



GROSSMAN YANAK & FORD LLP
Certified Public Accountants and Consultants

Planning in a Changing Tax Environment

Attorney CLE Series – April 2015



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Planning in a Changing Tax Environment

INTRODUCTION

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Planning in a Changing Tax Environment

TAX REFORM 2015

- **A Year of Change?**
 - *Recent history problematic*
 - *Political ideologies versus practical realities*



Planning in a Changing Tax Environment

TAX REFORM 2015

- **A Year of Change?**
 - *At least both sides are communicating*
 - *Republican, Congressional and Presidential leadership will be tested*



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TAX REFORM 2015

- **A Year of Change?**

- *Limitations:*

- Full Congressional and Legislative calendar
 - Fundamental differences in ideology



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TAX REFORM 2015

- **A Year of Change?**

- *Positives*

- Groundwork has been laid by both sides
 - Common ground exists



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TAX REFORM 2015

- **A Year of Change?**

- *Primary Goals*

- Lower corporate tax rate
 - Protect middle class
 - Reduce tax code complexity



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TAX REFORM 2015

- **A Year of Change?**

- *Other Challenges:*

- IRS funding cuts
 - Dealing with uncertainty
 - Planning



Planning in a Changing Tax Environment

INTRODUCTION

- Hope for change/improvement to tax code in 2015
- Additional problems caused by IRS administrative issues
- Extenders passed in 2014 need to be revisited
- “Tax Reform Act of 2014” may open door for real tax reform
- Important to consider the unknowns and allow for flexibility



Planning in a Changing Tax Environment

INTRODUCTION

- Chapter I: *Tax Rules Affecting Individuals for 2014 & Beyond*
- Chapter II: *ACA Net Investment Income Tax*
- Chapter III: *Individual Tax Planning Strategies for 2015*
- Chapter IV: *Tax Rules Affecting Businesses*
- Chapter V: *Business Tax Planning Strategies for 2015 & Beyond*
- Chapter VI: *A Review of Recent Proposals*



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TAX RULES AFFECTING INDIVIDUALS

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TAX RULES AFFECTING INDIVIDUALS

- Tax strategy must begin with assessment of ROI
- In determining ROI it is critical to understand multiple levels of U.S. income tax system and the various affects on the taxpayer
- Understand both current laws and expected tax provisions

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TAX RULES AFFECTING INDIVIDUALS

- **US Tax Income is not a singular system but multi-dimensional**
 - *Regular income tax system*
 - *Alternative minimum system*
 - *Self-employment tax system*
 - *Net investment tax system*
 - *“Pass-through” tax system*



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TAX RULES AFFECTING INDIVIDUALS

- **Preparing for 2014 tax filings and planning**
 - *Not a lot of new legislation*
 - *A plethora of guidance on earlier enacted legislation*



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TAX RULES AFFECTING INDIVIDUALS

- **ACA – effects on higher-income individuals**
 - *.9% increase in Medicare payroll tax for earned income and for self-employed individuals, effective beginning in 2013*
 - On earnings in excess of \$200,000; not adjusted for inflation
 - *3.8% Medicare contribution tax on unearned income, effective beginning in 2013*
 - On NII or MAGI in excess of \$200,000; not indexed for inflation

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TAX RULES AFFECTING INDIVIDUALS

- **Net Investment Income (NII)**
 - *Includes interest, dividends, capital gains, non-qualified annuities, royalties, certain rents, certain other passive business income and amount of capital gain on a second home sale that is not taxpayers primary residence*
 - *Gross investment income is reduced by deductions properly allocable to items of gross investment income*
 - *Calculation to be discussed further in next chapter*

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TAX RULES AFFECTING INDIVIDUALS

- **Regular tax system – two basic precepts**
 - *Assumes that any and all sources of economic income and gain are taxable*
 - *Assumes there are no deductions allowed against any of the reported income unless specifically authorized and allowed by a provision of the IRC*



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TAX RULES AFFECTING INDIVIDUALS

