) 514-8942
mhall@bowlesrice.com

Rick Hudson
(304) 420-5511
rhudson@bowlesrice.com

Breck Martin
(304) 420-5506
bmartin@bowlesrice.com

Seth Wilson
(304) 285-2531
swilson@bowlesrice.com

Amy Lamp-Leonard
(304) 264-4235
aleonard@bowlesrice.com