

# **S-Corp Monthly Member Call**

## **September 25<sup>th</sup>, 2018**



# S-Corp Monthly Member Call

## S-Corp Agenda

- Economy Looks Good! Elections?
- Pass-Through Coalition Efforts
  - Building the Parity Message
  - Advocacy
    1. Implementation
    2. Permanence
  - SALT Update – Fighting for Parity in the States
- What's Next

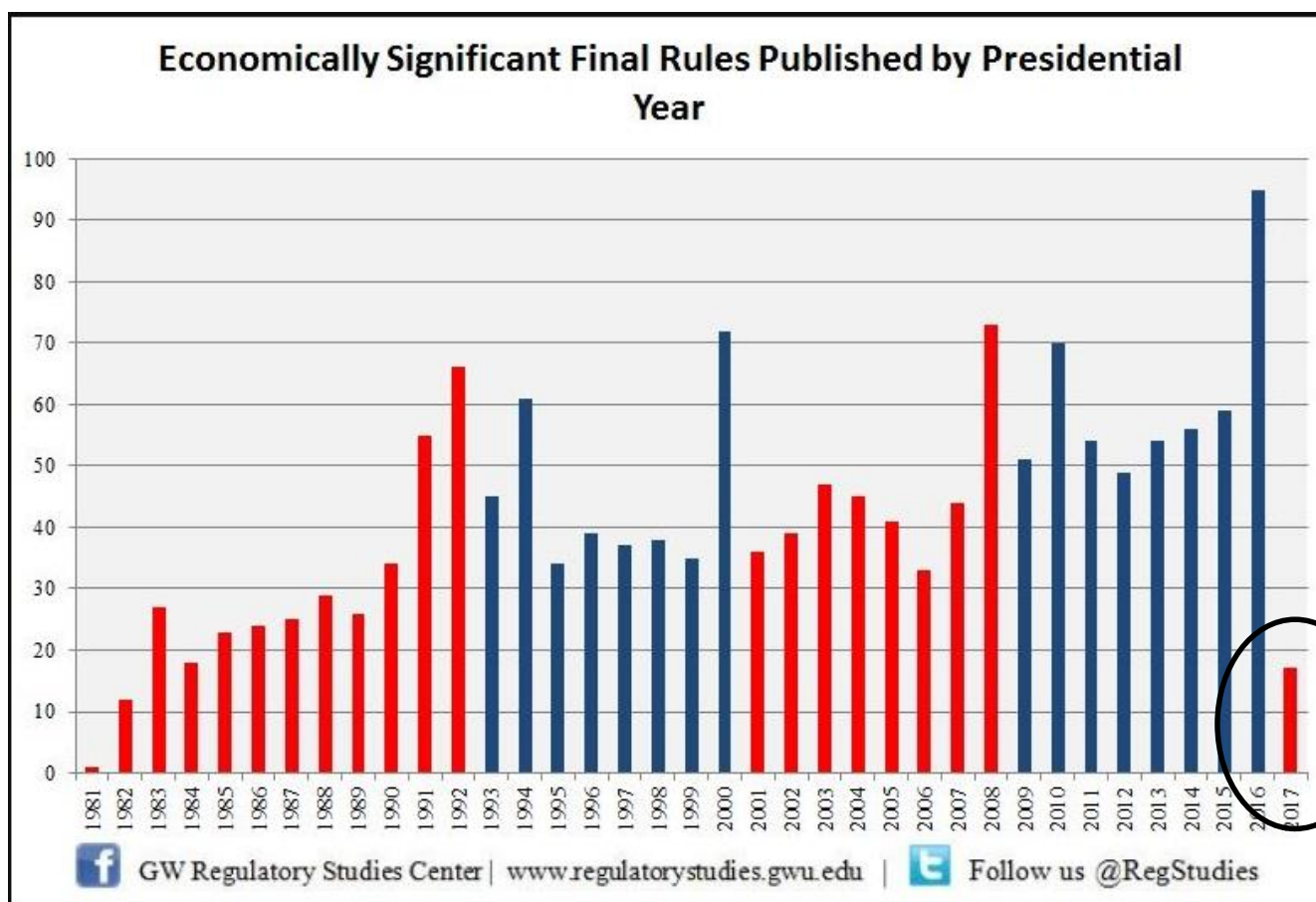
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## Economy Looks Good!

