

CWA Small Company Seminar

May 16, 2018

Tax Cuts and Jobs Act (TCJA): Impacts on Small Companies
Best Practices for Small Water Company Audits

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2018 TCJA – Impacts

- Tax rate change
 - Prior Law – Graduated Rates

Rate	Taxable Income From:	To:	Tax
15%	\$0	\$50,000	\$7,500
25%	\$50,001	\$75,000	\$6,250
34%	\$75,001	\$100,000	\$8,500
39%	\$100,000	\$335,000	

2018 TCJA – Impacts

- Tax Rate Change

- New Law – 21%

Rate	Taxable Income From:	To:	Tax
21%	\$0	\$50,000	\$10,500
21%	\$50,001	\$75,000	\$5,250
21%	\$75,001	\$100,000	\$5,250
21%	\$100,000	\$335,000	

2018 TCJA – Impacts

- Tax rate change

- Example

Taxable Income	Tax – Prior Law	Tax – New Law	Difference	Percent
\$50,000	\$7,500	\$10,500	+ \$3,000	+ 40%
\$75,000	\$13,750	\$15,750	+ \$2,000	+ 15%
\$90,385	\$18,981	\$18,981	None	0%
\$100,000	\$22,250	\$21,000	- \$1,250	- 5%

2018 TCJA – Impacts

Tax Rate Change

- If taxable income is below \$90,000 you might be “under-collecting” your revenue requirements
- Consider filing an offset

2018 TCJA – Impacts

- Interest Deduction Limitation
 - Exception for rate regulated trade or business

2018 TCJA – Impacts

- Depreciation deduction
 - No change to basic federal tax depreciation calculation
 - 100% expensing of capital investment not available to rate regulated trade or businesses
 - Section 179 still exists – (\$520,000 limit)

2018 TCJA – Impacts

- CIAC is now taxable (Section 118)
 - May need to revise tariffs for gross-up

2018 TCJA – Impacts

- Limitation on Net Operating Loss Carryforwards
 - Pre 2018 loss – 100% can be claimed
 - 2018 and later years – limited to 80%

2018 TCJA – Impacts

- Normalization
 - Deferred Income Taxes
 - Average Rate Assumption
 - Alternative method in new law
 - Not new

2018 TCJA – Impacts

- Other Changes
 - Entertainment out
 - Business Meals still in
 - DPAD deduction is out

Best Practices for Small Water Company Audits

- Audit what?
 - CPUC Report
 - Financial Statements
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Explanatory Notes / Disclosures

Best Practices for Small Water Company Audits

- Auditors are looking to see if the numbers are correct and properly supported by adequate and appropriate documentation
- Auditors are confirming that the CPUC's Uniform System of Accounts is being followed
 - New USOA as of January 2018

Best Practices for Small Water Company Audits

- The goal is to have a smooth audit
 - The documentation the auditors will want to look at already exists
 - Company should have a system for easy retrieval

Best Practices for Small Water Company Audits

- Know the Uniform System of Accounts
 - General Accounting Instructions
- Rule # 1 – Follow the USOA
- If you think about deviating from the USOA – See Rule #1
- Have a Continuing Property Record
- Establish a Work Order System
 - Required – Rule # 13 of Instructions – Utility Plant Accounts SP-U-38-W
- Know Res. A-4691
 - Record retention policy

Best Practices for Small Water Company Audits

- Establish control of the Data Request (DR) exchange process
 - Create a Audit Documentation Binder that will hold the copies requested and provided

Thank You