- **Regular tax system – graduated tax rate structure**
 - *Current structure result of ATRA*
 - *Tax increases have had adverse effect on many small businesses due to increased taxes for owners*
 - *Tax planning at entity and individual levels more important than ever*



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TAX RULES AFFECTING INDIVIDUALS

- **Income tax rates for individuals, estates and trusts**
 - *Income levels to which the rates are applied change each year due to being indexed for inflation*
 - *See applicable schedules on pp. 12 and 13*



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TAX RULES AFFECTING INDIVIDUALS

- **Capital gains tax rates for individuals, estates and trusts**
 - *Beginning in 2013, 20% rate on net long-term capital gains for taxpayers in top marginal tax bracket*
 - *JGTRRA did not institute an overall reduction in maximum long-term capital gain rates*
 - *Non-corporate tax rates on adjusted net capital gain of 15% and 0% and are the same for AMT as regular income tax*



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TAX RULES AFFECTING INDIVIDUALS

- **Reduced rates for long-term capital gains for estates and trusts**
 - *0% for taxpayers in 15% bracket*
 - *15% for taxpayers in 25%, 28% and 33% brackets*
 - *20% for taxpayers in 39.6% bracket*



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TAX RULES AFFECTING INDIVIDUALS

- **Qualified dividends**
 - *The reduced dividend rates only apply to qualified dividends, which include dividends received during the tax year from a domestic or qualified foreign corporation*
 - The taxation of qualified dividends received by individuals, estates and trusts at capital gain rates has been made permanent



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TAX RULES AFFECTING INDIVIDUALS

- **Phaseout of itemized deductions**
 - *Reinstated in 2013 and in effect for 2015*
 - *Reduces allowable deductions for individuals exceeding threshold amounts, which are adjusted for inflation*
 - *See threshold chart on page 16*



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TAX RULES AFFECTING INDIVIDUALS

- **Phaseout of dependency exemptions**
 - *Reinstated in 2013 and in effect for 2015*
 - *Reduces allowable personal and dependency exemptions by 2% for each \$2,500 by which AGI exceeds threshold; fully eliminated when AGI exceeds threshold by set amount*
 - *See threshold chart on page 16*



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IMPORTANT THRESHOLDS FOR 2015

	Single	Head of Household	Married Filing Jointly
Ordinary Tax Rates	\$ 413,200	\$ 439,000	\$ 464,850
Ordinary Dividends	\$ 413,200	\$ 439,000	\$ 464,850
Capital Gains	\$ 413,200	\$ 439,000	\$ 464,850
Itemized Deduction Phaseout	\$ 258,250	\$ 284,050	\$ 309,900
Personal Exemption Phaseout	\$ 258,250	\$ 284,050	\$ 309,900
Medicare Surtax	\$ 200,000	\$ 200,000	\$ 250,000
Medicare Tax on Wages	\$ 200,000	\$ 200,000	\$ 250,000

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NET INVESTMENT INCOME TAX

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NET INVESTMENT INCOME TAX (NIIT)

- **The NIIT is imposed at a rate of 3.8% on the lesser of:**
 - *NII for the tax year, or*
 - *The excess, if any of an individual's MAGI for the tax year, over the applicable threshold amount*



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NET INVESTMENT INCOME TAX (NIIT)

- **For purposes of the NIIT, an individual's MAGI is:**
 - *AGI as calculated for federal income tax purposes, plus*
 - *Certain excluded foreign-source income of U.S. citizens and residents living abroad, net of certain deductions and exclusions*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII thresholds**
 - *\$250,000 for a married taxpayer filing a joint return or a surviving spouse*
 - *\$125,000 for a married taxpayer filing a separate return*
 - *\$200,000 for single taxpayers*
- **These amounts are NOT currently indexed for inflation**



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NET INVESTMENT INCOME TAX (NIIT)

- **For calculation of the new tax, NII is the excess of the sum of the three specific categories of income or gain, less any otherwise allowable deductions properly allocable to such income or gain**



