

# **S-Corp Monthly Member Call**

## **April 17<sup>th</sup>, 2018**



# S-Corp Monthly Member Call

## Agenda

- Tax Day
- Main Street Member Survey
- Tax Outlook
- S-Corp Advocacy

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## **Main Street Member Survey**

- The key message is “uncertainty”
- The Tax Cuts and Jobs Act was designed to spur economic growth, yet:
  - Half of the responding businesses were unsure if their tax burden would go up or down under the new tax law; and
  - More than one-third responded that they are unsure if they will get the new pass-through deduction
- These results point to the importance of Treasury issuing timely and pro-growth rules to help implement the new law
- Clarity over who gets the new pass-through deduction, and how it should be calculated, are at the top of the S-Corp advocacy agenda
- On our last call, we focused on the need for aggregation (or grouping) to calculate the new deduction – we need rules allowing businesses to group their operations when calculating the deduction

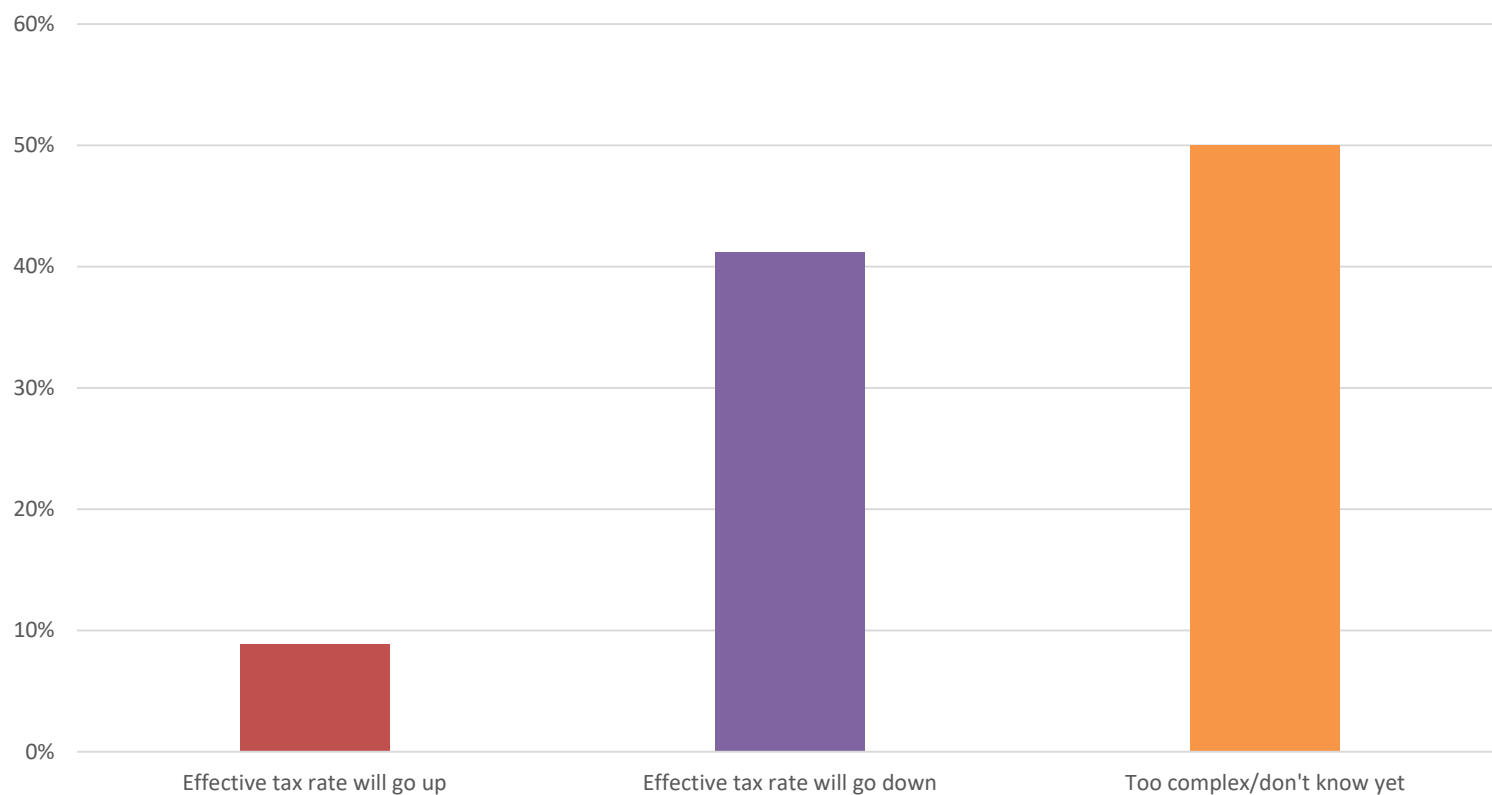
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## **Main Street Member Survey**

