



by Andy Miller

GET READY: REFORM ISN'T OVER

Tax Reform Isn't Over

The 2018 Midterm Elections are fast approaching. While a number of topics are on the ballot, tax reform is one continuing area of focus for many business owners and corporations. If you assumed the battle for tax reform was over when President Donald Trump signed the Tax Cuts and Jobs Act (TCJA) into law on December 22, 2017, think again.

In the last few months, Republican lawmakers have been considering an additional round of tax reform legislation.

Enter Tax Reform 2.0.

Representative Kevin Brady (R-TX), Chair of the Ways and Means Committee, has marked up a framework for this second round of tax legislation. For the most part, his roadmap would focus on the individual side of tax reform to start.

Make Specific Cuts, Deductions and Credits Permanent

Currently, the federal income tax rate cuts for individual taxpayers and the doubled child tax credit in the TCJA are set to expire in 2025. The same goes for the up to 20% deduction of qualified business income for sole proprietorships, partnerships, LLCs and S corporations. As proposed by Chairman Brady Tax Reform 2.0, these would become permanent.

Chairman Brady would have liked to introduce this to the House in as soon as possible. However, it's unlikely for this tax reform to see much traction, if at all, until after the November mid-term elections. Conventional wisdom considers the timing an issue. If the framework did pass the House of Representatives, it would likely not be taken up in the Senate this year, where it would require votes from Democrats to pass.

Uncertain Territory in 2018 and Beyond

However, some Democrats are signaling an interest in making changes to the TCJA despite their reticence to help the GOP with its signature legislative accomplishment. Part of that may include targeting the corporate tax reforms.

As it stands now, the corporate tax cuts enacted by the law are permanent along with the changes to international taxation. However, Democrats would have an interest in increasing the corporate tax rate, cut from 35% to 21% by the TCJA, back up a few percentage points. This revenue source could allow modification of certain individual tax issues such as the limitation imposed on the state and local tax deduction.

Democrats are also looking to increase the capital gains tax and eliminate the carried interest benefit. There may be some room for compromise here.

While a politically divided Congress isn't likely to create much movement on tax reform in 2019.

Being Prepared for the Unexpected

The next few years have the potential to be complicated when it comes to keeping up with tax legislation. Preparation is more important than ever, both now and into the future for companies of all sizes.

The reality is, even if Tax Reform 2.0 does not come to fruition, changes and additions to the TCJA will undoubtedly occur. As the Federal Tax Code grows, it becomes increasingly difficult to manage the necessary files and paperwork manually, especially for capital intensive businesses and those with joint ventures or complex partnership arrangements.

Automation is one way to combat old and complicated manual processes. Automated systems offer tax leaders the ability to track the financial transactions related to filing taxes. They can also rely on these systems to mitigate risk by reducing manual errors and improving tax department audits, as well as make overall processes more efficient.

Additionally, automated systems can improve forecasting. Companies can struggle to keep up with the ever-changing landscape on taxes and regulations, but a system that can accurately forecast the impacts of future developments and keep a record of changes can help ensure tax leaders aren't caught flatfooted.

With this potential tax code turbulence forecast, clarity and confidence is what you need to tackle challenges and improve your tax processes over the long term.

Start preparing today for the future. Don't wait until the next reform is passed, or you will already be behind. Because it's also important to note that changes federally then trickle down to the state and local levels. Preparation is key so that your team isn't caught off guard and that you can present back how these changes will impact your company short term and long term.

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About the author

J. Andrew Miller (Andy) recently retired from Ernst & Young LLP as a partner in the Firm's National Tax Department. Andy worked for Ernst & Young over 30 years, serving a wide range of corporate clients. He focused on corporate tax services, acting as a tax engagement partner for several large multinational energy and natural resource companies. He has extensive experience serving as a tax specialist in the natural resource industries on due diligence teams for Ernst & Young's merger and acquisition practice.

Andy is a 1978 graduate of the University of Missouri-Columbia, receiving a BSBA in Accounting. He is a certified public accountant (CPA) licensed in the state of Missouri, and he is a member of the Missouri Society of CPAs and the American Institute of CPAs.