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category I**
 - *Gross income from interest, dividends, annuities, royalties and rents, unless such income is derived in the ordinary course of a trade or business, which is nonpassive with respect to the taxpayer, or is derived from trade or business of trading financial instruments or commodities*
 - *Tax-exempt interest income is excluded*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category I – trade or business exclusion**
 1. *There must be an activity that rises to the level of a trade or business*
 2. *The income must be derived from that trade or business*
 3. *The taxpayer must materially participate in that trade or business*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category II**
 - *Income from a trade or business that is a passive activity with respect to the taxpayer, or trade or business of financial trading*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category II – passive activities**
 - *NII rules generally adopt Code Sec. 469 rules for passive activities losses*
 - Does the taxpayer materially participate in the trade or business on a regular, continuous and substantial basis?
 - *Taxpayers are allowed a one-time “fresh-start” regrouping in the first year they are subject to the NIIT*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category II – rental activity exceptions**
 - *Under passive activity rules, rental activity of real estate or equipment is deemed passive; to qualify as trade or business, rental activity needs to be more than a simple investment*
 - *Exceptions are made for qualified “real estate professionals”*
 - *New regulations allow rental income from self-rental arrangements to be excluded in certain circumstances*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category III**
 - *Net gain included in computing taxable income that is attributable to the disposition of property other than property held in an active trade or business*
 - *Includes gains and losses from on dispositions of trade or business property used in passive activities*



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NET INVESTMENT INCOME TAX (NIIT)

- **NII Category III – types of gain generally included:**
 - *Gains on the sale of stocks, bonds, and mutual funds;*
 - *Capital gain distributions from mutual funds;*
 - *Gain from the sale of investment real estate (including the sale of a second home that is not a primary residence); and*
 - *Gains from the sale of interests in partnerships and S corporations held by a passive owner.*



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NET INVESTMENT INCOME TAX (NIIT)

- **Gains on sale of pass-through business**
 - *In general, the disposition of a partnership interest or S corporation stock generates category III gain or loss, but there is an exception for dispositions of active interests in a partnership or S corporation*
 - *To be discussed further later in the program*



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TAX PLANNING STRATEGIES FOR INDIVIDUALS

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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Planning even more important in complex tax environment**
- **Difficult to plan with constant changes, uncertainty**

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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**

- *Controlling the timing of income*

- Cash salaries or bonuses – consider risk and time-value of money
 - Consulting or other self-employment income
 - Retirement plan distributions



Planning in a Changing Tax Environment

TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**

- *Taxes and Investments*

- Investment sales – consider capital gains tax rates for gains on long-term vs. short-term investments
 - Qualified dividend income – same considerations as those for to capital gains if minimum holding periods apply



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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**

- *Try to Benefit from the 0% Rate*

- Taxpayers typically do not owe federal income tax on long-term capital gains and qualified dividends if total taxable income is less than top 15% of their tax bracket
- Senior-generation family members can pass income to junior-generation who may qualify for the 0% tax rate

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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**

- *Use capital losses*

- Can be used to offset capital gains and ordinary income

- *Reduce NIIT exposure*

- Timing strategies can be used to accomplish this goal

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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**

- *Consider an installment sale*

- Deferral of income taxes by recognizing profit over time
 - Not available for publicly-traded securities and other sales
 - Can be used to defer tax from income realized from the sale of real estate or other non-publicly traded property

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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**

- *Bond and U.S. Treasury bills*

- Compare yield on municipal and taxable bonds
 - AMT considerations should be taken into account
 - Recognize income from U.S. Treasury bills in lowest tax bracket year

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TAX PLANNING STRATEGIES FOR INDIVIDUALS

■ Tax planning opportunities

– Retirement contributions

- IRAs and other employer-sponsored plans offer substantial tax-deferral benefits, subject to thresholds and limitations
- Consider advantages of traditional vs. Roth contributions
- Be aware of AGI-based restrictions



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TAX PLANNING STRATEGIES FOR INDIVIDUALS

■ Tax planning opportunities

– Making the most of deductions

- Many deductions/exemptions are limited by AGI thresholds
- Increasing above-the-line deductions can help taxpayers to retain benefits of exemptions
- Thresholds and examples of above-the-line deductions can be found on page 34 of materials