- To get a better idea of how the pass-through business community is responding to the new tax overhaul, our Main Street Employers coalition sent the following survey to several of its member trade groups
- Nearly 200 companies responded, giving PMSE an initial view into the impact the tax law is having on Main Street employers and how they are organized
- These results were gathered using Survey Monkey and are based on voluntary responses from PMSE member companies
- What did we learn?

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**What is the overall impact of the new Federal tax law on your business as it is currently organized?**



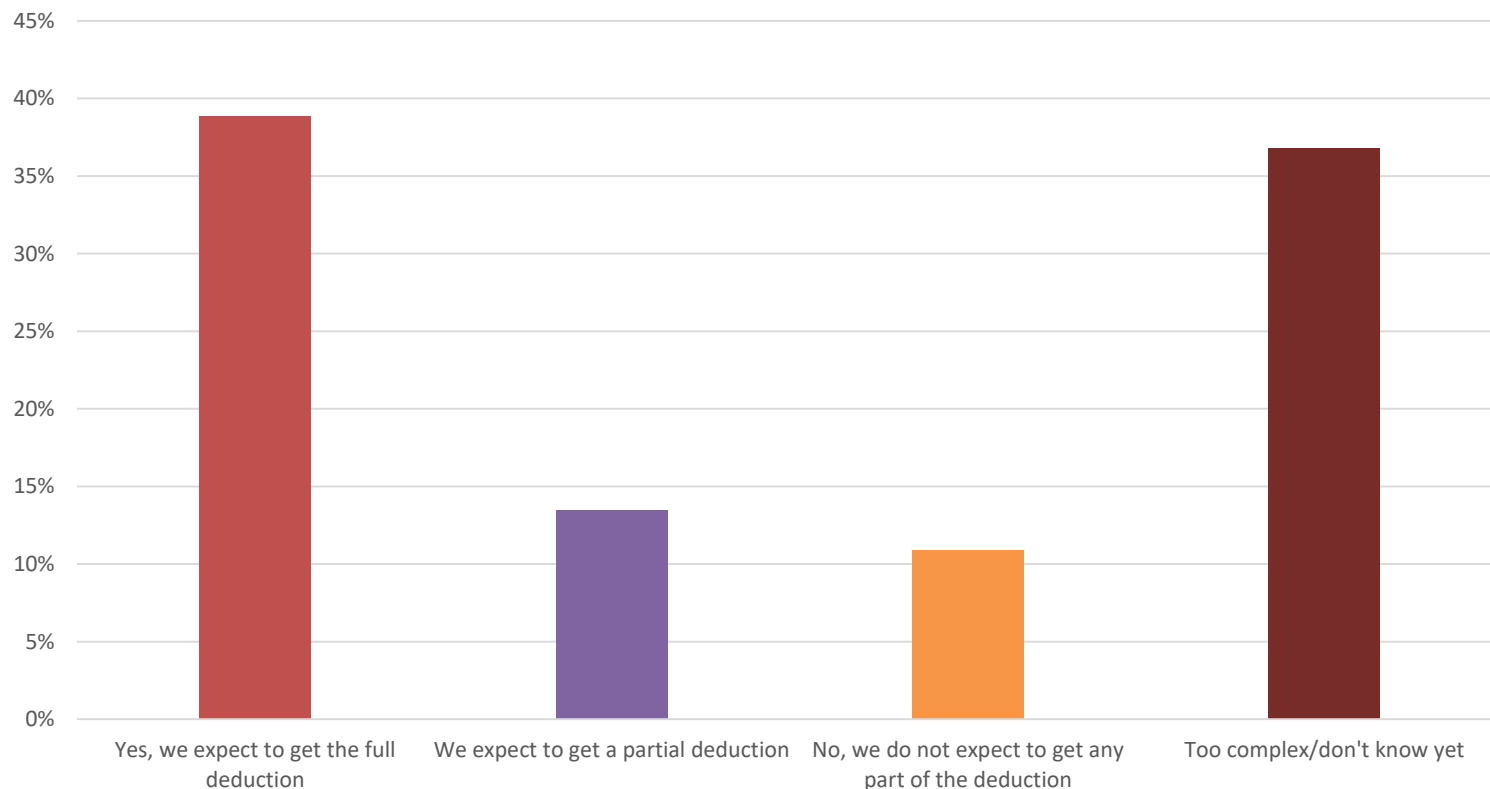
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**What is the overall impact of the new Federal tax law on your business as it is currently organized (before you switch your legal structure)?**

