TAX KNOWLEDGE DIFFUSION IN U.S. SMALL AND MEDIUM-SIZED ENTERPRISES: TCJA (2017)

Micah Frankel, California State University, East Bay
John Tan, California State University, East Bay

ABSTRACT

The landmark Tax Cuts and Jobs Act (TCJA), enacted by Congress and the president on December 22, 2017, makes the most sweeping changes to the tax law in the United States (U.S.) since 1986. Many changes to the business tax laws, under TCJA (2017), are applicable to all business entities ranging from C corporations (public or private), S corporations, partnerships, to sole proprietorships. To encourage capital investments, TCJA (2017) offers some new incentives such as the additional first year depreciation deduction of the Internal Revenue Code (IRC) section 168(k). It is important to research the tax behavior of private business owners, because in 2015 small and medium sized enterprises (SMEs) employed 47.5% of the private workforce in the U.S. Many SMEs report their business operating income from partnerships or S corporations or sole proprietorships under their individual income tax returns. According to the Data Book for 2018 published by the IRS (IRS, 2019a), income taxes accounted for 56.90%, employment taxes accounted for 32.70%, and corporation accounted for 7.60% of the total $3.5 trillion of federal taxes collected by the IRS in 2018. Unfortunately, there is a gap in the literature due to the lack of studies regarding the tax behavior of SMEs. Researchers face difficulties in researching the tax practices of SMEs due to the lack of publicly available tax data and information regarding SMEs. In contrast, financial data and tax data of public companies is readily available. As a result, prior literature contains numerous studies using the innovation-diffusion theory to explain the tax practices of public corporations. Using the innovation-diffusion theory, this paper investigates whether owners of SMEs aware of the changes in the tax law of TCJA (2017) that affects their tax liabilities. Assuming owners of SMEs would like to minimize the present value of their taxes, this paper investigates whether owners of SMEs will modify their business operating, investing, and financing activities in response to the changes in the tax law of TCJA (2017). Following prior studies such as Apostal and Pop (2019), this paper uses interviews to conduct a qualitative study. By analyzing the interview comments of 125 private business owners, results suggest that (1) knowledge about the new tax law has been diffused among the owners of the SMEs and (2) owners of SMEs adopted the new tax law by actively managing their obligations to pay tax under the TCJA (2017). This paper contributes to the literature by filling in the gaps in the research on the diffusion of tax knowledge and most importantly the tax behavior of SMEs in the U.S.

Keywords: Internal Revenue Codes, Tax Knowledge Diffusion, TCJA (2017).

INTRODUCTION

The Tax Cuts and Jobs Act (TCJA) of 2017 which amended numerous sections of the Internal Revenue Code (IRC) of 1986, has a significant impact on how individual taxpayers and business owners calculate their tax liability. It should be noted that many individual tax provisions under the TCJA (2017) will expire after 2025. For example, for tax years beginning after 2017 and before 2026, the TCJA (2017) retains seven individual tax brackets but lowers the rate for most brackets. This paper will focus on the impact of the TCJA (2017) on the society through business taxation. Most of the business tax provisions under the TCJA (2017) will not automatically expire. For example, for tax years beginning after 2017, TCJA (2017) caps the corporation tax rate at 21% and repeals alternative minimum tax on businesses.

Many changes to the business tax laws under TCJA (2017) are applicable to all business operations ranging from C corporations (public or private), S corporations, partnerships, to sole proprietorship. For example, TCJA (2017) has created new incentives through depreciation allowances to encourage capital investment. Depreciation is the most common type of business expenses. TCJA (2017) increases the annual maximum deduction under section 179 from \$500,000 to \$1 million, and the phase-out threshold increases from \$2 million to \$2.5 million (IRS, 2018h). Further IRC section 168(k) now allows a 100-percent additional first year depreciation deduction for qualified property (new and used assets) acquired and placed in service after September 27, 2017, and placed in service before January 1, 2023 (IRS, 2018g).

According to the document titled “United States 2018 Small Business Profile” published by the Office of Advocacy of the U.S. Small Business Administration, in 2015 there were 30.2 million small businesses in the United States employing 58.9 million people or 47.5% of the private workforce (SBA, 2018). It is therefore important to conduct research on the tax behavior of private business owners.

Data of Collections and Refunds by Type of Tax published by the IRS (IRS, 2020), shows that the percentage of income tax in terms of the total annual amount of gross federal taxes collected increased from 53.60% in 2014 to 56.90% in 2018. At the same time, the percentage of corporation income tax in terms of the total annual amount of gross federal taxes collected decreased from 11.50% in 2014 to 7.60% in 2018.

Many SMEs report their business operating income from partnerships or S corporations or sole proprietorships under their individual income tax returns. According to the Data Book for 2018 published by the IRS (IRS, 2019a), income taxes accounted for 56.90%, employment taxes accounted for 32.70%, and corporation accounted for 7.60% of the total \$3.5 trillion of federal taxes collected by the IRS in 2018 (IRS, 2019d, Table 1, p. 3). In other words, SMEs contribute more than corporations (public and private together) towards the annual amount of gross federal taxes collected.

Unfortunately, lack of studies exists regarding the tax behavior of SMEs resulting from the lack of data and tax information about SMEs. For example, data about depreciation expenses of sole proprietorships, partnerships and S corporations is not available in IRS Web site. But, the IRS has published “IRS Corporation Depreciation Data,” up to 2016, which include both private and public corporations. Unlike SMEs, public companies’ financial statements are readily available to researchers. Consequently, many studies exist which use innovation-diffusion theory to explain the tax behavior and practices of public companies (Davis & Greve, 1997; Gulati & Westphal, 1999; Reagans & McEvily, 2003; Brown, 2011; Chiu et al., 2013; Larcker et al., 2013; Cai et al., 2014; Brown & Drake, 2014).

There is a gap in the literature, that is the lack of studies regarding the tax behavior of SMEs. Given that SMEs hired almost half of the U.S. private workforce in 2015 and contributed significantly towards the annual amount of gross federal taxes collected, it is crucial to understand how SMEs respond towards the changes in tax laws under TCJA (2017). Specifically, this paper addresses whether (1) SMEs are aware of the specific changes in TCJA (2017) which impact their tax liabilities? And (2) SMEs have managed their business activities to reduce tax liabilities under TCJA (2017)?

In his book Diffusion of Innovations (5th Edition, 2003), Everett M. Rogers describes the four main elements of diffusion: the innovation, communication channels, time, and the social system. The innovation-diffusion theory helps to explain that TCJA (2017) is an innovation in terms of changes to the business tax laws. Changes to the business tax laws, under TCJA (2017), are diffused through communication channels such as (1) the spread of new knowledge from early adopters or innovators such as certified public accountants to late adopters such as SMEs, (2) the spread of new knowledge between peers within the same industry of SMEs, and (3) the spread of new knowledge that is publicly available in the IRS website. This paper therefore proposes the first hypothesis as follows.