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TAX PLANNING STRATEGIES FOR INDIVIDUALS

- **Tax planning opportunities**
 - *Bunch expenses in single years*
 - Combining medical and miscellaneous expenses in one tax year can help exceed “floors” that reduce deductions
 - *Deduct charitable contributions*
 - Detailed record keeping is critical
 - Subject to AGI-based limitations



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TAX RULES AFFECTING BUSINESS TAXPAYERS



Planning in a Changing Tax Environment

BUSINESS TAX PLANNING STRATEGIES

- **Overview of Business Tax Matters**
 - *General matters and thoughts*
 - *NIIT and the effect on businesses*
 - *The TPRs*



Planning in a Changing Tax Environment

BUSINESS TAX PLANNING STRATEGIES

- **Overview of Business Tax Matters**
 - *Recently-passed extenders legislation*
 - *The ACA and the effect on businesses*
 - *International issues*
 - *M&A related thoughts*
 - *Entity selection and entity conversion discussion*



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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **As professional advisors, “tax” matters we should be aware of:**
 - *Identity theft/confidentiality issues*
 - Perpetrators way ahead of the IRS
 - Relative ease for scammers to obtain Social Security numbers
 - Phone scams – IRS will not call for payments
 - Email is not confidential – IRS does not use it

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **As professional advisors, our clients need help when:**
 - *Dealing with the IRS*
 - *Dealing with the PA Department of Revenue*
 - *Tax notices are received*
 - *Penalties are assessed*
 - *Trust fund tax issues are present*
 - *There are nexus issues/filing obligations*

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Problems facing the IRS**
 - *Changes to the ACA will likely be a top priority and will have significant ramifications for the IRS*
 - *Reduced operating budgets and fewer personnel*
 - *Increased complexity in all areas*



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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **The Net Investment Income Tax – the Business Side**
 - *Businesses that are pass-through entities must coordinate business tax decisions with individual tax planning strategies of their owners*



Planning in a Changing Tax Environment

TAX RULES AFFECTING BUSINESS TAXPAYERS

- **The Net Investment Income Tax – the Business Side**
 - *Effects of NIIT on pass-through businesses*
 - Owners of pass-through entities may be subject to additional taxes as a result of flow-through income
 - Many “small” businesses adversely affected by NIIT
 - Additional distributions may be required to cover individual tax obligations, which reduces cash flow of the business

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Business Entity Selection – Blended Rates**
 - *C Corporation* **41.50%** (*does not consider double tax*)
 - *S Corporation – Active* **44.50%**
 - *S Corporation – Passive* **48.25%**
 - *Partnerships – Active* **48.25%**
 - *Partnerships – Passive* **48.25%**
 - *Individuals – Active* **48.25%**

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **The Net Investment Income Tax – the Business Side**
 - *Effects of NIIT on pass-through businesses*
 - Treatment of owners is inconsistent due to special rules for “passive” vs “active” investors
 - Active investor may have excess distributions because more is needed to cover passive investors
 - Some issues can be avoided with careful planning

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **The Net Investment Income Tax – the Business Side**
 - *What does this mean for the lawyer?*
 - Operating agreements may need to be updated
 - Additional consideration at the front-end
 - Additional consideration at the exit

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Tangible Property Regulations (TPRs)**

- *Final regulations became effective beginning tax year 2014*

- Focus on rules governing when taxpayers must capitalize and deduct expenses for tangible property
 - Significant difference between expensing and capitalizing
 - Specific rules for each of several classes of business items
 - Simplified process for small businesses

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Tax Extenders Legislative Update**

- *Passed at end of 2014 to extend for only 2014 tax year*

- Extended favorable bonus depreciation rules for property placed in service before January 1, 2015
 - Section 179 expensing up to \$500,000 also extended, subject to \$2 million investment limitation
 - R&D credit maintained – up to 20% of qualified expenses

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **ACA – General Terms and Descriptions**
 - *The “employer mandate” requires “large employers” to offer their full-time employees (FTEs) affordable health care coverage or potentially pay an excise tax penalty (the “employer shared responsibility tax”) beginning in 2015*
 - *A “large employer” is an entity that has 100 or more FTEs in 2015 or an entity that has 50 or more FTEs in 2016*