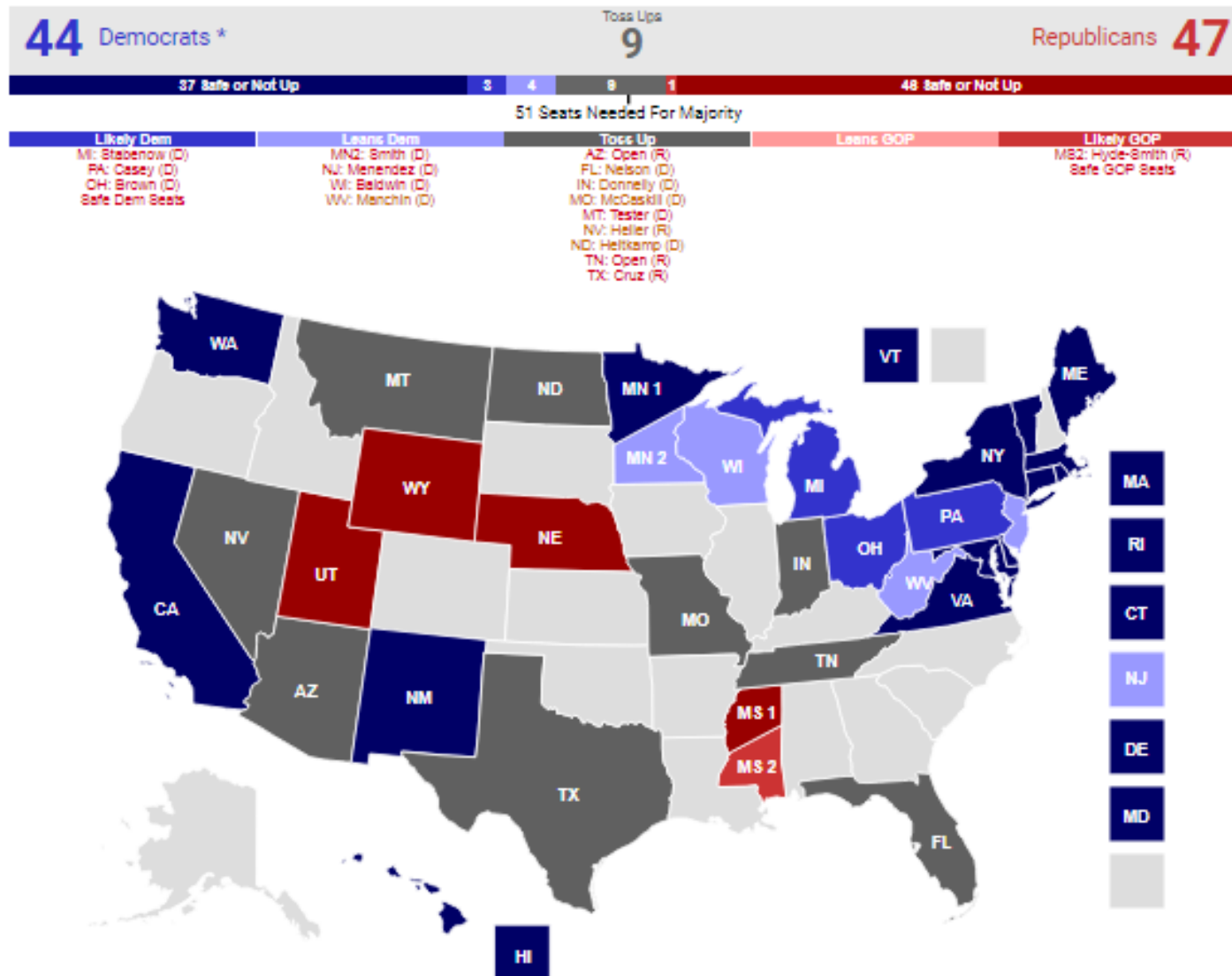
- GDP: Up 4.2 percent in Second Quarter
- Unemployment: Down to 3.9 percent
- Wages: Up 2.8 percent year to year
- Corporate Profits: Up 7.7 percent year to year
- What's behind the continued strength? One-two punch of corporate tax cuts and deregulation might be the cause...
  - Corporate receipts are down 30 percent from last year (\$162b vs. \$233b)
  - Meanwhile, new costly regulatory rules are almost nonexistent