Hypothesis H1: In accordance with innovation-diffusion theory, owners of small and medium-sized enterprises will be aware of the changes in the tax law of TCJA (2017) which affect their tax liabilities.

Prior studies such as Edwards et al. (2016) find that when firms are having increased financial constraints (i.e. an increase in both the cost and the difficulty in obtaining external sources of funding), most firms will engage in more tax planning activities to generate internal funding through cash tax savings. To this end, TCJA (2017) now disallows tax deductions for all entertainment expenses, and only allows a 50% tax deduction of business meals if the meals satisfy the conditions of necessity and non-extravagance (IRC, section 274). Assuming owners of SMEs wish to minimize the present value of their taxes, then they will undertake activities that help to reduce their current after-tax income such as avoiding non-tax-deductible entertainment expenses or utilizing the 100-percent additional first year depreciation deduction to fully recover the cost of qualified property in the year of purchase. This paper therefore proposes the second hypothesis as follows.

Hypothesis H2: Owners of small and medium-sized enterprises will modify their business operating, investing, and financing activities in response to the changes in the tax law of TCJA (2017).

Prior studies such as Apostal & Pop (2019) use interviews to conduct a qualitative study, instead of quantitative hypotheses testing. This paper uses 125 students' reports of interviews to address this paper's hypotheses. The 125 interviewees are all private business owners ranging from a proprietor of a barbershop to an industrial crane manufacturer. Through analysis of the interviewees' comments, the authors noticed that the new tax knowledge regarding the changes to the IRC introduced by TCJA (2017) had been diffused among owners of the SMEs. For example, even small business operators, e.g., a barber, knew that the new law provides new deductions under section 199A to lower a taxpayer's potential tax obligations. Further analysis of the interviewees' comments shows that owners of the SMEs not only adopted the new tax law but also manage their obligations to pay their required taxes under the TCJA (2017) by simply following the amended IRC. Business owners will reduce expenditures that are no longer deductible such as entertainment expenses or not fully deductible such as the 50% deduction of business meals.

This paper helps fill a gap in the literature regarding the lack of studies concerning the tax behavior of SMEs. Results of this paper support the notion that knowledge regarding changes to business tax laws has been diffused to SMEs through various communication channels. Further, results of this paper also suggest that after learning about the changes in the business tax laws, under TCJA (2017), SME business owners actively manage their activities to reduce the present value of their tax liabilities.

In summary, this paper contributes to the literature by demonstrating the diffusion and adoption of new tax knowledge, about TCJA (2017), among business owners of SMEs in the U.S. The remainder of this paper is presented in the following order: the next section is a literature review; the third section discusses motivation and theory; the fourth section explains the hypotheses and research method; the fifth section presents the data and results, and the final section provides the conclusion.

LITERARTURE REVIEW

The Tax Cuts and Jobs Act (2017)

The Tax Cuts and Jobs Act (2017) makes significant changes in how individuals, businesses, multi-national enterprises, and others calculate their Federal tax liability. While many individual tax provisions under the TCJA (2017) will expire after 2025, most of the business tax provisions under the TCJA (2017) will not automatically expire. For tax years beginning after 2017, TCJA (2017) caps the corporation tax rate at 21% (IRC section 11) and repeals the alternative minimum tax on business (IRC section 55).

The report titled "Distribution Effects of Public Law 115-97" prepared by the staff of the Joint Committee on Taxation dated March 25, 2019 suggests that "The reduction in tax liability is more concentrated towards the upper end of the income distribution for the business side relative to the individual side (Joint Committee on Taxation, 2019a, p.8)." One of the reasons explaining the reduction in tax liability is more pronounced on the business side is because TCJA (2017) provides many tax incentives to businesses. For example, TCJA (2017) allows a 100% additional first year depreciation deduction for qualified property acquired and placed in service after September 27, 2017, and placed in service before January 1, 2023 (IRS, 2018g).

Many SMEs report their business operating income from partnerships or S corporations or sole proprietorships which flow through to their individual income tax returns. Since the percentage of income tax has increased from 53.60% in 2014 to 56.90% in 2018 (IRS, 2020) in terms of the total amount of gross federal taxed, it is logical to ask whether SMEs are aware of the specific changes in TCJA (2017) which impact their tax liabilities? Particularly when SMEs filed their first tax returns incorporating their business operating income, under TCJA (2017), on or around April 2019.

Gap in the Literature

Since the TCJA (2017) is relatively new and highly complex, the Department of the Treasury ("Treasury") and the Internal Revenue Service (IRS) have been continuously issuing guidelines to clarify details of the TCJA (2017). At the point of writing this paper, to the authors' best knowledge, there is a lack of publications about the tax behavior of SMEs under TCJA (2017).

One of the difficulties faced by researchers when studying the tax behavior of SMEs is the lack data and information regarding SMEs. For example, as of writing this paper, data about depreciation expenses of sole proprietorships, partnerships and S corporations is not available on IRS Web site. On the other hand, the IRS has published "IRS Corporation Depreciation Data," which include both private and public corporations, up to 2016.

Many studies exist which employ the innovation-diffusion theory to explain the tax behavior of public companies. For example, prior studies (Davis & Greve, 1997; Gulati & Westphal, 1999; Reagans & McEvily, 2003; Brown, 2011; Chiu et al., 2013; Larcker et al., 2013;

Cai et al., 2014; Brown & Drake, 2014) support the notion that social environmental factors and networks, such as tax shelters and board interlocks, facilitate the diffusion of corporate tax practices across firms.

Davis & Greve (1997) point out that network ties (1) promote diffusion of new ideas and (2) allow networked firms to learn from each other's experiences. By investigating the diffusion of corporate practices of poison pills and golden parachutes, during the 1980 era, Davis & Greve (1997) find that corporate practices can diffuse in different patterns. According to Davis & Greve (1997), the corporate practice of poison pills spread through a board-to-board diffusion process; while the corporate practice of golden parachutes spread slowly through geographic proximity.

Gulati & Westphal (1999) show that the effect of a direct network link between firms can be amplified by an indirect link to a common auditor. Reagans & McEvily (2003) highlight that the influence of network ties on firm behavior depend on the characteristics of both the firm's ties to other firms and the type of knowledge being shared across the ties.