- This is a baseline question that highlights a continuing theme in the survey – “Too Complex/Don’t Know Yet” made up nearly half the responses
- For tax reform to realize its full potential in promoting job creation and new investment, employers need to understand how the new law will benefit their business
  - Part of the solution will be time – it is likely many of the respondents have not had the chance to fully focus on the new law and how it affects them
  - Part of the solution will be clear, timely rules out of Treasury to ensure that real businesses with significant levels of employment and investment get the pass-through deduction

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Will your business benefit from the new 20% pass-through deduction?



Parity for Main Street Employers

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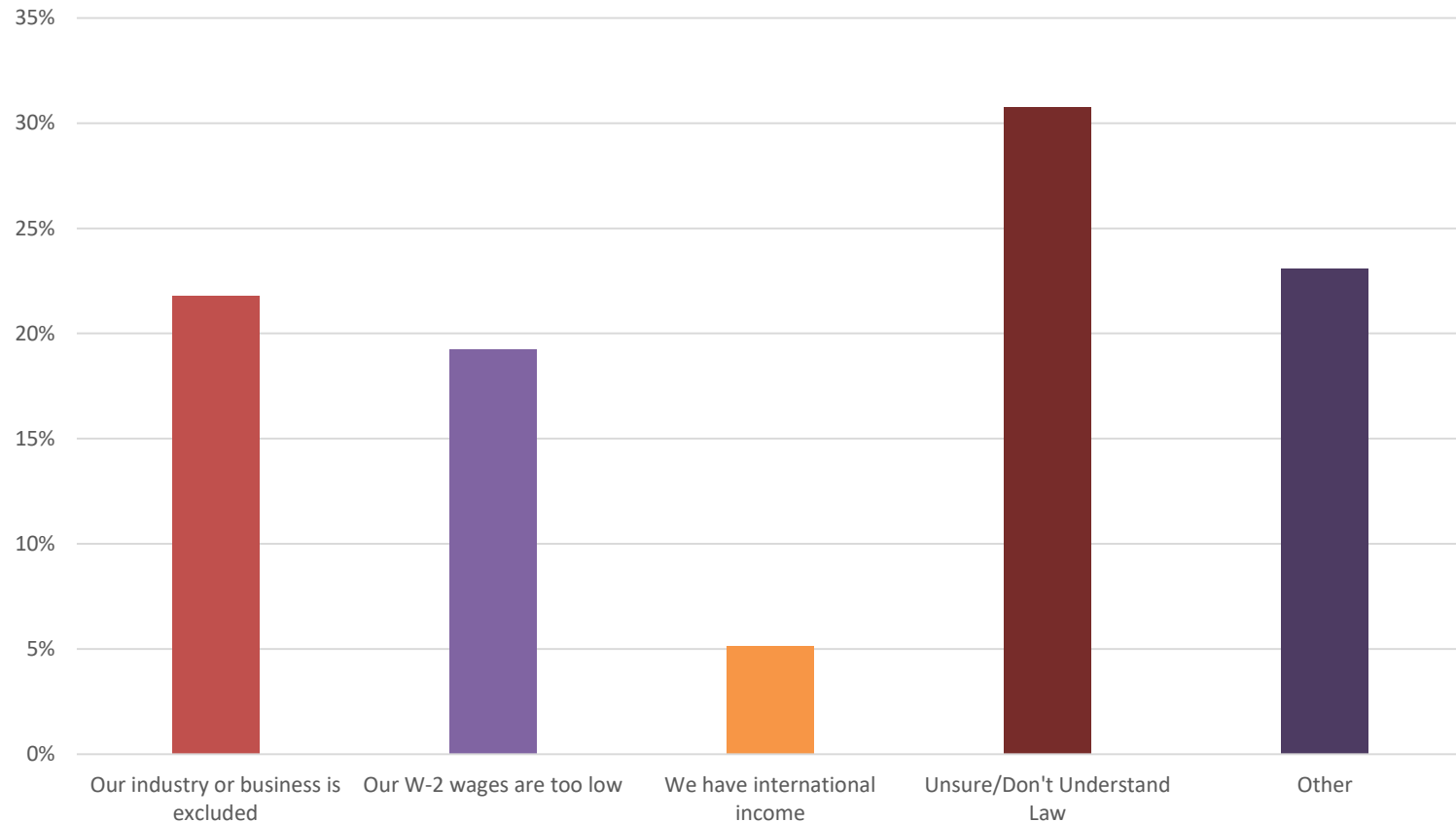
## **Will your business benefit from the new 20% pass-through deduction?**