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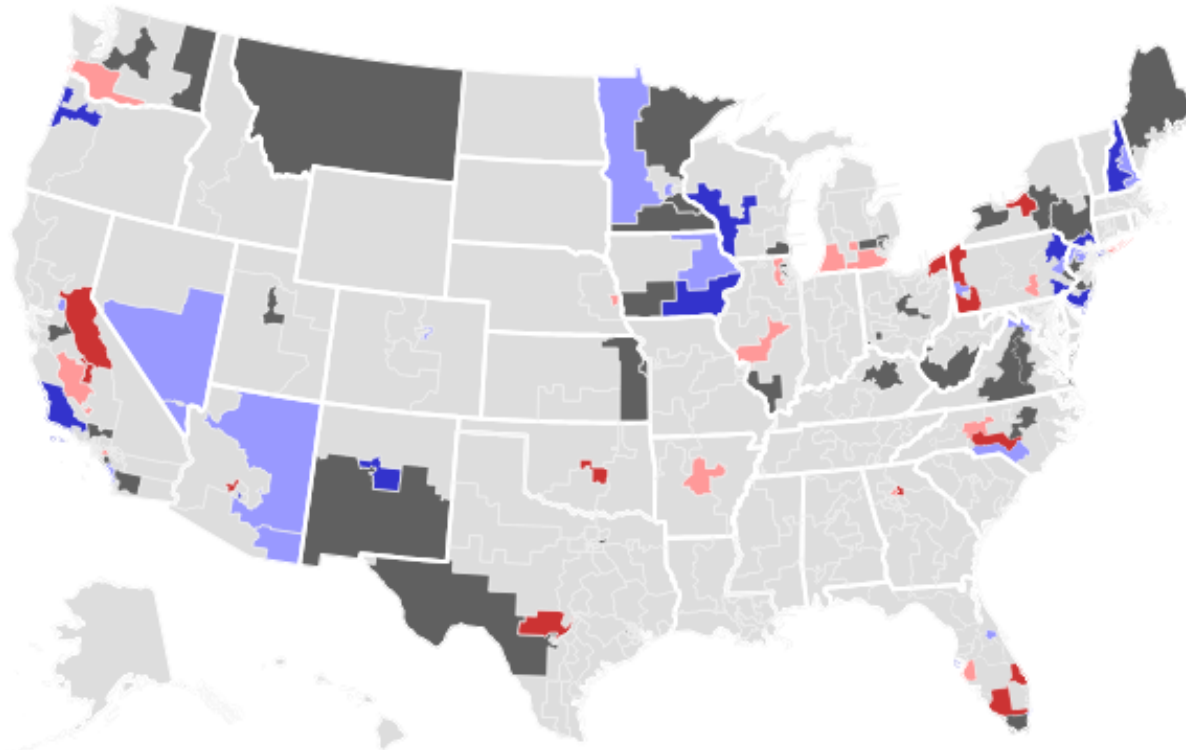
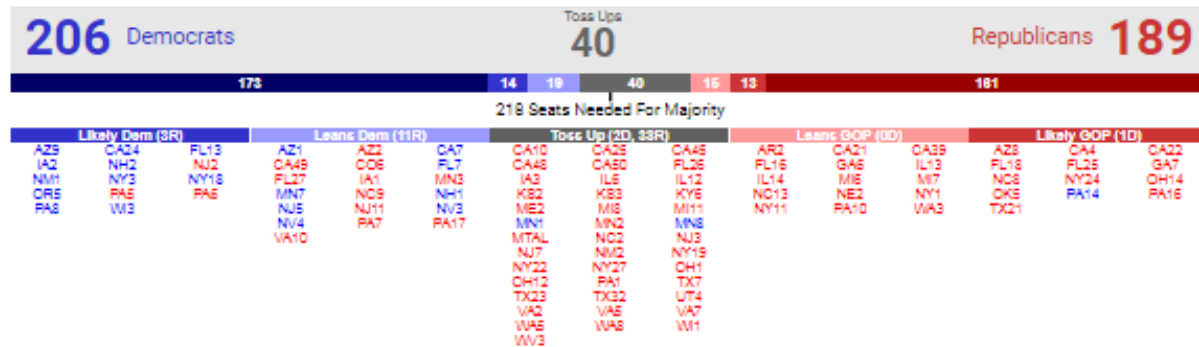
## Regulatory About-Face



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## Election Outlook

- Base Case: Democrats take House, Republicans hold Senate
  - Divided Congress means the end of the permanence push
  - Possible technical corrections and improvements tied to spending bills
  - Strong pressure to revisit corporate and pass-through rates
- Alt-A Case: Democrats take both Houses
  - Democrats would have no ability to move tax and regulatory policies, even via reconciliation, without Trump's support
  - Strong pressure to revisit tax cuts --how does Trump respond?
  - Regulatory stand down likely remains
- Alt-B Case: Republicans retain both bodies
  - Focus is on permanence and refining tax policies, but deficit concerns will continue to emerge as a stumbling block