Brown (2011) extends the application of innovation-diffusion theory to examine the spread of aggressive corporate tax reporting. According to Brown (2011), in response to the Tax Reform Act of 1986, corporations in the United States commonly invested in innovative tax shelters (i.e. corporate-owned life insurance shelter). Brown (2011) finds that network ties via board interlocks increase the chance of adopting the corporate-owned life insurance shelter, but not factors such as geographical location, industries type and audit firms.

Chiu et al. (2013) find that (1) corporate practice of earnings management diffuse between firms through shared directors, (2) when a firm has a common director, with another firm which practices earnings management, is more likely to manage earnings especially when the common director holds an accounting-relevant position (e.g., audit committee chair or member), and (3) quality of firms' financial reports depends on monitoring by the board.

Network ties, such as board of director connections, can have an economic impact on the firm's performance. Compare to firms with weak network ties, firms with better network ties have higher risk-adjusted returns and higher profitability (Larcker et al., 2013).

Cai et al. (2014) show that a firm with shared directors, who experienced positive outcomes in their prior decisions on another firm's cessation of providing earnings guidance, is more likely to stop providing quarterly earnings guidance.

Brown & Drake (2014) extend Brown (2011) research on corporate tax avoidance by (1) studying how social networks influence firm behavior and (2) considering the influence of network ties on tax avoidance based on the character and context of the firm's network ties. Brown & Drake (2014) suggest that the diffusion of knowledge about tax-saving strategies and the sharing of experience in the implementation of tax-saving strategies is more pronounced in network ties of board connection with similar firms' characteristics; especially having the common local auditor.

Brown & Drake (2014) emphasize the importance of considering both the nature of the information (e.g. tacit and complex knowledge) and the nature of a firm's network ties (e.g. board connection with similar firms) when studying the impact of social networks on firm behaviors. According to Brown & Drake (2014), network ties that facilitate the transfer of tacit and complex knowledge are most beneficial to firms who practice tax avoidance.

In addition to the above-mentioned empirical studies, there are working papers (Müller & Weinrich, 2020; Cen et al., 2020) researching also on tax knowledge or tax practices diffusion among U.S. public companies.

As discussed in preceding paragraphs, there are plentiful examples of studies explaining the tax behavior of public companies through the innovation-diffusion theory. However, a gap exists in the literature regarding the tax behavior of SMEs especially under the TCJA (2017). This paper helps fill in this gap by using the innovation-diffusion theory to address the question of whether SMEs are aware of the specific changes in TCJA (2017) which impact their tax liabilities.

Innovation-Diffusion Theory

Knowledge diffusion examines how new knowledge is diffused or spread among the society and adopted by individual adopters. Tarde (1903) proposes "the laws of imitation" to develop the s-curve of adoption. Tarde (1969) suggests that an innovation is first adopted by an individual who is socially closest to the source of the new knowledge.

The new knowledge then spreads gradually from higher-status (i.e. opinion leaders in a system) to lower-status individuals. For example, new knowledge about TCJA (2017) first spreads to CPAs (opinion leaders) then gradually to SMEs. Tarde (1969) highlights that the perceived compatibility of an innovation or new knowledge affects the rate of adoption. According to Tarde (1969) perceived compatibility means the more similar an innovation is to prevailing ideas or existing practices, the more likely the innovation is to be adopted. Some of the changes in the business tax laws under TCJA (2017), such as bonus depreciation under section 168(k), are applicable to all businesses (SMEs or public companies). Therefore, changes to section 168(k) under TCJA (2017) are more likely to be adopted.

When Everett M. Rogers published the first edition of his book entitled Diffusion of Innovations published in 1962, in chapter two, he discussed in detail "the laws of imitation" proposed by Tarde (1903). In his book Diffusion of Innovations (5th edition, 2003), Everett M. Rogers writes "diffusion is the process by which an innovation is communized through certain channels over time among the members of a social system." Rogers (2003) suggests that "diffusion is a special type of communication about a new idea, and the newness of the idea means some degree of uncertainty, in regards to the probability of occurrences of a number of alternatives, is involved in diffusion." But, Rogers (2003) proposes that uncertainty can be reduced when information about the new idea is shared amongst the members of a social system to reach convergence or divergence. For example, changes in the business tax laws under TCJA (2017) is shared between peers within the same industry.

The innovation-diffusion theory can also be applied in the domain of taxation especially in regards to the tax behavior of SMEs under TCJA (2017). The next section is motivation and theory of this paper.

MOVITATION AND THEORY

How TCJA (2017) Affects SMEs

Prior empirical studies mostly use public archival data to research diffusion of tax knowledge and practices among U.S. public companies. A dearth of research publications exists regarding how tax knowledge and tax practices is diffused among individual taxpayers or business owners. This has motivated the authors to research the diffusion of tax knowledge and tax behavior of non-public companies (i.e. SMEs) in the U.S.

According to the document titled "United States 2018 Small Business Profile" published by the Office of Advocacy of the U.S. Small Business Administration, in 2015 there were 30.2 million small businesses in the United States employing 58.9 million people or 47.5% of the private workforce (SBA, 2018).

Since SMEs employed 47.50% of the workforce in the U.S.in 2015, SMEs must had contributed a significant portion of the Federal tax revenue. As discussed in the previous section, the percentage of income tax in terms of the total annual amount of gross federal taxed collected increased from 53.60% in 2014 to 56.90% in 2018 (IRS, 2020). Unfortunately, there is a gap in the literature concerning the tax behavior of SMEs due to the lack of data and information regarding SMEs.

To understand why it is crucial to research whether SMEs are aware of the specific changes in TCJA (2017) which impact their tax liabilities, this paper first explains how TCJA (2017) affects SMEs. Many changes in the business tax laws, under TCJA, are applicable to all businesses including SMEs. The next few paragraphs highlight examples of changes to business tax laws that are applicable to all business operations including SMEs.

The IRC section 45S provides a tax credit for employers who provide family and medical leave to their qualifying employees (IRS, 2018a). The credit is effective for wages paid in taxable years of the employer beginning after December 31, 2017, but it is not available for wages paid in taxable years beginning after December 31, 2019 (IRS, 2018a). A qualifying employee is one who has been employed by an employer for one year or more and whose prior-year compensation was at or below $72,000 (IRS, 2018b). The tax credit is a percentage between a minimum 12.5% to a maximum 25% of the amount of wages paid to a qualifying employee while on family and medical leave for up to 12 weeks per taxable year (IRS, 2018b).

The IRC section 132(f) now disallows a deduction of any qualified transportation fringe benefit except for the safety of employees. The new law specifically disallows employers reimbursing employees for transportation expenses from their home residence to their place of employment (IRS, 2018c).