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **ACA – General Terms and Descriptions**
 - *Employer filings and information reporting will be due beginning in 2016 for information dating from January 1, 2015*
 - *These employers will need to file an annual information return reporting whether and what health insurance they offered employees*

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **ACA – Final thoughts**
 - *Compliance with ACA is difficult*
 - *Law is complex with special rules, changing dates and varied requirements based on the size of the business*
 - *Advisors must understand specific employer situations and all areas of the mandate*



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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Report of Foreign Bank and Financial Accounts (FBAR)**
 - *“Currency and Foreign Transactions Reporting Act of 1970” passed by Congress*
 - Requires U.S. financial institutions to assist the government in detecting and preventing money laundering
 - FBAR is one of five Reports Required Under the Act
 - U.S. Persons Must Also File a FBAR



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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **FBAR Reporting Threshold**

- *Aggregate value of accounts exceeds \$10,000*

- Any point during the calendar year
 - Foreign currency must be translated using the Treasury's financial management service rate on the last day of the calendar year

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Foreign Account Tax Compliance Act (FATCA)**

- *Passed by Congress on March 18, 2010*

- Requires specified persons to file an Information Return with their annual federal tax returns for any year in which their interests in foreign financial assets exceeds the filing threshold

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **Interest-Charge Domestic International Sales Corp. (IC-DISC)**
 - *Certain closely-held U.S. C corporations that export U.S.-manufactured goods can set up an IC-DISC as a tax-saving strategy*



Planning in a Changing Tax Environment

TAX RULES AFFECTING BUSINESS TAXPAYERS

- **IC-DISC – Practical Considerations**
 - *Corporation takes commission expense*
 - *IC-DISC includes commission as revenue*
 - *Distribution to shareholders at individual dividend rates*



Planning in a Changing Tax Environment

TAX RULES AFFECTING BUSINESS TAXPAYERS

- **M&A Matters – Tax-related thoughts**

- *From the seller's side*

- What is the tax rate on the gain?
 - What will be held back for “contingent liabilities”?
 - What are my options for state taxes?
 - What are my problems?

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TAX RULES AFFECTING BUSINESS TAXPAYERS

- **M&A Matters – Tax-related thoughts**

- *From the buyer's side*

- What are my tax benefits from buying assets or “stepping-up” my assets from an IRC 754 election?
 - How many unfiled returns are there?
 - What form of entity should be used to acquire the seller?

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BUSINESS TAX PLANNING STRATEGIES FOR 2015 AND BEYOND

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Planning in a Changing Tax Environment

BUSINESS TAX PLANNING STRATEGIES

- **Corporate tax reform is current “hot topic”**
 - *U.S. has world’s highest corporate tax rate: 35%*
 - *“Business” vs. corporate tax reform*
 - *Individual rates*

	<u>After 1/1/13</u>
• Highest marginal income tax rate	39.6%
• Net investment income tax rate	3.8%
• Effective tax rate (w/ phaseouts)	2.6%
• Total tax rate	46.0%

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BUSINESS TAX PLANNING STRATEGIES

- **C corporation tax rates vs. individual tax rates**

	<u>Individual</u>	<u>C Corp (Now)</u>	<u>C Corp (Soon?)</u>
Federal	46.00%	35.0%	28.0%
State	2.25%	6.5%	7.0%
	48.25%	41.5%	35.0%

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BUSINESS TAX PLANNING STRATEGIES

- **Entity conversions and entity selection alternatives**

- *Decision for businesses to convert from pass-through entities to corporations should be based on specific circumstances and careful evaluation of all options and alternative solutions*

- Can the conversion be accomplished tax-free?
- What are the true tax savings to be realized from conversion?
- What are investors' long-term plans? Is an exit in the future?
- What are short- and long-term growth plans for entity?

