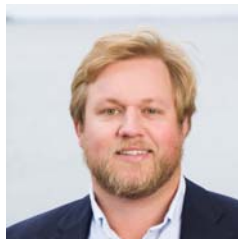


## Taxes 2018: What You Need to Know Now

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- Ollin Sykes is the President of Sykes & Company, P.A. The conflict of interest was resolved by peer review of the slide content.
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## Learning Objectives



- Discuss the changes to the tax code that will affect community pharmacies in 2018.
- Discuss the pass-through deduction for qualified pharmacy income.
- Discuss the impact of bonus depreciation expansion.

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## Disclosure



- First major tax reform in over 30 years
- Will impact pharmacy owners
- Most changes start 2018
- Most provisions expire after 2025
- Guidance still needed in most areas of the law

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## Tax Cuts & Jobs Act of 2017 (TCJA)



- First major tax reform in over 30 years
- Will impact pharmacy owners
- Most changes start 2018
- Most provisions expire after 2025
- **Guidance still needed in most areas of the law**

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## Corporate Tax Rate



- Change in C Corporation tax rate to 21% effective after 12.31.17
- Planning for S to C tax structure will require extensive planning
- Corporate AMT tax repealed

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## Domestic Production Activities Deduction (DPAD)

- Applicable to compounders
- Repealed in 2018
- If C Corporation, repealed 2019
- Analysis needed if DPAD not taken in previous years

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## Meals & Entertainment



- **Guidance still not clear on how new law will apply in all situations**
- Holiday Office Parties/Summer Picnics (All staff invited) – 100% deductible

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## Meals & Entertainment



- Entertaining Clients/Vendors/Suppliers
  - › Meals – 50% Deductible or Nondeductible
  - › Entertainment Expenses – Nondeductible

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## Meals & Entertainment



- Employee Travel Meals
- Meals for employees on the road for work and for their convenience – 50%
- Meals for tradeshow and conferences – 50%

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## Section 263A: UNICAP



- Hidden tax increase
- Revenues > \$10 million pre 2018
- Revenues > \$25 million TCJA
- Very complex, subjective and a major relief to taxpayer (and CPA)

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## Cash Accounting Method



- Expanded use of cash accounting
- Recognize revenues when collected and expenses when paid
- Potential for planning opportunity
- Not ideal for pharmacy financial statements

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## Depreciation



- Bonus depreciation allows 100% write-off in 2018
- Section 179 allows 100% write-off in 2018
- Applies to new and used assets
- Must be placed in service

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## Delivery Vehicles



- Increase in first year depreciation of \$10,000 from \$3,160
- 1031 exchange of vehicles has been repealed
- Planning opportunities for vehicles over 6,000 lbs.

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## Section 199A: QBI Deduction



- Guidance still pending on impact of Sec. 199A for pharmacies
- Up to 20% deduction for qualified business income (QBI)
- General rule, phase-in, limitation

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## Eligible Pharmacy Entities



- Sole proprietors – Schedule C
- LLCs
- Partnerships
- S Corporations
- Schedule E – Rental Properties

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## General Rule



- Full 20% deduction eligible if **taxable** income is less than -
  - › \$315,000 or less for married filing joint
  - › \$157,500 or less for single

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## General Rule



- No W-2 limitations
- **Planning Pointer** – Pharmacy owners want the “general rule”.  
Decrease taxable income (retirement planning, charity contributions, etc.)

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## General Rule - Example



- Bob has QBI of \$175,000 as a 100% owner in ABC Pharmacy, Inc., an S Corporation.
- Bob files joint with his spouse.
- Their taxable income is \$315,000.
- Bob’s deduction would be  $\$175,000 * 20\%$  or \$35,000.

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## Phase-In Deduction



- Deduction phased-in if taxpayer's taxable income is -
  - › between \$315,000 and \$415,000 for married filing joint
  - › between \$157,500 and \$207,500 for single
- Have to run the numbers

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## Limited Deduction



- Deduction limited if taxpayer's taxable income is -
  - › over \$415,000 for married filing joint
  - › over \$207,500 for single
- Two-step calculation process

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## Individual Highlights



- Seven tax brackets
- No more dependent exemption
- Increase in standard deduction
- Higher child tax credit (\$2,000)
- AMT tax not repealed but exemptions increased

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## Itemized Deductions



- Repeal of overall limitation on itemized deductions
- Medical deduction 7.5% of AGI for 2018, 10% starting 2019
- Mortgage/Home equity interest limitations

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## Itemized Deductions



- State & Local tax deduction limited to \$10,000
- 2% Misc. Deductions (home office, investment fees, etc.) no longer deductible

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## Charity Planning



- AGI limitation increased from 50% to 60%
- Athletic tickets are no longer deductible
- Must have written acknowledgement of donation if more than \$250

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## Planning Tips



- Tax planning will be required to maximize these opportunities
- Fundamental accounting is as important as ever
- Don't wait until year end to begin planning
- Be proactive

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## Planning Tips



- Update Form W4
- Schedule physical inventories in 3rd or early 4th quarter
- Charitable giving planning
- Section 199A planning
- Retirement planning

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## Disclaimer



Please consult with your tax professional regarding the Section 199A qualified business income deduction and other provisions. Limitations and exclusions are not mentioned in this presentation which may impact your individual tax situation.

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