IRC section 168(k) now allows a 100% additional first year depreciation deduction for qualified property acquired and placed in service after September 27, 2017, and placed in service before January 1, 2023 (IRS, 2018g). The 100% bonus depreciation now applies to new as well as used assets, including depreciable personal assets used predominantly to furnish lodging such as beds, refrigerators, and stoves in hotels, apartments, and dormitories (IRS, 2018g).

TCJA (2017) increases the annual maximum deduction under section 179 from $500,000 to $1 million, and the phase-out threshold from $2 million to $2.5 million, for property placed in service in taxable year beginning after December 31, 2017 (IRS, 2018h). Section 179 now allows improvements made to commercial buildings to include roofs, heat-ventilation- air-conditioning equipment, fire protection and alarms, and security systems. However, improvements made to any elevator or escalator or the internal structural framework of the commercial building do not qualify for immediate expense under section 179 (IRS, 2018h). Taxpayers can now write off 100% of the cost of heavy (over 6,000 pounds) business SUV/pickup Truck.

IRC Section 274 repeals the deduction for entertainment activities and membership dues. Taxpayers can now only deduct 50% of their non-entertainment business meals and beverage expenses, assuming the meal expense is not lavish or extravagant and the taxpayer or an employee of the taxpayer is present at the furnishing of the food or beverages to a current or potential business customer (IRS, 2018f). Further, taxpayers now can only deduct 50% of the cost of employer-operated eating facilities.

TCJA (2017) introduced a new IRC section 199A (Qualified Business Income Deduction) only for individuals, partnerships, S corporations, trusts, and estates. But, section 199A is not applicable to public nor private C corporations. Taxpayers now can elect section 199A to deduct up to 20% of qualified business income (QBI) from a domestic qualified business but subject to limitation if taxpayers' taxable income exceeds $315,000 for a married couple filing a joint return, or $157,500 for all other taxpayers (IRS, 2018e).

As discussed in the preceding several paragraphs, TCJA 92017) affects the tax liabilities of SMEs which employed 47.5% of the U.S. private workforce in 2015. Therefore, it is crucial to research whether owners of SMEs aware of the specific changes in TCJA (2017) and take actions to manage their tax liabilities?

Diffusion of TCJA (2017) to SMEs

Rogers (2003) defines diffusion as "the process by which (1) an innovation, (2) is communicated through certain channels, (3) over time, and (4) among the members of a social system." As per the mentioned above definition of diffusion, the spread of the new tax knowledge about TCJA (2017) among the society is therefore an innovation communicated through information promulgated in the website of the IRS over a period of time. New knowledge about TCJA (2017) first spreads to CPAs (opinion leaders) then gradually to SMEs or shared between peers within the same industry.

The period of time in regards to diffusion of new tax knowledge about TCJA (2017), defined in this paper, is roughly between the date of the enactment of TCJA (2017) on December 22, 2017 to the date when the first business tax return was due on March and April 2019. Since TCJA (2017) is a fairly new law, the U.S. Treasury and the IRS has been issuing guidelines, IRS Notices, and IRS Fact Sheets to guide taxpayers to comply with various changes to many sections of the IRC. In the website of the IRS, taxpayers can find abundant information for each individual section of the IRC (for example see IRS, 2018a, b, c, d, e, f, g, and h). Like Rogers (2003) description of diffusion, the innovation of new tax knowledge introduced by TCJA (2017) is communicated through the websites of the IRS among the taxpayers over a period of roughly 16 months from the enactment of TCJA (2017) to the due date of the first 2018 business tax return on March/April 2019.

Rogers (2003) writes "An innovation is an idea, practice, or object that is perceived as new by individual or other unit of adoption." TCJA (2017) not only amended many sections of the IRC but only introduced some completely new deductions to benefit taxpayers. For example, TCJ (2017) amended section 168(k) to allow additional first year depreciation (i.e. bonus depreciation) to include used property upon meeting five requirements purchased on or after September 27, 2017 (IRS, 2018g). TCJA (2017) introduced a new deduction, for the first time in the U.S., allowing taxpayer to deduct up to 20% of their domestic qualified business income (QBI) from partnerships, S corporations or sole proprietorships. The QBI deduction fits into the description of "newness" of an innovation by Rogers (2013).

Prior literature suggests that diffusion is facilitated by network ties, this paper expects diffusion of new tax knowledge and practices among owners of SMEs to be facilitated by peers in an industry and CPAs. However, whether new tax knowledge regarding changes to sections of the IRC, initiated by TCJA (2017), is actually diffused among owners of SMEs is an empirical question to be tested.

Manage to Reduce Tax Liabilities

Edwards et al. (2016) find that when firms are having increased financial constraints (i.e. an increase in both the cost and the difficulty in obtaining external sources of funding), most firms will engage in more tax planning activities to generate internal funding through cash tax savings.

The findings of Edwards et al. (2016) are applicable to SMEs. Relative to public companies, it is much more difficult for SMEs to obtain external sources of funding. For example, by reducing cash taxes paid, SMEs will have more cash on hand to pay off liabilities or to replenish inventories. Therefore, this paper predicts that owners of SMEs have a vested interest in learning about specific changes to a certain section of the IRC, such as the QBI deduction under section 199A, to reduce their tax liabilities.

Dyreng et al. (2010) find that individual executives have a large economic magnitude effects on their firms' tax avoidance that cannot be explained by the characteristics of the firm. The findings of Dyreng et al. (2010) have implications concerning the tax behavior of the owners of SMEs. This paper predicts that owners of SMEs also play a significant role in tax planning in order to elect the maximum amount of deduction allowed by the IRC.

Bird et al. (2018) find that peer firms respond to executive turnover by changing their tax strategies. Bird et al. (2018) further confirm the notion that a single firm's behavior, for example changes in tax paying behavior and the associated financial reporting, impacts the behavior of its peer firms in the same industry sector. This paper predicts that an SMEs owner's tax-planning behavior will also impact peer firms' tax behavior in the same business sector. For example, hotel operators will imitate from each other in electing immediate expensing of qualified property improvement (for example roofs) newly allowed under section 179 (IRS, 2018h).

Austin et al. (2020) researched individuals' tax evasion choice during and after temporary tax changes. Their findings from a multi-round experiment include (1) individuals will tax evade more during the periods of a tax increase, (2) an individual who knows a tax decrease is temporary, compared to another individual who does not know tax decrease is temporary will tax evade less during and will not tax evade more after the period of tax decrease respectively, and (3) when there is an uncertainty regarding whether a tax decrease is temporary, all individuals' tax behavior is the same. The results of Austin et al. (2020) indicate that individuals will adapt quickly to a gain state but fail to adapt to a loss state. This paper also predicts that SMEs' owners will adapt quickly to the take advantage of the additional business deductions, offered by TCJA (2017), to reduce their tax liabilities. But, the actual sections of the IRC which owners of SMEs will avail themselves to is unknown.