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BUSINESS TAX PLANNING STRATEGIES

- **Entity conversions and entity selection alternatives**
 - *Decision for businesses to convert from pass-through entities to corporations should be based on specific circumstances and careful evaluation of all options and alternative solutions*
 - What are plans for excess cash flow? Annual distributions?
 - Are the investors active or passive participants in the entity?
 - Are there appreciated assets inside the entity?
 - What are state tax consequences of a conversion?

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Planning in a Changing Tax Environment

BUSINESS TAX PLANNING STRATEGIES

- **Impact of recent tax legislation on initial choice of entity**
 - *Important to consider the factors at the inception as a later conversion can be difficult and costly*
 - *Decision should assess entire lifecycle of business and consider exit planning strategies*
 - *Also consider personal asset protection, liability concerns, financing objectives and self-employment taxes*

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BUSINESS TAX PLANNING STRATEGIES

- **Impact of recent tax legislation on choice of entity**
 - *Two primary (pass-through) entity choices for most taxpayers*
 - LLC
 - S corporations
 - *Potential for future reduced corporate tax rate could make C corporations a more-viable option*

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BUSINESS TAX PLANNING STRATEGIES

- **Illustrative Example**
 - *Compares tax consequences of S corp and C corp*
 - *Same income and growth assumptions used for each option*
 - *See charts on pages 54-56*

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BUSINESS TAX PLANNING STRATEGIES

- **Illustrative Example – see pages 54-56**
 - *Compares tax consequences of S corp and C corp*
 - *Same income and growth assumptions used for each option*
 - 28% corporate tax rate (anticipating reduction)
 - Liquidating event (stock sale) occurs after 10 years
 - 100% of after-tax cash flow is reinvested in company
 - Immaterial net cash flow difference in alternatives

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BUSINESS TAX PLANNING STRATEGIES

- **Illustrative Example – Discussion**
 - *Refer to S corporation and C corporation calculations on pages 54-55*

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BUSINESS TAX PLANNING STRATEGIES

- **Illustrative Example – Comparison/Summary of Findings**
 - *If current 35% tax rate is used, an S corporation generates more after-tax cash flows*
 - *If there is no plan to sell the company, a C corporation is better option, from a cash-flow point of view*
 - *If the S corporation investor is passive, a C corporation produces more favorable tax results*

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BUSINESS TAX PLANNING STRATEGIES

- **Illustrative Example – Comparison/Summary of Findings**
 - *If liquidation were through an asset rather than stock sale, buyer would be willing to pay higher purchase price due to ability to step-up the basis and gain tax benefits*
 - Benefits of an asset sale more significant for S corporation
 - *If yearly after-tax cash flow was paid to shareholders (not re-invested) S corporation would have significant tax advantages*

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BUSINESS TAX PLANNING STRATEGIES

- **Illustrative Example – Comparison/Summary of Findings**
 - *If the yearly growth is more than 6% annually, the benefits of the S corporation increase*
 - *If the state tax rate for C corporations is reduced, then the C corporation model will improve*



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BUSINESS TAX PLANNING STRATEGIES

- **Concluding thoughts**
 - *Consideration of alternative entity structures is complex and requires careful analysis before decision-making*
 - *Alternatives vary widely, and selecting the wrong structure can be costly*



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UNDERSTANDING RECENT PROPOSALS

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UNDERSTANDING RECENT PROPOSALS

- No substantial tax reform since 1986, but could be likely
- Two proposals currently on the table – despite many differences in specifics, they share a similar focus:
 - *Protecting and enhancing economic viability of middle class*
 - *Providing clearer tax rules and a simpler tax code for taxpayers*

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UNDERSTANDING RECENT PROPOSALS

- **Understanding the two proposals**
 - *President's Budget for Fiscal year 2016*
 - Primary goal is "middle class economics"
 - *The Tax Reform Act of 2014 – House bill by Rep. Camp (R)*
 - Includes substantive benefits for the middle class



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Individuals**
 - *Tax rate simplification and reduction*
 - Compresses current tax structure into three brackets
 - Increases standard deduction to reduce need to itemize
 - Collapses six family benefits into three family benefits
 - Simplifies EITC credit for low-income families



