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Less taxing times ahead

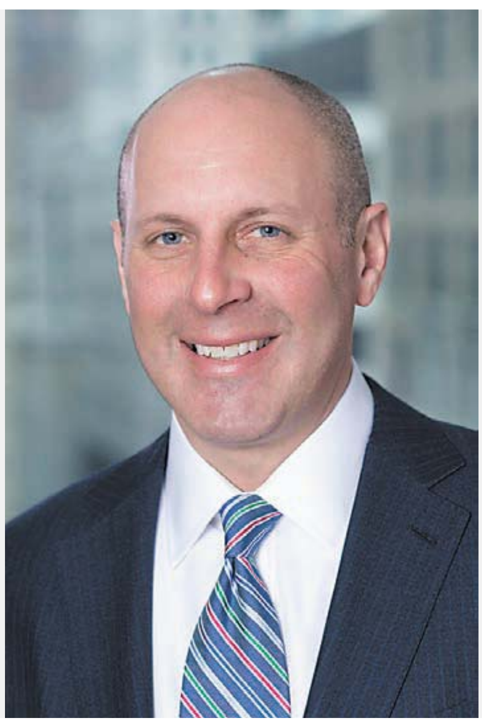
By: Bernadette Starzee December 5, 2016

Next year is going to be a busy one for accountants as they guide their clients through a sea of anticipated tax and regulation changes as the new administration takes over.

“We meet regularly with clients and discuss what’s going on with their business and outside influences, to look for opportunities,” said David Warshauer, a consulting partner at Grassi & Co. in Jericho. “We’re going to be very busy talking to clients about how the new administration will impact them.”

While there are always tax changes and uncertainty as one tax year ends and a new one begins, “you have radical change with a new administration, particularly with a change of party,” said Barry Garfield, Long Island market leader for Baker Tilly Virchow Krause in Melville.

“We’re staying as informed as possible so we get out in front of new regulations that will affect the way we service our clients,” said Ronald Storch, partner and chief operating officer for Marcum in Melville.



RONALD STORCH: Accounting firms have to stay in front of new regulations so they can advise their clients.

It's expected that business taxes will be reduced, which is already affecting year-end tax planning, and that the Affordable Care Act will be overhauled, among other major policy shifts. But there are many unknowns.

Trump has promised to repeal the estate tax, reduce corporate taxes to a flat 15 percent rate and simplify individual taxes, said Magda Szabo, a tax partner at Grassi & Co., who noted the president-elect has indicated he will focus on overhauling business taxes before individual ones.

"C-corporations currently graduate to a 35 percent rate, and he's saying any business would be taxed at 15 percent," Szabo said. "But there has been very little specificity about what expenses would still be allowed, and there is speculation that Trump may be moving toward a gross receipts tax, where very few expenses can be deducted."

This would be good for some industries and not so good for others, she said.

"This would discriminate against certain types of businesses – those that are very heavily expense-laden, such as in retail," she said. "Those industries would pay more than their fair share of taxes. That disparity is going to create issues."

There is indication that S-corporations and partnerships, which are currently flow-through entities that are taxed on the individual level, would have the option to be taxed at the 15 percent corporate rate, Szabo added.

Trump is also calling for a one-time reduced tax of 10 percent to incentivize multinational corporations to repatriate overseas profits, with a goal of boosting corporate investment and creating jobs in the United States.

"For individuals, he has talked about taking the top rate down by 6.6 percent to 33 percent, repealing the alternate minimum tax and reducing the number of tax brackets to three," Szabo said. "All of this might sound great to people, but the reality is there might be some [negative] surprising results as to what some people's tax liability might be."

The president-elect has also spoken of increasing the standard deduction while eliminating many itemized deductions and capping all deductions at $100,000 for single individuals and $200,000 for married couples filing jointly.

"Charities may suffer if there's a cap, because this would not incentivize charitable deductions," Szabo said.

If the estate tax is repealed, it would likely be replaced with a different tax, said Saul Brenner, a tax partner at Berdon in Jericho.

"Under current law, an estate tax applies to decedents at rates of 18 to 40 percent," Brenner said. "There is an exemption from the taxable estate of $5.5 million (for 2017). The Trump plan proposes to repeal the estate tax. Generally, under current law, a beneficiary of a decedent's estate receives the inherited property with a basis equal to the fair market value of the property. This allows the legatee to avoid income tax on the built-in gain on the property. The Trump plan will generally retain the provisions that allow a tax-free step-up at death (at least for the first $10 million of value). However, it appears that an income tax liability on the built-in gain will be imposed on property held at death to the extent valued over $10 million. There is a great deal of uncertainty as to the details of how this proposal would apply."

While there are unknowns, it's expected that the new administration's policies will generally be favorable to businesses, Garfield said.

The administration is expected to roll back some of the bank regulations introduced with the Dodd Frank Act, as well as easing regulations affecting the healthcare and energy industries, he said.

"The belief is the economy will grow faster if businesses are freed from regulations," Garfield said.

Despite the unknowns, "now is the time to start tax planning, to figure out whether or not you're going to prepay taxes, or move earnings into 2017 as opposed to 2016," Garfield said. "There also may be an opportunity for companies who are looking to cash out, as the cost of the transaction would be reduced with the lower tax rates."

However, it remains to be seen how the details will shake out.

"I don't think anyone could tell you with a straight face what's going to happen," Brenner said. "Negotiations are going to have to go on. What you have now are opening salvos."

"Everything is just talk right now," Warshauer concurred. "We still have to abide by the laws that are currently in place."