

Tax Update for Financial Institutions

FMS Philadelphia Chapter
All-Day Seminar
April 26, 2019

The Tax Cuts and Jobs Act (TCJA) of 2017

3 Most Impactful Business Tax Changes

1.	2.	3.
Tax rate cut to 21%	Section 199A 20% pass-through deduction*	Section 163(j) interest expense disallowance*

*Have almost no impact on PA banks

Depreciation Changes – TCJA of 2017

179 expense

- \$1 million max (indexed for inflation)
- \$2.5 million investment limit

Bonus depreciation

- 100% 2018-2022
- Phaseout 2023-2026
- Used property OK

Depreciation – QIP

- Eliminates QLI, QRP, and QRIP
- Intended 15 year life (with bonus)
- Error in language – 39 year life
- Need correction (still waiting)

NOL Rules - TCJA of 2017

- For NOLs ending after 12-31-17, no CB
- For NOLs ending after 12-31-17, CF life indefinite
- For NOLs beginning after 12-31-17, 80% limit on use
- Wording creates possible fiscal year-end confusion
- Correction coming?

Meals and Entertainment - TCJA of 2017

- Entertainment no longer 50% deductible beginning in 2018
- Meals are still 50% deductible

What is “entertainment?”

What is a “meal?”

BOLI “Transfer for Value” Rules – TCJA of 2017

- TCJA corrected some life insurance “abuses”
- Wording created issue for bank acquisitions
- Causes some BOLI of seller to be subject to “transfer for value” rules
- Taxable upon death
- DTL at acquisition?
- Unintended? Waiting on correction
 - Proposed regulations: 3-25-19 to correct

AMT Credits - TCJA of 2017

- TCJA eliminated corporate AMT beginning in 2018
- Any existing AMT credit
 - Offset 100% of tax 2018-2021
 - “Refundable” credit
 - 50% 2018-2020
 - 100% 2021

Refunding Bonds - TCJA of 2017

- TCJA repealed tax exempt status of **advance refunding bonds** (issued after 12-31-17)
- Refunding bonds still exempt

Refunding bond - Bond used to pay principal, interest, or redemption price on a prior, maturing bond issue

Advance refunding bond - Bond issued more than 90 days before the maturity or call date of an outstanding bond

Other - TCJA of 2017

- Like-kind exchange limited to only **real property**
- 10% rehab credit repealed (20% stayed)
- Moving expenses - no longer able to exclude relocation costs to EEs
- EE qualified commuting expense deduction repealed
- New ER credit for paid family leave
- Dividends received deduction reduced (70% to 50% for most)
- “Opportunity zones”

Pennsylvania Update

PA Tax Bulletin 2018-02

- Claiming educational tax credits after TCJA
- Result of IRS regulations issued in 2018
- *“Federal tax deduction related to charitable contributions made with a state or local tax credit attached must generally be reduced by the amount of the state or local tax credit received.”*
- A month later, IRS issued clarification – *business-related payments to charities or governmental entities can be deducted as business expenses*
- PA Tax Bulletin clarified that *contributions to a scholarship organization or education improvement organization can be deducted as a business tax expense on taxpayers’ federal tax return. This was needed due to specific wording in education tax credit law*
- Pass-through/personal income tax – does need to add back credit received

New Jersey combined reporting to take effect 1-1-19

Pennsylvania Update

Nonresident withholding

- Act 43 signed 10-31-17
- Requires PA tax withholding on payments of PA-sourced income of nonemployee compensation > \$5,000
- As reported on federal 1099-MISC
- Only for nonresident of PA payees
- Also required for lease payments to non-PA lessor
- In effect delayed until payments after 6-30-18

Accounting and Regulatory Issues

- **NOL CB rules of TCJA of 2017**
 - Call report calculation of regulatory capital
 - Disallows “*DTA arising from temporary differences that could not be realized through not operating loss carrybacks*”
 - This would now be all, since no CB allowed
- **AMT Credit**
 - TCJA of 2017 eliminate corporate AMT and provide schedule to receive any AMT credit
 - DTA or receivable?
- **ASU 2016-01 – Unrealized Gain or Loss on Equity Securities**
- **ASC Topic 842 – Leases**
- **ASC 606 – Revenue Recognition**
- **ASU 2017-08 – Premium Amortization**
- **CECL**