After learning about the new tax knowledge of TCJA (2017), through diffusion, whether owners of SMEs adopted the new tax laws and took actions to manage their obligations to pay taxes by electing deductions newly introduced by TCJA (2017) is another interesting question to be researched.

HYPOTHESES AND RESEARCH METHODOLOGY

As discussed in the previous theory section, the innovation-diffusion theory predicts that diffusion of new tax knowledge concerning TCJA (2017) is applicable to SMEs. This paper's first hypothesis is as follows.

> *Hypothesis H1: In accordance with innovation-diffusion theory, owners of small and medium-sized enterprises will be aware of the changes in the tax law of TCJA (2017) which affect their tax liabilities.*

As discussed in the theory section, owners of SMEs will actively manage their business operating, investing, and financing activities to reduce the present value of their tax liabilities in accordance to their own specific business situations. The paper's second hypothesis is as follows.

Hypothesis H2: Owners of small and medium-sized enterprises will modify their business operating, investing, and financing activities in response to the changes in the tax law of TCJA (2017).

Apostal & Pop (2019) interview tax consultants to conduct a qualitative study on institutional logics in the tax consultancy field in Romania. Following suit, this paper also uses interviews to conduct our research findings. The authors work in the College of Business and Economics situated in a metropolitan city on the west coast of the United States. The lead author has been teaching a required accounting course at his institution, for all undergraduate accounting concentration students, called Federal Taxation for Individuals. The Federal Taxation of Individual course also introduces to students the basic of Federal corporation tax. Students can further take an elective course of Federal Taxation for Corporations.

In light of the complexity of the TCJA (2017), the authors created an innovative teaching pedagogy, which includes an interview project, to encourage students to learn about Federal taxation. In the Fall semester 2018 and Spring semester 2019, the lead author assigned an individual class project to all 163 students taking his course titled Federal Taxation for Individuals. Each student was required to identify and interview a business owner or an immediate job supervisor and ask him or her how did the TCJA (2017) affect the operations of the business (if at all). Students then submitted a report detailing among other things who they interviewed, the position of the interviewee, and the firm of the interviewee with their results by the end of the Fall semester 2018 (the second week of December 2018) and by the end of the Spring semester 2019 (the second week of May 2019).

The above-mentioned interview project was open-ended allowing students to structure the interview (question, discussion, follow-up questions) as they deemed fit. The lead author did not dictate guidelines in (a) how the interview be conducted, or (b) what questions to ask about the TCJA (2017). The main objectives of the individual interview project were to gather research data and to give students an appreciation for how the IRC in general and the TCJA (2017) specifically affect business decisions with actual examples in actual companies. Since different businesses have dissimilar missions and operate in diverse environments, business owners will elect different sections of the IRC to minimize the present value of business tax liabilities respectively. Instead of directing students to discuss with interviewees particular sections of the IRC, an open-ended interview allows students to capture interviewees' responses freely in terms of sections of the IRC that are applicable to each unique business situation.

The lead author reviewed all interview projects of both semesters to ensure that students did not interview the same interviewee or business owner. To detect copying from each other, the lead author uses software to compare all interview reports for similarities and plagiarism. The lead author then performed a random check on the students' interview papers by contacting the business owners or the students' job supervisors. When contacting the business owners or the students' job supervisors, the lead author reassured all the interviewees that their privacy is protected because this paper will not review details of any single tax payer's information. Last, the authors obtained the Institutional review board's approval for this project and students earned predetermined assignment points for completing the interview project as per the class syllabus.

After communicating with some of the interviewees, the lead author re-read all reports to eliminate any report where the students had misconstrued what the interviewee said. Out of 163 students, enrolled in the Federal Taxation for Individuals during Fall semester 2018 and Spring semester 2019, it was determined that 125 students interview reports met the minimum academic expectation as per the lead author.

Interviewees of the 125 students' reports might not necessarily know (1) the exact sections of the Internal Revenue Code, (2) or the exact details of how a certain section of the Internal Revenue Code works. The interviewees answered the students that they are aware of the TCJA (2017) changes in terms of tax deductions and will like to take actions to manage their obligations to pay tax under the TCJA (2017). For example, many of the interviewees were aware of the Qualified Business Income (QBI) deduction but said that they would have to ask their accountant to calculate their actual QBI deductions if any.

RESULTS

Description of Interviews' Summary

Table 1 summarizes the nature of each interviewee's business. This paper categorizes the 125 interviewees into eleven sectors: (1) production, (2) accounting and learning services, (3) auto repair and auto services, (4) general businesses, (5) health care and day care, (6) home construction and home improvement, (7) marketing and hospitality, (8) personal care services, (9) real estate, (10) restaurants and teashops, (11) retail.

The industrial crane manufacturer (Table 1, report number 1) is a medium size C corporation with an annual gross receipt of $25 million but less than $50 million. Most of the businesses in Table 1 are small businesses such as limousine services, restaurants, landscaping, etc. The organizational forms of these small businesses can be partnerships, S-corporations, or sole-proprietorships. Interviewees did not necessarily provide the sections of the IRC to the student interviewers while discussing topics related to the TCJA (2017). Table 1 identifies the sections of the IRC related to the topics that each interviewee discussed with the corresponding student conducting the interview.

Based on the 125 reports of interviews, Table 2 summarizes how business owners managed their obligations to pay tax by utilizing new tax deductions, permitted under the new IRC of the TCJA (2017), in areas such as interest deductions, bonus depreciation, and the purchase of new vehicles. Business owners are also avoiding some expenses that are now not fully deductible in areas such as business entertainment, and employee meal expenses.

Table 3 shows the number of interviewees, out of the total 125 interviewees, discussed each of the tax topics and the corresponding IRC during their interviews with students.

Results of The First Hypothesis

Table 1 and Table 3 shows that (1) 64% of the 125 interviewees (80 business owners) were aware of the new law allowing individual taxpayers to deduct 20% of their domestic qualified business income from a partnership, S corporation or sole proprietorship under IRC section 199A, (2) 42% of the 125 interviewees (53 business owners) were aware that TCJA (2017) now allowed 100% bonus deprecation to include both purchases of new or used assets under IRC section 168, (3) 40% of the 125 interviewees (50 business owners) were aware that the new C corporation' tax rate is now a flat 21% under IRC section 11, (4) 23% of the 125 interviewees (29 business owners) were aware that TCJA (2017) increases the annual maximum deduction under section 179 from $500,000 to $1 million, and (5) approximately 10% of the 125 interviewees (13 business owners) were aware that taxpayers could now only deduct 50% of their non-entertainment business meals and beverage expenses under IRC section 274.

