






HIGHLIGHTS OF THE TAX CUTS AND JOBS ACT (THE “ACT”) AND IMPACT ON BUSINESS VALUE

The Act results in a number of changes that can potentially increase or decrease the value of a business. The decrease to the Federal tax rate and the ability to accelerate depreciation are applicable to most businesses and will result in an increase in business value. Other changes that may increase or decrease business value to a lesser degree are dependent on the facts and circumstances of the subject company.

TAX REFORM IN ORDER OF EXPECTED IMPACT ¹	IMPACT ON BUSINESS VALUES ²
<p>C-CORP TAX RATE C-corp income will be taxed at a Federal rate of 21%, versus 35% previously. The reduction in the Federal tax rate is expected to materially increase business value.</p>	
<p>BENEFITS OF “PASS-THROUGH” STATUS ON MINORITY INTERESTS Historically, pass-through entity interest holders (in LLCs, S-corps, LPs, etc.) paid lower taxes relative to C-corp shareholders, making the interests in these entities more valuable. As a result, a pass-through premium was typically applied. Changes in this area are complex and depend on the taxpayer’s income from all sources, including W-2 wages. The 20% deduction feature of the Act is not available for people with aggregate income from pass-through service businesses that exceeds \$207,500 for individual filers or \$415,000 for joint filers. Because of the narrowing in the difference between the two types of tax rates, the benefit of a pass-through feature will be materially reduced.</p>	
<p>For interest holders in service-oriented pass-through entities (with less income than above) and all non-service entities, this 20% deduction to income may be available. The premium for these interests would remain mostly unchanged.</p>	
<p>ACCELERATED DEPRECIATION The Act increases the bonus depreciation percentage to 100% for qualified property acquired and placed in service on or after September 28, 2017 through December 31, 2022. This allows businesses to immediately deduct the full cost of such property. The bonus depreciation percentage will gradually be reduced for property placed in service after 2022 and the deduction will generally phase out entirely by December 31, 2026. In addition, for tax years beginning after December 31, 2017, the Act doubles (to \$1 million) the amount a taxpayer may deduct for the cost of property purchased for use in the active conduct of a trade or business (including certain real property and improvements) and placed in service for the tax year. Given the tax benefits from accelerated depreciation, business value is enhanced.</p>	
<p>INVESTMENT HOLDING COMPANIES While the value of a holding company’s underlying assets may change, it is expected that discounts for lack of control and lack of marketability will not be impacted by the Act.</p>	

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¹ In order of impact to a business’s value from large to small

² The directional change for each variable assumes all other variables held constant.

TAX REFORM IN ORDER OF EXPECTED IMPACT¹

**IMPACT ON
BUSINESS VALUES²**

INTEREST EXPENSE DEDUCTION LIMITATION

The Act restricts the deductibility of interest paid (or accrued) for all businesses with receipts ≥ \$25 million for tax years beginning after December 31, 2017. The deduction for business interest is generally limited to the sum of business interest income and 30% of adjusted taxable income (EBITDA for tax years before 2022, EBIT thereafter). Business value is **unchanged** for businesses with < \$25 million in receipts.



Business value will **decline** for highly leveraged firms with receipts ≥ \$25 million.



NET OPERATING LOSS DEDUCTION LIMITATION

For tax years beginning after December 31, 2017, the net operating loss (“NOL”) deduction is limited to 80% of taxable income. The Act generally repeals the two-year carryback provision (except with respect to certain farming and insurance company losses), but extends the carryforward period from 20 years to allow for the indefinite carryforward of NOLs. Business value will **decline** for those with material NOLs.



REPATRIATION TAX

The Act imposes taxes on previously untaxed foreign earnings. Since the tax is imposed, it will result in a deemed repatriation of foreign assets. Cash and equivalents will be taxed at 15.5% while non-cash assets will be taxed at 8%. The full tax liability is payable over eight years, with increasing installments. Since businesses will be incurring a liability for the tax, the value of businesses impacted by the repatriation tax is expected to **decrease**.



CARRIED INTERESTS

The Act requires a three year holding period for a carried interest to be taxable at a long-term capital gain tax rates. Valuations of carried interests with holding periods over three years are **not expected to change**.



R&D AMORTIZATION

R&D credit is maintained. Beginning in 2022 Section 174 research and experimentation expenses (which have historically been expensed) are to be amortized over a five year period for U.S. expenses and 15 year amortization for research conducted outside the U.S. The impact is expected to **reduce** firm value.



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