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Pass-Through Rules May Ease Tax Planning For Law Firms

Law 360

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In an article published on August 10, 2018 by Law360, shareholder and Philadelphia federal tax practice chair Jerry August discusses IRS proposed regulations for pass-through businesses. The new regulations exclude law and accounting firms from qualifying for the 20 percent tax deduction above a certain income threshold, prompting firms to try to devise ways to restructure their businesses to qualify for the deduction.

One strategy to lower tax rates eschews the pass-through structure altogether in favor of conversion to a C corporation. A number of law and accounting firms have been putting together quantitative analyses to test their individual, effective tax rates and determine if converting to a C corporation is beneficial. August cautioned that there are risks, costs and complexities involved with both corporate conversions and spinoff structures.

While spinning off assets, one would have to consider possible transfer tax issues and bank and loan covenants, and conversion from a partnership to a C corporation would involve looking at underlying state laws, and financing and rental agreements, August said. Subscribers may read the full article [here](#).