Above and beyond the IRC sections mentioned in the preceding paragraph, some interviewees or business owners were aware either one or several of the newly amended IRC sections: - IRC section 45S, IRC section 132(f), IRC section 163(j), IRC section 183, and IRC section 280A.

Table 1

PANEL A: INTERVIEWEES AND INTERNAL REVENUE CODE (IRC) DISCUSSED

Sector	IRC discussed		IRC discussed
Production			
1) Industrial cranes	§11, §45S, §168	2) Ceramics business	§183
3) Farm business	§168, §179, §199A	4) Jewelry	§183, §199A
5) Micro LED display	§168		
Accounting & Learning			
6) CPA firm	§11, §179	7) CPA firm	§199A
8) CPA firm	§11, §199A, §280A	9) Tax service	§274
10) Tax and accounting	§199A	11) Financial planner	§199A, §274, §280A
12) Math/English tutor	§274	13) Swimming lesson	§11
14) Education consult	§11, §163(j), §274		
Auto Repair & Services			
15) Auto diagnostics	§168, §179	16) Auto repair	§11, §168, §179
17) Accident reconstruct	§11, §168, §199A	18) Auto wrecker	§168, §179
19) Limousine services	§199A	20) Limousine services	§168, §179
21) Limousine services	§168, §199A, §280A	22) Online auto auction	§168, §179
23) Tires services	§11, §168	24) Trucking company	§11, §199A, §280A
25) Uber Driver	§199A	26) Vehicle inspection	§179, §199A
General Businesses			
27) Business consulting	§199A	28) Distribution services	§199A
29) Fashion designer	§11, §199A	30) Logistic business	§163(j), §168, §179
31) Mailbox services	§11, §45S	32) Mobile app services	§168, §199A
33) Mobile security	§11, §179, §199A, §274	34) Online newspaper	§168, §179
35) Sculpture business	§11, §199A	36) Software training	§199A
Health & Day Care			
37) Alcohol recovery	§168	38) Assisted living	§11, §199A
39) Child care	§11, §199A, §280A	40) Chiropractic practice	§179, §199A
41) Day care	§11, §168, §199A	42) Medical marijuana	§45S
43) Speech pathology	§199A	44) Sport chiropractic	§168, §199A
Home Construction &			
Home Improvement			
45) Carpet & flooring	§179, §199A	46) Case dealership	§163(j), §168
47) Home Construction	§11, §179, §199A, §274	48) Home heating	§11, §168, §199A
49) Home improvement	§199A	50) Home painting	§11, §179
51) Home window	§11, §168, §179	52) House cleaning	§199A
53) House keeping	§199A	54) House remodel	§168, §199A
55) Landscaping	§168, §179	56) New home builder	§168, §179
57) Pool cleaning	§199A	58) Pool cleaning	§179, §199A
59) Residential care	§168, §274	60) Tree care business	§11, §168, §199A

Total 125 students' reports of interview. Table 1 categories 125 businesses into 11 sectors. Table 1 identifies the sections of the Internal Revenue Code related to the topics that each student discussed with corresponding interviewee.

PANEL B: INTERVIEWEES AND INTERNAL REVENUE CODE (IRC) DISCUSSED

Sector	IRC discussed		IRC discussed
Marketing Hospitality			
61) Advertising agency	§179, §199A	62) Event planning	§168, §199A
63) Inn & suites	§11, §168, §179	64) Indoor go kart	§168
65) Insurance marketing	§11, §163(j)	66) Marketing service	§168, §199A

67) Marketing consult	§11, §199A	68) Advertise consult	§199A
69) Social media consult	§11, §199A	70) Travel agency	§11, §179, §199A
71) Video streaming	§11, §199A		
Personal Care service			
72) Barber shop	§11, §168, §199A	73) Barber shop	§199A
74) Hair salon shop	§168, §199A	75) Nail studio	§11, §168, §199A
76) Nail & spa	§168, §199A	77) Nail salon	§199A
78) Nail &beauty salon	§11, §168	79) Salon & spa shop	§199A
80) Beauty spa	§45S, §132(f), §179		
Real Estate			
81) Landlord owner	§168, §280A	82) Property rental	§11, §199A
83) Real estate agent	§11, §168	84) Real estate agent	§11, §199A, §274
85) Real estate agent	§168, §199A	86) Rental agent	§168
87) Rental agent	§11, §168, §199A		
Restaurant & Tea Shop			
88) Boba tea shop	§199A	89) Barbecue grill	§168, §199A
90) Cafe	§11, §168, §199A	91) Chicken & ribs	§11, §199A, §274
92) Chinese cuisine	§168, §199A	93) Chinese cuisine	§168, §274
94) Dessert shop	§11, §168	95) Dessert & drinks	§11, §168, §199A, §274
96) Fish restaurant	§11, §199A, §274	97) Herbal & tea shop	§168, §179
98) Italian restaurant	§168, §199A	99) Macaroon shop	§168, §199A
100) Mexican food	§11, §179	101) Pizza parlor	§199A
102) Ramen shop	§199A	103) Ramen outlet	§11, §179, §199A
104) Steakhouse	§168, §199A	105) Sushi restaurant	§11, §168
106) Teahouse	§199A, §274	107) Tea & Dissert	§199A
108)Thai restaurants	§11, §179	109) Vietnam food	§199A
Retail			
110) Asian grocery	§199A	111) Tanning spa	§168, §199A
112) Toys & Games	§199A	113) E-commerce site	§183, §199A
114) Asian Importer	§11, §199A	115) Heating/Cooling	§11, §199A
116) Mexican grocery	§179	117) Office furniture	§199A
118) Online handcraft	§168, §199A	119) Pharmacy	§11
120) Retail shoes	§199A	121) Sundry retail	§11, §163(j), §199A
122) Sundry retail	§163(j)	123) Sundry retail	§11, §168
124) Sundry retail	§11, §163(j)	125) Toy Shop	§11, §199A
Total 125 students' reports of interview. Table 1 categories 125 businesses into 11 sectors. Table 1 identifies the sections of the Internal Revenue Code related to the topics that each student discussed with corresponding interviewee.			

Table 1 conclusively shows that even small business operators, e.g., a barber, knew that TCJA (2017) provided new provisions that could potentially lower a taxpayer's tax obligations. Collectively, the 125 interviewees mentioned a total of ten different IRC sections. Results of this paper support Hypothesis 1. Therefore, this paper concludes that new tax knowledge regarding the major changes to the IRC were diffused among small and medium-sized enterprises**.**

Results of The Second Hypothesis

Table 2 shows that private business owners are complying with the new IRC by cutting expenses that are no longer deductible or not fully deductible. The following paragraphs discuss how private business owners modify their business operating, investing, and financing activities in response to the changes in the tax law of TCJA (2017).