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## Parity – EY Study

- S-Corp continues to press the case for parity
- Hired Robert Carroll at EY to estimate the effective tax rates for businesses under tax reform
- EY findings released at an S-Corp sponsored briefing on July 31<sup>st</sup> in the US Capitol
  - More than 70 Hill staffers and trade association representatives attended
  - A panel discussion followed the EY presentation included Robert Carroll (EY), Doug Holtz-Eakin (AFA) and Brian Reardon (S-Corp), moderated by Richard Rubin (WSJ)
  - What did Bob convey?

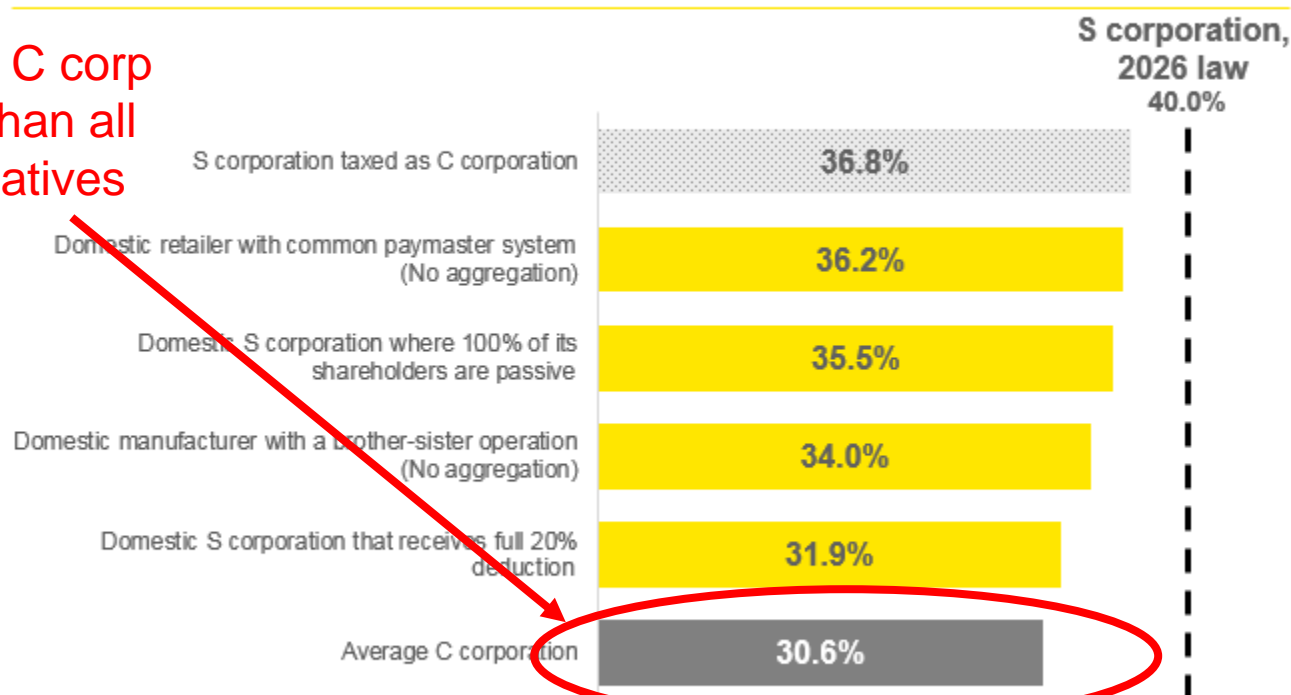


