

Financial, Legal & Tax Advisory

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Tax Reform to Grow Our Economy and Create Jobs

Long before President Trump was elected in surprise fashion in November, the House Ways and Means committee quietly put together a plan to modernize our tax system. It was published June 24th of 2016 and is known as "A Better Way: Our Vision for a Confident America", which is available online for review.

Congress held a hearing on May 18th, 2017 regarding the current state of the economy and its future. Here are the big takeaways from that session.

John Stevens of AT&T stated, "We no longer live in a world where the U.S. can set a corporate tax rate without considering what our international competition looks like. Countries are vigorously competing against each other to attract investment and jobs, but the U.S. has done little to retain its competitive advantage. When tax reform was passed in 1986, we were competitive with other OECD countries, but over the last 30 years, tax rates in other countries have moved from about 35% to about 20%."

The shift in policy position was very pro-trade in the 1980's and 1990's. Since then companies have moved offshore in an attempt to not only find lower wage expenses, but also a favorable tax position as well. Since then the public's attitude has changed slightly as evidenced by Donald Trump's populist election and the British exit from The European Union.

America, going by the numbers, is in a good position right now. Unemployment is low. Gross domestic product is increasing and inflation is low. On the other hand, we've seen a number of companies and their headquarters go overseas.

One solution advanced is a border tax where a group of items would be taxed when they are purchased at the point of sale. Domestic products would not have this tax and theoretically, the domestically produced good would have some range of advantage over the imported model. Experts

largely disagree on the effect of this, but many countries already have this in their economic model.

Zachary Mottl of Atlas Tool Works, Inc. testified, "A destination based profit tax, through sales factor apportionment, should be considered in addition to a destination based cash flow tax. Sales factor apportionment, already in use by the states, would largely eliminate base erosion through profit shifting to tax havens because income is attributed to the tax jurisdiction where the final sale occurred. This would broaden the tax base by as much as 30% thereby enabling lower rates for all businesses. The rates could be applied across all business types."

While this tax would raise prices for consumers of foreign made goods, the theory is that if we can get more manufacturing facilities and jobs, tax revenue will go up.

David Farr went on further to state, "For more than 60 years, many manufacturers and other business owners have chosen to organize as S corporations or other pass-through entities to benefit from comprehensive liability protection and a single level of federal taxation. Since pass-through business income currently is taxed at individual tax rates, many pass-through manufacturers today pay marginal tax rates upward of 44 percent, when you take into account federal, state and local taxes."

Many people are not familiar with pass-through entities. S corporations, Limited Liability Companies, and various other entities are set to pay taxes at the shareholder or member's tax return only. C Corporations, like Ford and GM are different in that they pay at both levels. Lowering the individual rate would lower taxes for these people and the money would ripple through the economy and increase tax revenues. The Center routinely advises on these matters, as well as business succession and valuations of companies. If you have questions, please call us at 618-997-3436.

Basi, Basi & Associates at The Center for Financial, Legal & Tax Planning, Inc.

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CENTER *webinars*

TAX REFORM

TO GROW OUR ECONOMY AND CREATE JOBS



On May 18, 2017, Congress held a hearing regarding the current state of the economy and its future. Our June webinar will cover the hearing on the House Ways and Means Committee's plan to modernize our tax system.

*Wednesday, June 21 @
11:00 AM CST*