- The new pass-through deduction included in the Tax Cuts and Jobs Act is limited in three key ways:
  1. “Specified Services Businesses” (law firms, accountants, brokers, etc.) are precluded from getting the deduction;
  2. International income is not eligible the deduction; and
  3. Qualifying income cannot exceed certain limits, including a limit based on employee wages
- These limitations significantly reduce the availability of the deduction and there is a high level of uncertainty as to the deduction’s application
  - Less than forty percent of the respondents report that they will get the full deduction
  - Nearly forty percent report they aren’t sure if they will benefit



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If you do not expect to get the full deduction, why?



Parity for Main Street Employers

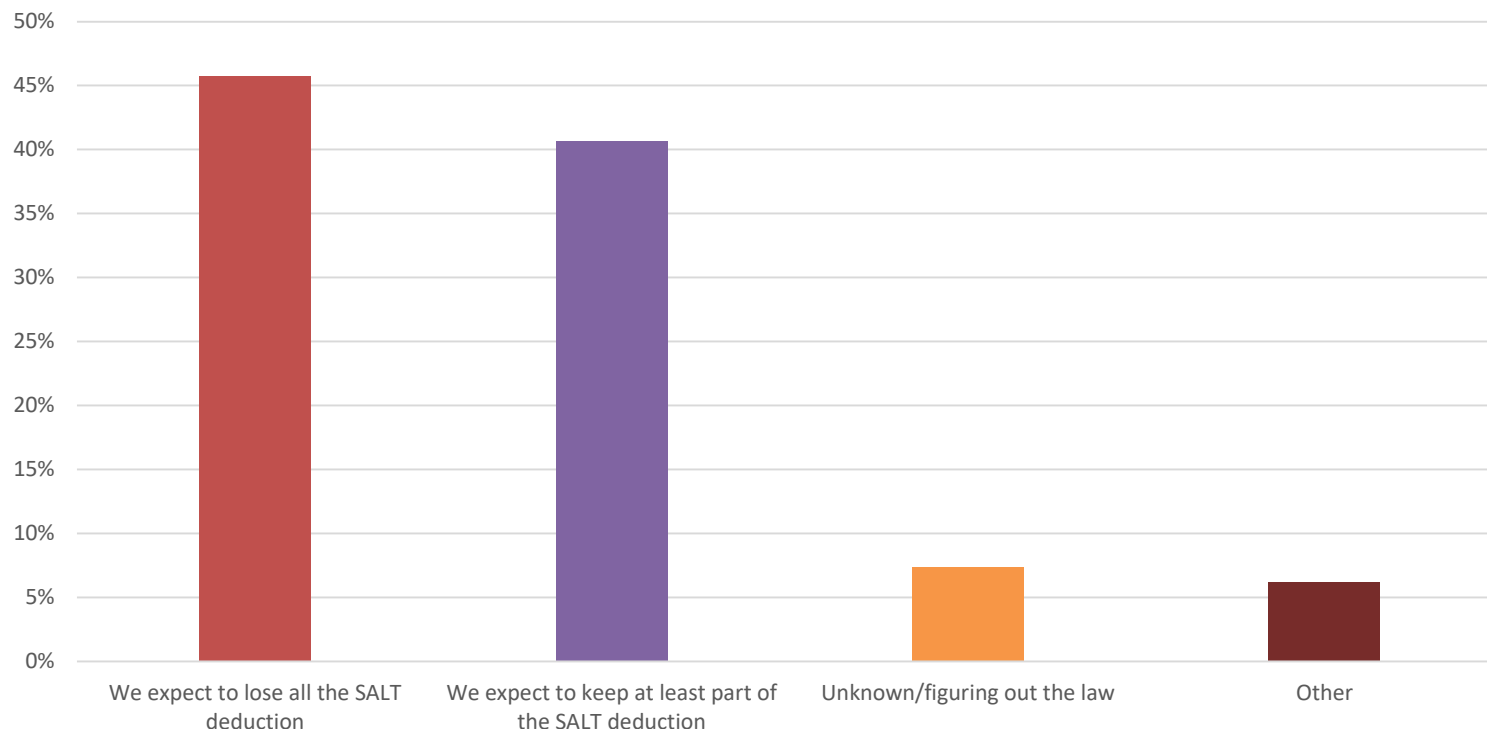
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## **If you do not expect to get the full deduction, why?**