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## Parity – EY Study

### Effective tax rate comparison, 2018 law

The average C corp  
does better than all  
S corp alternatives

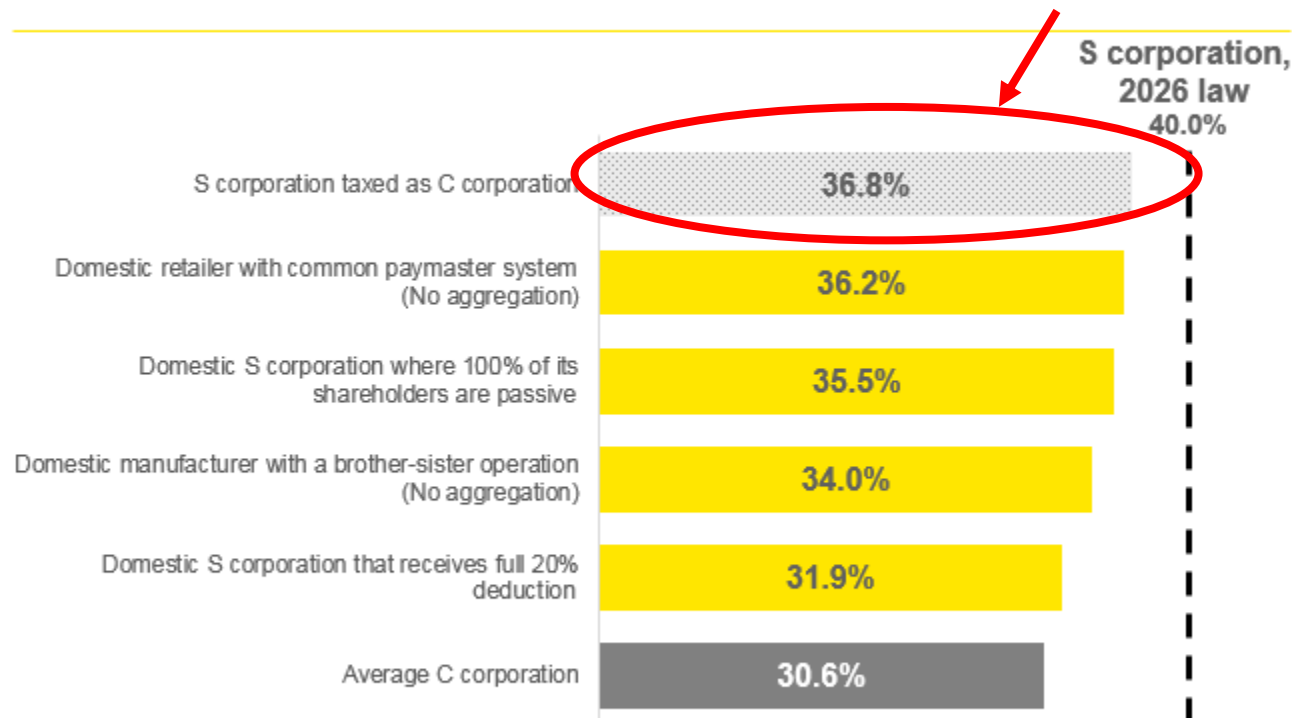


Note: S corporation taxed as C corporation is identical to Average C corporation except it has 100% taxable shareholders. S corporation, 2026 law is assumed to have 10% passive and 90% non-passive shareholders.

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## Parity – EY Study

### Effective tax rate comparison, 2018 law



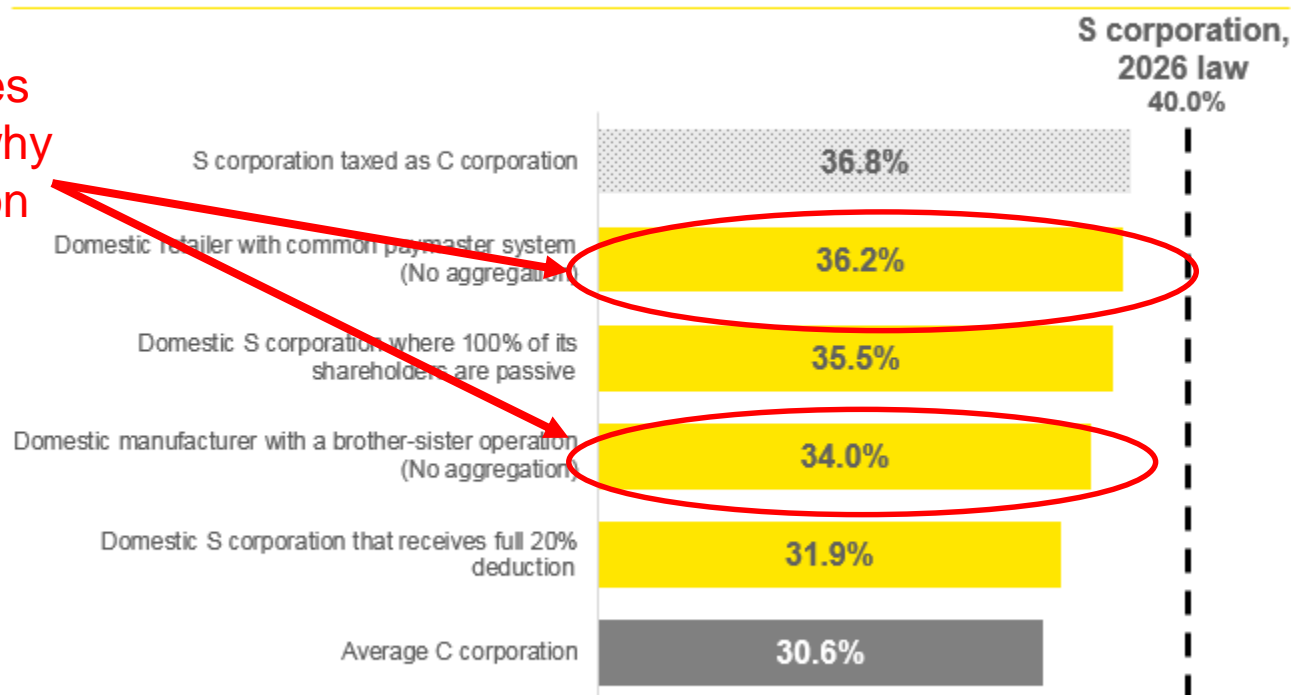
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## Parity – EY Study