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

▪ House Bill Provisions – Affecting Individuals

– *Education and retirement initiatives*

- Reduces 15 current education tax breaks to 5
- Maintains current treatment of retirement savings
- Proposes changes for future retirement contributions that would eliminate current-year tax deduction and taxation when funds are withdrawn

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Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

▪ House Bill Provisions – Affecting Individuals

– *Changes relative to itemized deductions*

- Makes no changes to mortgage interest rules
- Eliminates complex record keeping currently required for charitable giving due to larger standard deduction
- Extends timing for charitable contributions (from calendar year-end to April 15) to enhance planning and giving

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Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Individuals**
 - *Additional changes of significance*
 - Repeals AMT for all taxpayers
 - Removes deduction for state and local income, property and sales tax
 - Eliminates tax breaks for alimony payments

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Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Small Businesses**
 - *Recognizes the importance role small businesses play in the success of the U.S. economy*
 - *Provisions aim to lower rates, reduce complexity and increase certainty for business planning*
 - *Notes “relief provided by reducing taxes will provide greater incentives for investment, hiring and better wages”*

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Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Small Businesses**
 - *Lowers tax rates for small business owner reporting income on personal taxes and paying individual rates (max of 25%)*
 - *Reduces double taxation on investment income*
 - *Simplifies business deductions and credits and makes favorable initiatives (i.e., Sec. 179 expensing) permanent*

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Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Small Businesses**
 - *Expands use of cash accounting options*
 - *Creates consolidated deduction for start-up expenses*
 - *Simplifies rules governing S corporations*
 - *Maintains current estate tax laws that provide favorable benefits to family businesses*

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Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Small Businesses**
 - *Improves and makes R&D credit permanent*
 - *Eliminates corporate AMT*
 - *Modernizes international tax rules*
 - *Repeals all but a few business credits*



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **House Bill Provisions – Affecting Small Businesses**
 - *Removes “carried interest” capital gains benefits*
 - *Simplifies depreciation rules*
 - *Repeals LIFO inventory method*
 - *Reduces tax benefits associated with excessive compensation*



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **President's Budget for Fiscal Year 2016**
 - *Primary goal is “middle class economics”*
 - *Does not provide significant detail on exact provisions*



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **FY 2016 Budget Provisions – Affecting Individuals**
 - *Enhances and expands (triples) child care credit*
 - *Repeals ineffective education tax benefits and makes certain education incentives permanent*
 - *Creates more retirement savings programs*



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **FY 2016 Budget Provisions – Affecting Individuals**
 - *Provides second-earner credit*
 - *Eliminates the stepped-up basis rules for estates*
 - *Increases capital gains tax rates to 28%*
 - *Imposes new fees on highly-leveraged U.S. financial firms*



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **FY 2016 Budget Provisions – Affecting Businesses**
 - *Lowers corporate tax rate to 28% (25% for domestic mfg)*
 - *Makes Research and Development, Production and Investment tax credits permanent*
 - *Expands use of cash basis accounting for smaller businesses*



Planning in a Changing Tax Environment

UNDERSTANDING RECENT PROPOSALS

- **FY 2016 Budget Provisions – Affecting Businesses**
 - *Permanently extends section 179 expensing*
 - *Fundamentally reforms international tax system*
 - *Assesses one-time 14% tax on offshore, non-repatriated earnings*



Planning in a Changing Tax Environment

CONCLUSIONS AND PRACTICAL CONSIDERATIONS



Planning in a Changing Tax Environment

CONCLUSIONS AND PRACTICAL CONSIDERATIONS

- **Two Issues Critical to Public Acceptance of Tax Law Change**
 - *Deal is rarely finalized as drafted and passed*
 - *All citizens must contribute some tax into the system*



Planning in a Changing Tax Environment

CONCLUSIONS AND PRACTICAL CONSIDERATIONS

- **Issues to be addressed**
 - *Protocol to develop tax law in a business like and nonpartisan fashion to preserve worthy programs and expenditures but keep spending within a budget*
 - Specific challenges with Social Security, Medicare, interest on national debt



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THANK YOU!

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