S CORP

DEFENDING AMERICA'S SMALL AND FAMILY-OWNED BUSINESSES

January 12, 2017

Dear S-CORP Member:

Perhaps no election more than this one embraced the notion that the only constant is change. What a difference a few electoral votes make!

Under the widely-expected Clinton Administration, we were bracing to do battle on one major issue after another. Higher tax rates, more harmful regulations, more hostility towards markets. 2016 was the "Year of Playing Defense" and 2017 promised to be more of the same.

Not that we were ready to throw in the towel. A little preparation and lots of shoe leather advocacy can do wonders. In 2016, we continued to establish our Parity for Main Street Employers group as *the* voice of the pass through business community, while simultaneously fending off two major Treasury regulations targeted directly at our members

Those two rules—the related party loan rules put out under Section 385 and the family business valuation rules put out under Section 2704—consumed an enormous amount of our time and resources. For each, we took a leading role, framing the arguments, identifying the messengers, and educating tax writers about the threat these rules posed to the business community. In the end, we won an outright victory on 385—Treasury rewrote them with a full exemption for S corporations! —while we positioned ourselves to continue the fight on 2704 under a prospective Clinton Administration.

But, we don't face a Clinton Administration this year. Instead, Trump won and everything changed.

To start, rather than expand on regulatory efforts, we expect Congress to roll back a long list of harmful regulations immediately. Making sure the 2704 family business valuation rules are at the top of that list is an S-Corp priority. We led the charge fighting these regulations when they were released, and it makes sense for us to lead the effort to finish them off as well.

To that end, we've been meeting with both House and Senate tax writers and communicating with the Trump transition folks. Our goal is a three-step process, where President Trump and Hill tax writers signal that 2704 is on the chopping block, the new President includes the 2704 rules in any Executive Order he signs blocking federal agencies from finalizing new regulations this year, and Treasury officially pulls the regulations once they have their tax team in place. We are already executing step 1, with steps 2 and 3 to follow. Everyone expects the 2704 regulations to be pulled, but it still must happen, and we intend to make sure that it does.

On the tax reform front, the House Ways and Means members had their retreat late last year to walk through the Brady "Blueprint" and review its various provisions. The good news is the plan survived intact, and they are now putting together the legislative language in preparation for the FY2018 budget and Ways & Means Committee consideration, likely sometime in April. With the Senate lacking an alternative, it seems inevitable that the Blueprint will be the base legislation from which Congress will work this spring.

That's the good news. The challenge will be to ensure that any changes made during the legislative process are an improvement, not a deterioration. Right now, the rate schedule is 33 percent for individuals, 25 percent for pass through businesses, and 20 percent for C corporations. Combined with the elimination of the ACA surtax, the dreadful Alternative Minimum Tax, and the Pease limitation on deductions, and the Brady Blueprint knocks down the top marginal tax rate on Main Street businesses from the high 40s to the mid-20s! No wonder the manufacturing indexes are up sharply in the last two months.

That said, there are several specific challenges we'll need to focus on to make certain of a happy outcome:

1. Exactly how do they define "pass through" business income?
2. How do they protect against the "John Edwards" issue?
3. How do we continue to push for rate parity?

As in the past, we will be coordinating with our allies in the Parity for Main Street Employers coalition to help develop and reinforce our messaging and advocacy moving forward.

Finally, S-Corp will work to continue to improve the rules that govern S corporations. Our S Corporation Modernization Act has enjoyed many successes over the past decade, most recently with the permanent, shorter 5-year recognition period for built-in gains, and we intend to build on these successes in the new Congress. Our bipartisan team of champions returns intact—Representatives Dave Reichert (R-WA) and Ron Kind (D-WI) and Senators John Thune (R-SD) and Ben Cardin (D-MD)—and we expect to hit the ground running. Key priorities for 2017 include allowing, for the first time ever, foreign investment in S corporations, something critically important to McIlhenny and many other S corporations across the country.

That is it for now. From every perspective, 2016 was a very successful year for our little group. We continued to build our rate parity coalition and made tremendous progress on S Corp Modernization, all while successfully fighting some of the worst tax regulations ever conceived.

And now we can look forward to switching from defense to offense and working on some really good tax policy in the coming months. Change *is* the only constant, and an opportunity like this only shows up once every decade or so. We need to make the most of it!

What can you do to help?

- ✓ **Renew your membership for 2017. S-CORP is not flashy, and we don't have lots of bells and whistles. What do we have is great advocacy, and advocacy starts with our members. Renew today!**

- ✓ **Spread the word. Our best ambassadors are our members. Let other private businesses in your community know about S-CORP and the important work that we do.**

As always, I am deeply appreciative of your support and look forward to working with you in 2017 to promote the greatest vehicle for private enterprise ever invented—the S corporation.

Sincerely,

Tony Simmons
Chairman, S Corporation Association
President & CEO, The McIlhenny Company