### Effective tax rate comparison, 2018 law

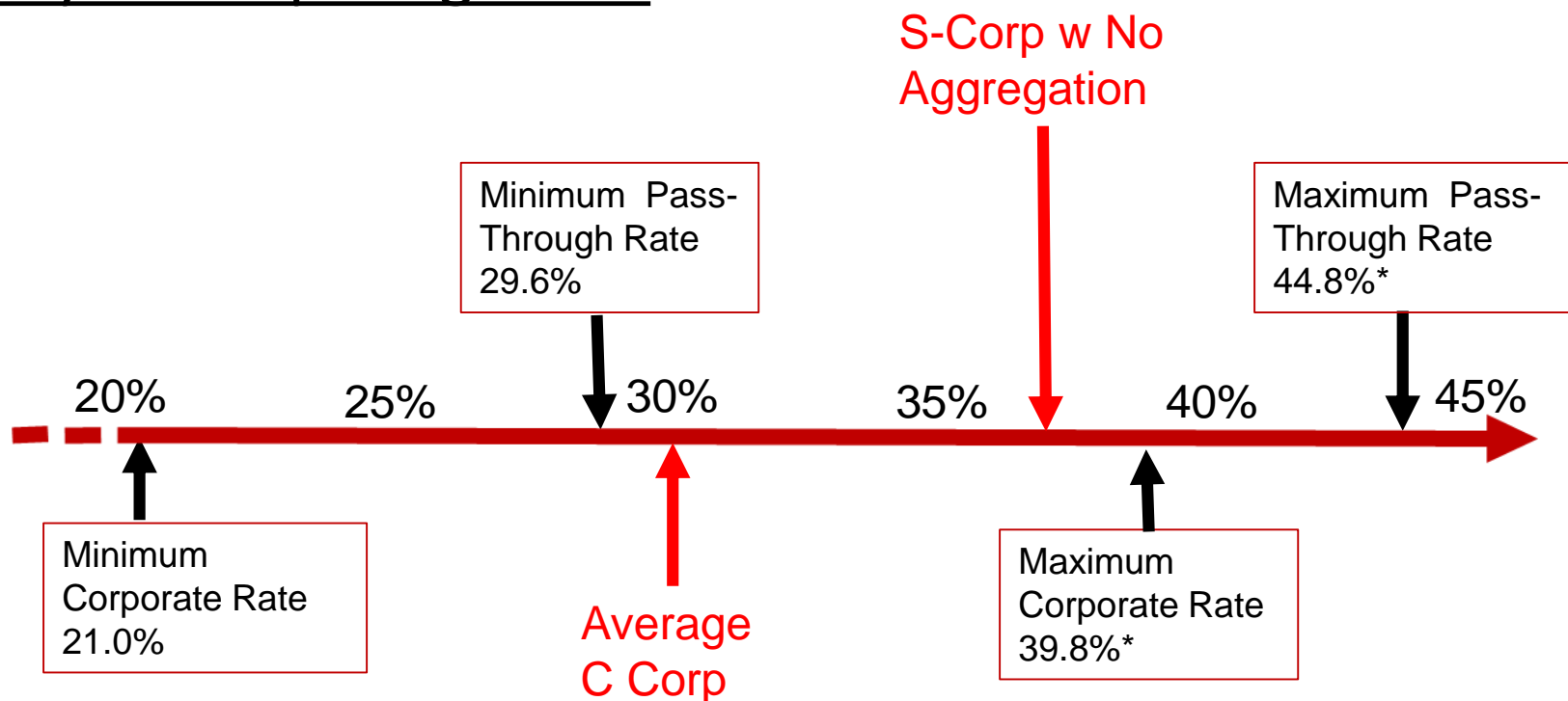
These rates highlight why aggregation is so important!



