



NGCOA

Advocating on behalf of golf course owners and operators across the United States

Tax Reform: What Golf Course Owners Need to Know Now

On December 20, 2017, the House and Senate passed the [Tax and Jobs Act](#), which President Trump signed on December 22, 2017. The IRS is currently working on implementation rules, which will provide specific details for compliance, and most likely will roll them out piecemeal over the course of the year. When it does go into full effect, the new law will have a broad impact on both individuals and the golf business community alike.

For the golf industry, tax reform will provide an opportunity to grow business through new incentives afforded small businesses as well as through the increase in disposable income that individual golfers will realize. But not all changes that come with the new tax law will have a positive impact—there are some that could reduce your net income, depending on the nature and structure of your business.

Below is a summary of a few key elements of the tax bill that are likely to have positive and negative effects on the golf industry. *This is not a complete list of changes included in the bill*, the final impact of which may differ for your business. You are strongly encouraged to work with your accountant or tax advisor to ensure you understand and take full advantage of the many changes incorporated in this complex bill.

This summary presents general information and is not intended to be tax or legal advice. Please refer to IRS publications and discuss your business and tax obligations with a professional tax advisor.

1. Reduced Corporate Tax Rate and Repeal of the Alternative Minimum Tax

The Tax and Jobs Act reduces the Corporate Tax Rate to a flat 21% as of January 1, 2018. The new flat rate replaces the previous scale, which ranged from a low of 15% to a high of 39%. Thus, if you were previously in the lowest tax bracket, you might actually see your taxes increase, from 15% to 21%. If you were above the new flat rate you should see your taxes decrease, especially if you were above 25%.

The act also eliminates the corporate Alternative Minimum Tax. If your business was previously subject to the AMT, you will be able to use the prior year minimum tax credit to offset your liability over the next few years. Overall, anyone paying the AMT in years past should see his or her taxes go down.

Note: Most C-Corporations have high revenue streams and will benefit from the new flat rate; however, a limited number of C-Corps with net earnings of less than \$50,000 will likely see a tax increase, from 15% to 21%. Also, the reduced flat rate does not apply to pass-through entities (more below.)

2. Reform of Taxation of Pass-Through Entity Business Income

The new bill also alters the taxation of small-business income earned by pass-through entities — sole proprietorships, partnerships, LLCs, and S corporations. The majority of golf course operations are structured this way, and the reform could reduce their owners' tax liability.

Under the new bill, pass-through entities can reduce their taxable income by deducting 20% of their Qualified Business Income before determining their final tax liability. This, coupled with reduced individual tax rates, will likely result in a lower tax liability and allow owners to retain more of their income.

However, this is a very complex category loaded with variables, and there are limitations to the 20% deduction as well as to what income can be incorporated in determining QBI. Owners in this category should consult a professional tax advisor.

3. Bonus Depreciation and Section 179 Expensing

Section 179, the federal tax policy for depreciating assets, is of particular relevance to golf course owners. As recently reported in *Section179.org's News Alert* (see "Additional Resources," below), the new tax law allows owners to take a 100% depreciation deduction in the first year for any new asset placed in service after September 27, 2017. (Previously, the depreciation allowance was spread over seven years.) This policy will stay in place until December 31, 2022, after which the depreciation amount allowed will decline by 20% a year until it phases out after December 31, 2026.

In practice, this will allow owners to run their businesses without the debt from such purchases on their books year after year. Moreover, the limit for such deductions increases from \$500,000 to \$1,000,000. It applies to most assets that are currently covered by the bonus depreciation rules (including certain tangible property with a recovery period of 20 years or less) and has been expanded to include *used* assets that are acquired by a taxpayer for the first time.

For golf course owners, land improvements—including new greens, tees, and bunkers—now qualify for the 100% depreciation deduction. In addition, the list of qualified real property has been expanded and now includes newly replaced roofs, heating and air systems, fire protection equipment and security systems, and for those properties that include lodging facilities, replacement furnishings.

Again, there are limitations, so owners should consult a professional tax advisor to take proper and maximum advantage of the new law.