Avoid Non-Tax-Deductible Expenses

Business owners who operate C-corporations, such as the industrial crane manufacturer or inn and suites operator (Table 1, report number 1 and 63), are planning to expand their operations because the IRC section 11 lowers C-corporation's tax rate to a flat 21%. Table 1 shows 40% of the 125 interviewees (50 business owners) are aware of IRC section 11.

The new IRC section 45S provides a tax credit for employers who provide family and medical leave to their qualifying employees between January 1, 2018 and December 31, 2020 (IRS, 2018a). A qualifying employee is one who has been employed by an employer for one year or more and whose prior-year compensation was at or below $72,000 (IRS, 2018b). The industrial crane manufacturer (Table 1, report number 1) plans to offer family and medical leave to employees. Some other business owners (Table 1, report number 31, 42 and 80) have chosen to offer family or medical leave benefits in addition to salary and wages.

IRC section 132(f) now disallows deduction of any qualified transportation fringe benefit except for the safety of employees. The new law specifically disallows employers reimbursing employees for transportation expenses from home residence to employment (IRS, 2018c). As a result, some business owners, such as the spa service owner (Table 1, report number 80), plan to discontinue the reimbursement for employees for transportation costs.

Under the new IRC section 274 (IRS, 2018d), the cost of an employer-operated eating facility such as a cafeteria, which used to be fully deductible, is now only 50% deductible (after 2025, the cost is completely disallowed). Note the cost of employees' meals while on business travel is still 50% deductible (IRS, 2018d). Some business owners, for example the chickens and ribs restaurant, Chinese cuisine restaurant, and fish restaurant (Table 1, report number 91, 93, and 96), plan to restrict the cost of meals provided to its employees.

The new IRC section 274 still allows a 50% deduction of non- extravagant business meals expenses with existing or future potential business clients (IRS, 2018d). However, IRC section 274 now disallows deduction of all business entertainment such as show tickets, golf course fees and sporting events (IRS, 2018d). As a result, business owners providing general home construction or residential care services (Table 1, report number 47, and 59) plan to discontinue sending show tickets to residential managers in the future. Other business operators providing services such as tax planning, math and English tutoring, education consulting, and financial planning (Table 1, report number 9, 11, 12 and 14) also plan to discontinue business entertainment expenses.

Hobby Losses and Home Office Deduction

Under the new IRC section 183, taxpayers now not only cannot deduct losses and miscellaneous expenses from hobby activities but also must pay tax on any income from their hobby activities (IRS, 2019a, p. 29). Three interviewees (Table 1, report number 2, 4 and 113) raised their concern about IRC section 183 and plan to "professionalize" their hobby activities into for-profit taxable business activities.

TCJA (2017) places new limits on the amount taxpayers can deduct on schedule A as itemized deductions such as state and local taxes and home mortgage interest, which indirectly changes the way that taxpayers calculate the amount of home office expenses under IRC section

280A (IRS, 2019b, p. 11). Six interviewees (Table 1, report number 8, 11, 21, 24, 39 and 81) mentioned that they are using part of their home as an office. These six interviewees or business owners planned to look into IRS Publication 587 (IRS, 2019c) to learn about the changes in IRC section 280A for calculating their home office expenses.

Qualified Business Income and Business Interest Deduction

Taxpayers are now permitted to elect section 199A to deduct up to 20% of qualified business income (QBI) from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust, or estate (IRS, 2018e). However, the section 199A deduction is subject to limitation if taxpayers' taxable income exceeds $315,000 for a married couple filing a joint return, or $157,500 for all other taxpayers (IRS, 2018e).

Table 1 shows 64% of the 125 interviewees (80 business owners) are aware of and plan to take advantage of the 20% deduction of their domestic qualified business income from partnerships, S corporations or sole proprietorships. The above-mentioned 80 business owners are running small businesses in the sectors of professional services, restaurants, home improvement, retail as well as personal care services.

The new IRC section 163(j) allows businesses to write off interest expense that is equal to 30% of its adjusted taxable income. The majority of the 125 interviewees in Table 1 are not subject to IRC section 163(j) because they are not tax shelters and have average annual gross receipts of less than $25 million in the previous three years (IRS, 2018f). Nevertheless, seven interviewees were aware of IRC section 163(j). Further, the business owner who is the authorized dealer of the Case Heavy Equipment (Table 1, report number 46) is in all likelihood subject to limitation of net business interest expenses deduction under the new IRC section 163(j).

Bonus Depreciation and Immediate Expenses

Section 168 now applies 100% bonus depreciation to both new and used assets, including depreciable personal assets used predominantly to furnish lodging such as beds, refrigerators, and stoves in hotels, apartments, and dormitories (IRS, 2018g). Table 1 shows 42% of the 125 interviewees (53 business owners) are aware of IRC section 168. For example, the business owner of inn and suites (Table 1, report number 63) purchased assets such as beds, refrigerators and stoves and was able to depreciate 100% of cost in year of purchase.

The new section 179 now allows improvements made to commercial buildings to include roofs, heat-ventilation- air-conditioning equipment, fire protection and alarms, and security systems (IRS, 2018h). The new annual maximum deduction under section 179 is $1 million. Table 1 shows 23% of the 125 interviewees (29 business owners) are aware of IRC section 179. Some business owners improved their commercial buildings and elected to immediate expense the cost of improvement up to $1 million annually. Section 179 also allows taxpayers to write off 100% of cost of a heavy business SUV/pickup truck of over 6,000 pounds (IRS, 2018h). For example, a small farmer (Table 1, report number 3) reduced his or her tax liability by buying a new business pickup truck of over 6,000 pounds and writing off 100% of the cost under the new IRC Section 179. The new IRC section 168 and section 179 gives private business owners great opportunities to manage their obligations to pay tax under the TCJA (2017).

Table 2 conclusively shows that owners of SMEs not only are aware of the new provisions of TCJA (2017) but in addition they have adopted some of the new provisions and thus are actively managing their obligations to pay tax under the TCJA (2017). Results of this paper support

Hypothesis 2. Therefore, this paper concludes that owners of small and medium-sized enterprises have been modifying their business operating, investing, and financing activities in response to the changes in the tax law of TCJA (2017).