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## Parity – Comparing Rates



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

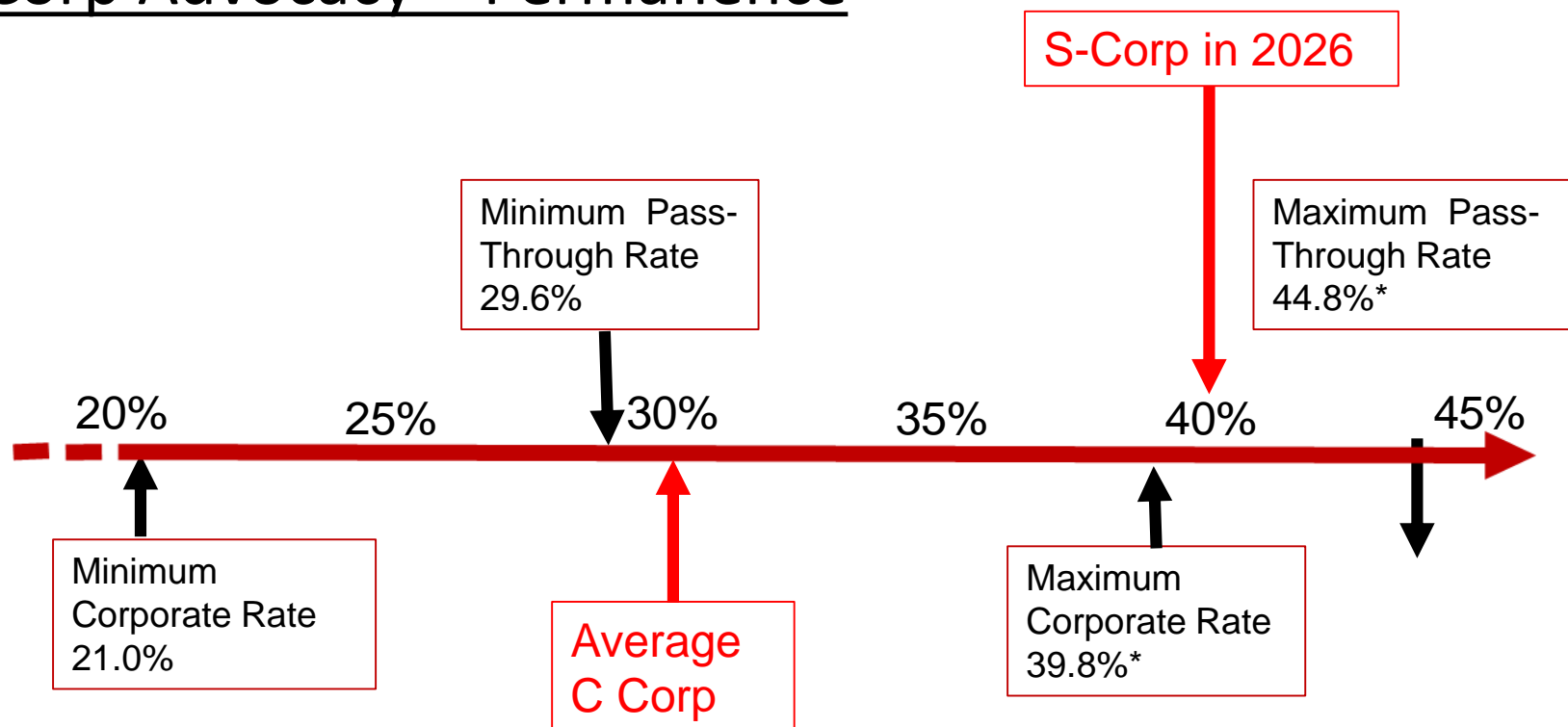
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## S-Corp Advocacy – Implementation

- First step in restoring parity – get the 199A rules right
- Three key rules out of Treasury
  - 199A
  - 965
  - GILTI
- S-Corp is organizing comments from the business community on the first two
- Locking in a robust aggregation approach will be the critical portion

