

Re: 2017 Tax Cuts Act: Corporate Tax Rates

Dear Client:

The Tax Cuts and Jobs Act calls for a 21-percent corporate tax rate beginning in 2018. The maximum corporate tax rate currently tops out at 35 percent. In addition, the 80-percent and 70-percent dividends-received deductions under current law are reduced to 65 percent and 50 percent, respectively. The Tax Cuts and Jobs Act also repeals the alternative minimum tax on corporations.

Under current law, corporations determine their annual income tax liability by applying a graduated rate of tax to their taxable income. The corporate income tax rates consist of four brackets. The top corporate tax rate is 35 percent on taxable income in excess of \$10 million. If a corporation has a net capital gain for any tax year, the corporation pays an alternative tax if it is less than the tax computed in the regular manner. Under the alternative tax, the portion of the corporation's taxable income that is net capital gain is subject to a maximum tax rate of 35 percent. The alternative tax rate is applied to the lesser of a corporation's net capital gain or its taxable income.

21-Percent Corporate Income Tax Rate

For tax years beginning after December 31, 2017, the graduated corporate rate structure is eliminated and corporate taxable income is taxed at a 21-percent flat rate. The new rate is permanent.

Presently, the United States has one of the highest statutory corporate tax rates among developed countries. Although the current maximum corporate tax rate is 35 percent, many corporations now pay an effective tax rate that is considerably less.

Alternative Minimum Tax (AMT) for Corporations

The alternative minimum tax (AMT) for corporations is repealed beginning after 2017. Any unused minimum tax credit of a corporation may be used to offset regular tax liability for any tax year. In addition, a portion of unused minimum tax credit is refundable in 2018 through 2021. The refundable portion is 50 percent (100 percent in 2021) of any excess minimum tax for the year over any credit allowable against regular tax for that year.

Repeal of the AMT allows some corporations to use certain tax benefits to effectively pay significantly below the new 21-percent rate.

Reduction of Dividends-Received Deduction

The 70-percent dividends-received deduction has been reduced to 50 percent, and the 80-percent dividends-received deduction is reduced to 65 percent.

Under present law, a corporation is generally allowed a deduction for dividends received from other taxable domestic corporations. The amount of the deduction is generally equal to 70 percent of the dividend received. Dividends subject to the 70-percent dividends-received deduction are taxed at a maximum rate of 10.5 percent (30 percent of the 35-percent top corporate tax rate).

The Tax Cuts and Jobs Act reduces the dividends-received deduction to reflect the new lower corporate tax rate of 21 percent. Dividends subject to the new 50-percent dividends-received

deduction will be taxed at a maximum rate of 10.5 percent (50 percent of the 21-percent new corporate tax rate). Dividends subject to the new 65-percent dividends-received deduction will be taxed at a maximum rate of 7.35 percent (35 percent of the 21-percent new corporate tax rate).

If you have any questions regarding these modifications to corporate taxation or to tax reform in general, please call our office. We are here to assist you.

Very truly yours,

LPWolch, CPAs, P.C.
Lorraine P. Wolch , President