

S-Corp Monthly Member Call

June 12th, 2018



S-Corp Monthly Member Call

Agenda

- Annual Meeting Recap
- Pass-Through Messaging
- Pass-Through Permanence
- Implementation Update
- SALT Update

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Annual Meeting Recap

- Annual Meeting June 4th-6th
- Record attendance of S-Corp Members and Trade Groups
- Speakers included:
 - Dana Trier (Davis Polk)
 - Marty Sullivan (Tax Notes)
 - Brad Bailey (Treasury)
 - Robert Carroll (EY)
 - Neomi Rao (OIRA)
- 22 Hill meetings (20 with Senate Offices)
- Messaging: Parity, Implementation, and Permanence

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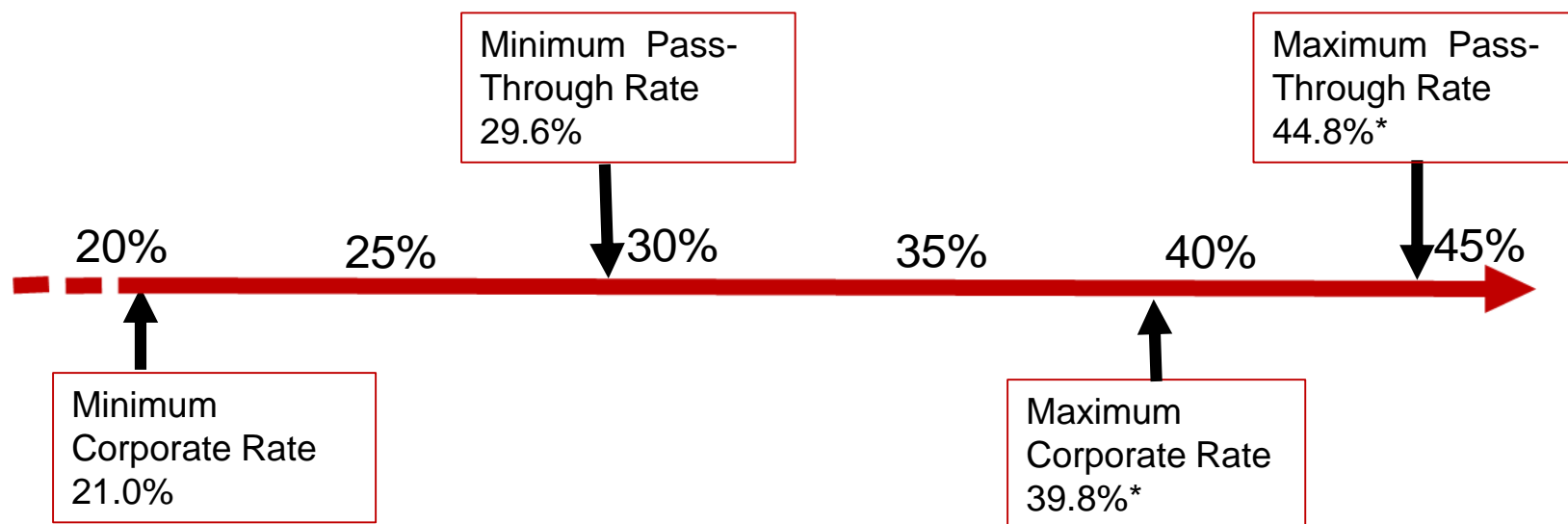
Parity

- Making the parity case is our biggest communications challenge
- Center for Budget and Policy Priorities:
“Among the 2017 tax law’s most flawed parts is a large tax break for certain “pass-through” income” and “The parity argument has always been misguided. Pass-through businesses enjoyed a significant tax advantage over corporations before the 2017 law”
- Sentiment echoed by MOC’s and think tanks
- Need an effective response

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Parity – Comparing Rates

- The lowest taxed C Corp pays less than the lowest taxed S Corp, while the highest taxed C Corp also pays less than the highest taxed S Corp



* Includes full double tax for C Corps and maximum SALT limitation for S Corps

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Parity – Retained Earnings

- Under new law, C Corps are able to retain more capital, giving them a huge advantage when competing with S Corps
- This advantage is compounded by the ability of C Corps to reward their shareholders through stock sales rather than dividends

	<u>S Corp</u>	<u>Public C Corp</u>	<u>C Corp Advantage</u>
Income	\$ 100	\$ 100	
Initial Layer of Tax*	34%	21%	
After-Tax Income	\$ 66	\$ 79	20%
* S Corp tax includes 29.6% rate plus loss of SALT deduction and 3.8% NIIT tax.			