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## S-Corp Advocacy – Permanence



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

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## S-Corp Advocacy – Permanence

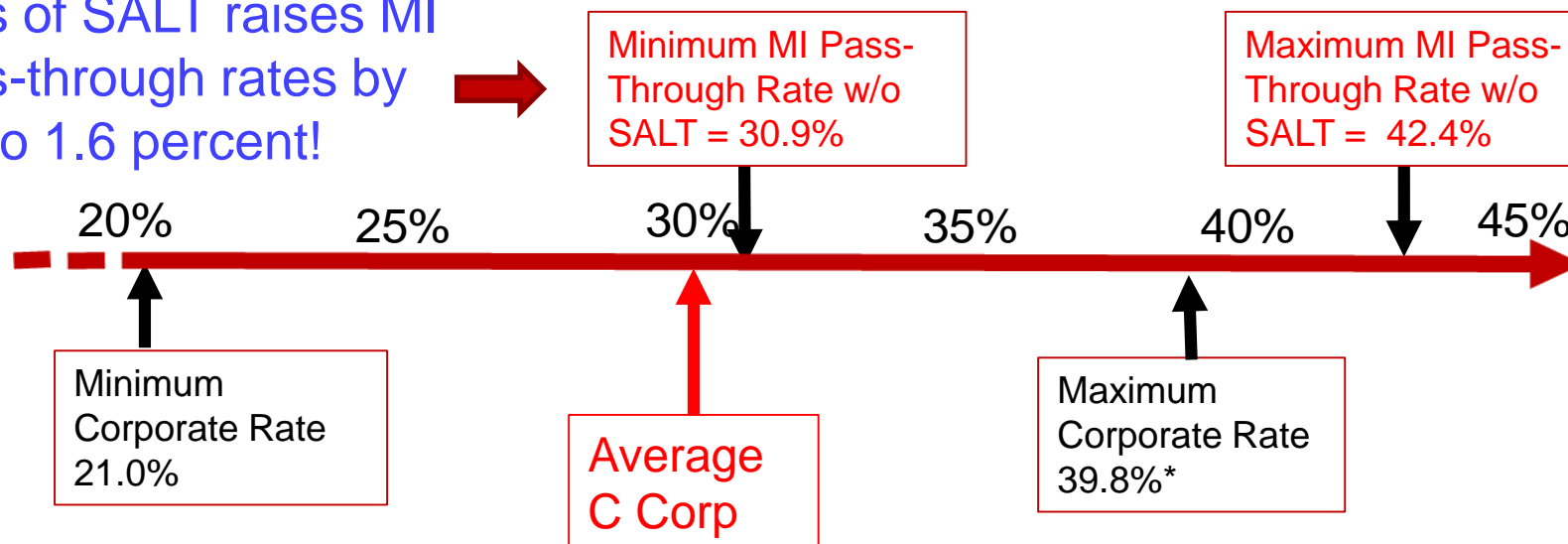
- Step 2 in restoring parity – make 199A permanent
- Congressman Mike Bishop has introduced the “Main Street Certainty Act” (HR 6277)
- Our Main Street Coalition is working to build up support for this legislation in anticipation of a big push in 2019
  - We have 10 cosponsors, including seven Ways & Means members
- Bill is part of Tax Reform 2.0 effort to be voted this week

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## S-Corp Advocacy – SALT

- S-Corp's SALT efforts continue

Loss of SALT raises MI pass-through rates by 1.3 to 1.6 percent!



\* Includes full double tax for C Corps



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## S-Corp SALT Update

- Since Last Call
  - US Treasury proposed rules cracking down on charitable SALT fix – no mention of CT or our efforts to restore SALT deductions
  - Legislative effort commenced in MI this fall –
    - Legislation is being drafted and should be introduced next week
    - State legislators and MI Treasury fully briefed
    - MI business community behind the effort
  - S-Corp submitted comments to NY on proposed pass-through SALT fix
  - Working with businesses in other key states to get 2019 efforts underway

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## What's Next?

- S-Corp & PMSE Comments
  - Be on the lookout for final comments on 199A & 965 in the next week
  - Encouraging other trades to submit comments too
- SALT Reform
  - Legislation with our SALT fix should be introduced in MI soon
  - Working in other states with 2019 action in mind
- Economy & Elections
  - As always, elections have a significant impact on fiscal policy
  - Possibility of a mixed Congress raises the stakes for our parity efforts!

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