4. Net Business Interest Deductions Limited to 30% of Earnings Before Interest and Taxes

Under the new bill, corporations with annual gross income of greater than \$25 million in any of the previous three previous years will be limited to a deduction of no more than 30% of their business interest expenses.

However, there is *no* limitation on this deduction for small businesses with annual gross income of less than \$25 million, which includes most golf course owners.

Thus, most golf facilities may continue to deduct 100% of their interest expenses for borrowed funding of their capital investments.

For those with annual income greater than \$25 million, the new tax laws are particularly complex, and owners should, you guessed it, consult a professional tax advisor.

5. New Limitations on Net Operating Losses

For the period between December 31, 2017, and January 1, 2026, taxpayers will no longer be able to carry *back* Net Operating Losses, though they will be permitted to carry them *forward* indefinitely.

Additionally, the new law imposes an 80% limit on the *amount* of taxable income that can be offset by NOLs, for such losses arising in tax years beginning after December 31, 2017.

Under prior tax law, a golf course that incurred a Net Operating Loss was able to amend, for up to two years, any tax filing where they incurred a tax liability resulting in a refund for overpayment. Now they will only be able to carry this deduction forward to offset future taxable income.

6. Elimination of Entertainment Expenses

Under previous tax law, businesses were allowed to deduct 50% of their expenses for food and beverage, entertainment, amusement, and recreation activities (such as golf) if the taxpayer established that the expenses were directly related to the active conduct of his or her trade or business. A company's events for its employees could be deducted at 100%. The new tax law disallows these deductions under all circumstances—with the possible exception of food and beverage. (Tax professionals are currently debating whether the new law applies to F&B provided for clients and prospects; hopefully this will be clarified when the IRS issues its implementation guidance.)

As you might surmise, the elimination of this tax deduction may have a deleterious effect on the golf industry. However, one bright spot is that businesses will still be able to hold charitable fundraising events at golf courses. Coordinate with your local philanthropic organizations, as it will be their responsibility to ensure that their relationships with participating businesses are in compliance with state and federal tax laws.

7. Lower Individual Tax Rates

The new tax law retains seven brackets, but the top rate has been reduced from 40% to 37%, while the lowest rate remains at 10%. (Those in the lowest bracket will most likely qualify for the earned income tax credits and will have no tax liability.) The remaining brackets have had their rates reduced 1% to 4%, with the 28% bracket, for example, realizing a 4% reduction.

Golf Digest reported in 2017 that the average family income for a U.S. golfer is \$95,000; their tax liability will go from 28% to 24%, resulting in a \$3,800 lower tax liability.

While that family will save that amount on their *federal* tax liability, it should be noted that due to the impact the new law will have on *state* tax policies, the total net savings will vary by state.

What Next? As with any major legislation, especially one with such broad impact to the economy as the Tax and Jobs Act, Congress will be working with the Administration on a technical review of the bill to close (and perhaps open) loopholes and approve final regulations for publication. The IRS, however, can't wait for Congress to act, and as noted has already begun work on its rules for implementation, which should start rolling out soon.

At the same time, businesses and associations have begun efforts to encourage Congress to reconsider elements of the bill that are incomplete or lack clarity. You are encouraged to reach out to your legislative representatives and let them know how the new tax bill will affect your business and ask for their support in addressing your concerns.

We do not know when it will all come together, but we want to be prepared with our impact statement. We need to hear from you! How will the new Tax and Jobs Act affect your business? What are you pleased with, and what worries you? Please send your thoughts and comments to Ronnie Miles, NGCOA's Director of Advocacy, at rmiles@ngcoa.org.

NGCOA will be following this process and continue to work with other association members of We Are Golf to ensure your voice is heard.

ADDITIONAL RESOURCES

1. SECTION 179 INCREASED TO ONE MILLION FOR 2018: <http://www.section179.org/>
2. 2002 IRS Decision defining golf facility capital asset:
<https://www.irs.gov/businesses/depreciable-golf-course-land-improvements-and-the-impact-of-rev-rul-2001-60>