- This question helps us to understand which “guardrails” apply most often and demonstrates that within responding group:
  - The wage limitation has a significant impact on the deduction’s availability – nearly as many respondents are affected by the wage limitation as are in the specified services business category; and
  - An even larger percentage – nearly one-third – are still unsure as to how the deduction will apply to them, nearly four months after the new law was enacted
- “Other” respondents included an S Corp ESOP and companies not expecting to have qualifying income due to NOL and interest deductibility limitations

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**Will the new rules limiting the deduction for State and Local income taxes (SALT) for most pass-through businesses affect you?**



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## **Will the new rules limiting the deduction for State and Local income taxes (SALT) for pass-through businesses affect you?**

- Another provision important to the pass-through business community is the new limitation on the ability of pass-through businesses to deduct State and local taxes
- How big of an impact will this have on Main Street businesses?
  - More respondents reported they will lose their entire SALT deduction than those reporting they will keep at least some of the deduction
  - One respondent cited the loss of SALT as the reason they were considering switching to C corporation
- As Congress revisits the tax law in coming years, SALT deductibility will continue to be a focus of the pass-through business community
- NOTE: Contrast the small percentage of uncertain responses on SALT with the high level of uncertainty with the new deduction

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## Treasury & Legislative Outlook

- What's the outlook?
  - The 199A rules are part of Treasury's business plan
  - Treasury officials have indicated they expect the rules to be out before August
  - New MOA between Treasury and OMB increased the number of outreach targets
- Meanwhile, the outlook for Congressional action is limited
  - FAA bill should have limited tax provisions
  - A possible technical correction's bill is iffy
  - Always a possible "end-of-year" bill, but depends on elections, etc.
- Bottom Line: For now, most action will be taking place at Treasury

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## **S-Corp Efforts**

- Released trade association letter on aggregation with 40+ signatories including:
  - US Chamber
  - AICPA
  - Farm Bureau
- Released the PMSE survey this morning
- Meeting with Treasury this week:
  - Tom West, Domestic Pass-Through Business Issues
  - Justin Muzinich, Counselor to the Secretary
  - Doug Poms, International Tax Issues
- Working on a Congressional letter to Treasury on aggregation

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## **S-Corp Efforts**

- What's the message?
  1. It is in everyone's interest that the tax law be successful and live up to its goal of promoting job creation and growth
  2. Uncertainty surrounding the new deduction and its application is slowing the pass-through community response and is hurting economic growth
  3. Allowing for aggregation or grouping will ensure that businesses that should qualify for deduction are able to get it, without costly reorganizations
  4. Aggregation rules can also be used by Treasury and the IRS to curb some of the gaming schemes being discussed in the press

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## End Goal for Advocacy

- Barro-Furman Paper on TCJA's Potential

**Table 1**  
Summary of the Major Macroeconomic Results for Featured Parameters  
(percent change)

	<b>A</b> Law as written	<b>B</b> Provisions permanent
<b><u>Long Run Results</u></b>		
Corporate productivity	2.5%	4.7%
Pass-through productivity	-0.8%	3.1%
GDP per capita	0.9%	3.1%
<b><u>10-year Results</u></b>		
Level of output after 10 years	0.4%	1.2%
Change in annual growth rate	0.04 p.p.	0.13 p.p.

<b>Corporate productivity</b>	<b>2.5%</b>	<b>4.7%</b>
<b>Pass-through productivity</b>	<b>-0.8%</b>	<b>3.1%</b>

Annual ramp-up cost per household

\$900

\$1,400



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## Conclusion

- So pass-through provisions in the Tax Cuts and Jobs Act have the potential to grow the economy, but only if:
  - The pass-through provisions are made permanent; and
  - Real businesses with real employees and investment get the deduction
- Step one is to work with Treasury and the Administration to craft rules that are broad and consistent with the goal of growing the economy
- What can you do to help?
  - Go to our website and fill out the survey – we are still taking input;
  - Let us know how the deductions affects you – we need good anecdotes on how the deduction is working; and
  - Come to the S-Corp Annual Meeting – its June 5<sup>th</sup> here in DC – just ask us for details

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