Table 2
TAX TOPICS DISCUSSED DURING INTERVIEW AND CORRESPONDING INTERNAL REVENUE CODE

26 U.S.C.	Summary of topics related to the TCJA (2017) discussed during interview
§11	C-Corporations now have a lower flat tax rate (21%). **Business owners plan to expand and grow operations.*
§45S	A new tax credit for paid family and medical leave provided to employees whose prior-year compensation was at or below $72,000. **Some business owners plan to provide family and medical leave.*
§132(f)	TCJA (2017) disallows deduction of any qualified transportation fringe except for the safety of employees. **Business owners plan not to provide transportation fringe.*
§163(j)	TCJA (2017) only allows business to write off interest expenses that are equal to 30% of its adjusted taxable income. **Business owners plan to reduce interest expenses by paying off debts.*
§168	The 100% bonus depreciation now applies to new and used assets, including depreciable personal assets used predominantly to furnish lodging such as beds, refrigerators, and stoves in hotels, apartments, and dormitories. The annual depreciation caps for passenger autos have increased to $18,000. **Business owners plan to buy new or used assets and elect bonus depreciation.*
§179	TCJA (2017) increases the annual maximum deduction under section 179 from $500,000 to $1 million, and the phase-out threshold increases from $2 million to $2.5 million. Section 179 now allows improvements made to commercial buildings to include roofs, heat-ventilation- air-conditioning equipment, fire protection and alarms, and security systems. Heavy (over 6,000 pounds) business SUV/Pickup Truck write off to 100% of cost. **Business owners plan to make improvement up to $1 million annually.*
§183	Taxpayers cannot deduct losses or miscellaneous itemized deductions from a hobby activity. Taxpayers must report any income from the hobby activity and pay tax on it. **Business owners plan to change their hobby activity into a profit-making activity.*
§199A	TCJA (2017) allows individual taxpayers to deduct up to 20% of their domestic qualified business income from a partnership, S corporation or sole proprietorship (subject to limitations). **Many small business owners will elect §199A deduction*
§274	TCJA (2017) now only allows a 50% deduction for business meals and the cost of an employer-operated eating facility such as a cafeteria. Deductions for business entertainment are no longer permitted e.g., the cost of show tickets, golf course fees, sporting events. **Business owners plan to reduce nondeductible business entertainment.*
§280A	The IRS recommends taxpayers to use either the actual expenses method or the simplified method when calculating the amount of deduction of expenses for the business use of a taxpayer's home. **Business owners especially child care and day care should follow the IRS new guidelines in regards to business use of home.*

* Table 2 describes interviewees' actions to manage their obligations to pay tax under the TCJA (2017).

Results Supports Both Hypotheses

Table 3 provides further evidences to support hypotheses 1 and 2. Table 3 presents the number of interviewees (out of the total 125 interviewees), who discussed each of the tax topics (along with the corresponding IRC sections) during their interviews with students.

Table 3 NUMBER OF INTERVIEWEES OUT OF TOTAL ONE HUNDRED TWENTY-FIVE INVERVIWEES DISCUSSED THE TAX TOPICS DURING INTERVIEW			
26 U.S.C.	**Brief summary of topics related to the TCJA (2017) discussed during interview**	**Number of interviewees out of 125**	**Percent of interviewees out of 125**
§11	C-Corporations now have a lower flat tax rate (21%).	50 out of 125	40% out of 125
§45S	A new tax credit for paid family and medical leave provided to employees whose prior-year compensation was at or below $72,000.	4 out of 125	3% out of 125
§132(f)	TCJA (2017) disallows deduction of any qualified transportation fringe except for the safety of employees.	1 out of 125	1% out of 125
§163(j)	TCJA (2017) only allows business to write off interest expenses that are equal to 30% of its adjusted taxable income.	7 out of 125	6% out of 125
§168	The 100% bonus depreciation now applies to new and used assets, including depreciable personal assets used predominantly to furnish lodging such as beds, refrigerators, and stoves in hotels, apartments, and dormitories.	53 out of 125	42% out of 125
§179	TCJA (2017) increases the annual maximum deduction under section 179 from $500,000 to $1 million, and the phase-out threshold increases from $2 million to $2.5 million.	29 out of 125	23% out of 125
§183	Taxpayers cannot deduct losses or miscellaneous itemized deductions from a hobby activity. Taxpayers must report any income from the hobby activity and pay tax on it.	3 out of 125	2.5% out of 125
§199A	TCJA (2017) allows individual taxpayers to deduct up to 20% of their domestic qualified business income from a partnership, S corporation or sole proprietorship (subject to limitations).	80 out of 125	64% out of 125
§274	TCJA (2017) now only allows a 50% deduction for business meals and the cost of an employer-operated eating facility such as a cafeteria. Deductions for business entertainment are no longer permitted e.g., the cost of show tickets, golf course fees, sporting events.	13 out of 125	10% out of 125
§280A	The IRS recommends taxpayers to use either the actual expenses method or the simplified method when calculating the amount of deduction of expenses for the business use of a taxpayer's home.	6 out of 125	5% out of 125
* Table 3 shows the number of interviewees out of total 125 interviewees discussed the tax topics and the corresponding Internal Revenue Code during their interviews with students.			

As shown in Table 3, 80 out of 125 (64%) interviewees have discussed about Qualified Business Income deductions during their interviews. This is a solid evidence that the new tax IRC section 199A has been diffused among SMEs. Further, 53 out of 125 (42%) interviewees have mentioned bonus depreciation and expressed interest in utilizing bonus depreciation to reduce the present value of their tax liabilities and recover 100% of capital investment in year of purchase.

CONCLUSION

The innovation-diffusion theory (Rogers, 2003) helps to explain why a new tax law such as TCJA (2017) is an innovation communicated through the website of the IRS and other network ties among society over a period of time. This paper documents the above-mentioned diffusion of tax law.

The interview results of this paper confirm that new tax knowledge of TCJA (2017) has been diffused among owners of SMEs in the U.S. In addition, it is shown that owners of SMEs not only adopted the new tax laws of TCJA (2017), through diffusion, but also took advantages of the new allowable deductions introduced by TCJA (2017). Small private business owners appear to be managing their obligations to pay tax simply by following the Internal Revenue Code as amended in 2017. The findings of this paper are important for several reasons.

First, this paper contributes to the literature by examining the diffusion of tax knowledge regarding the changes in the IRC as amended by TCJA (2017). Second, this paper moves beyond the consideration of public companies and specifically examines diffusion of tax knowledge among SMEs. Third, this study contributes to the growing literature on the determinants of tax planning. Results of this study show that owners of SMEs are proactively adopting business practices to reduce their tax liabilities. This study finds that the key determinant of tax planning, for SMEs, is the reduction in the present value of tax liabilities through knowledge of tax deductions permitted by the IRC. The authors acknowledge several limitations of this paper. For example, this paper's interviews' results may not be applicable to all tax situations.

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