A CPA's Advice for CFOs

Vic Hausmaninger, founding partner of ***HBLA CPA's Inc.*** *of Irvine, talker often last year with Business Journal Financial Editor Peter J. Brennan about the proposed tax bill. Hausmaninger wrote the following on what chief financial officers and other C-level executives should consider.*

Since the Tax Cuts and Jobs Act took effect on Jan. 1, last month may have been one of the most important tax planning months for businesses and individuals in many years.

The reduction in the corporate rate from a high of 35% to 21% is exciting for all corporations who file as C corporations (taxed separately from owners) because it will allow them to retain more profits to reinvest in expanding their businesses and to reduce debt quicker.

Given the significant reduction in the tax rate for a C corporation, pass-through entities taxed at individual rates are looking into whether converting to a C corporation could be advantageous.

As to pass-through entities, or businesses whose income was taxed at the shareholder level – which could reach tax rates of up to 39.6% - the owners of such entities are not only excited about the fact that the maximum rate for them will be reduced to 37% but also that there will be a special new deduction generally equal to 20% of qualified business income. The deduction is subject to some complex restrictions and limitations, but it will result in significant reduction of taxes for most owners of such businesses, with the exception of certain "specified businesses" over certain income limits. Many of our pass-through entity clients have already begun to analyze what the tax reduction impact will be

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beginning with 2018, and develop strategies to maximize the benefits from the deduction considering the restrictions and limitations.

Another opportunity is for companies with sales below $25 million over the past three tax years and currently reporting taxable income under the actual method, to switch to the cash method for tax reporting, which often can be advantageous by managing taxable income more readily and by deferring income into the future years.

Many of these changes depend on preliminary pending regulations to be issued by the IRS.

Another area that all companies are currently reviewing is the loss of deductions for meals and entertainment expenses. Businesses are rushing to change expense reporting polices for employees and to make modifications to their accounting to capture expenses incurred in appropriate categories for tax reporting.