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Parity – Making a List

S Corporations

Positives

- Single Layer or Tax
- Progressive Rate Schedule
- Capital Gains Treatment

Negatives

- Higher Top Rate
- Effective Rates vary by Industry, Location, Employment & Ownership
- Restricted Ownership Classes
- Limited SALT deduction
- Illiquid Market for Stock
- Worldwide Tax
- Deduction is Temporary

C Corporations

Positives

- Lower Top Rate
- Top Rate Applies to all Businesses
- Retain SALT deduction
- Access to Capital Markets
- Tax Exempt/Deferred Owners
- Liquid Markets for Stock
- Territorial Tax

Negatives

- Double Tax
- Sale of Business
- BEAT

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Parity – EY Study

- S-Corp has hired EY to help make the parity case
- EY Study will:
 - Compare effective tax rates for similar businesses organized as S corporations and C corporations
 - Provide a much-needed “apples to apples” comparison of who pays what
 - Provide S-Corp with hard data that the tax overhaul fell short of parity
- Study release set for mid-July
- Planning a Hill briefing to discuss study and surrounding issues

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Importance of Permanence

- The pass-through deduction goes away beginning 2026
- Temporary deduction undercuts bill's economic potential
- House vote expected in July – Senate will NOT follow suit

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

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

Corporate productivity	2.5%	4.7%
Pass-through productivity	-0.8%	3.1%

Annual lump sum cost per household

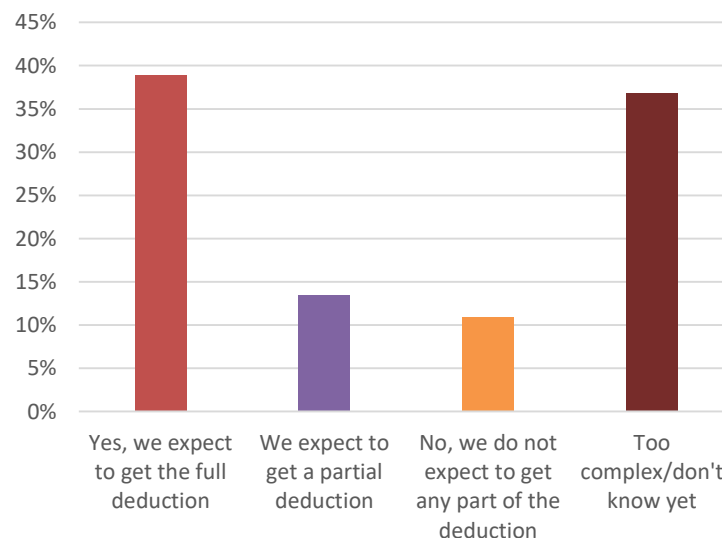
	\$900	\$1,400
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Implementation

- David Kautter -- “Couple weeks”
- Rules will focus on:
 - Aggregation
 - Enforcement
 - Specified Services
- Remember Survey Results
 - More than 1/3rd not sure they get the deduction
- Effective implementation critical to parity

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



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Aggregation Advocacy Update

- PMSE-led Industry Letter Signed by 45 groups
- New Hill Letter (led by Beer Wholesalers) signed by 65 Representatives
 - 40 Republicans
 - 25 Democrats
- Continued communication with Treasury/Administration
- Planned Rapid Response following released of proposed rule

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Aggregation Advocacy Update

- 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 get the deduction are able to 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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Aggregation Advocacy Update

- New Twist for 2018 – OMB Review
- Trump EO & MOA puts tax regulations under OMB
 - OIRA Administrator Neomi Rao Addressed S-Corp Last Week
 - Outlined how the new process would work
- Added Layer of Review
 - Could Slow Release of Regulations
 - Could Improve Final Product

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SALT Update

- Since Last Call
 - PMSE Released our Model Language
 - CT Adopted S-Corp Fix
 - NY released SALT draft/asked for Comments
 - Other States Taking a Look
- S-Corp Efforts
 - Briefing MI Business group this week
 - Preparing comments for NY to focus on including S Corps and make it election
 - Expanding the coalition

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What's Next?

- “Pass-Through” Forum in Mid-July
 - Forum will coincide with the release of our EY study on effective tax rates
- Preparing response to release of proposed Treasury rules
- Building out our SALT efforts in more states and with more groups/allies
 - Preparing comments for NY
 - Expanding coalition to include more interested parties

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