

# Financial, Legal & Tax Advisory

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## The President's Executive Order 13789 and its Future Effect on the Tax Code

Published in Volume 82, number 79 in the Federal Register on Wednesday April 21, 2017, Executive Order 13789 orders the Secretary of the Treasury to review "all significant tax regulations issued by the Department of the Treasury on or after January 1, 2016".

The order goes on further to state, "in consultation with the Administrator of the Office of Information and Regulatory Affairs, Office of Management and Budget, identify in an interim report to the President all such regulations that: (i) impose an undue financial burden on United States taxpayers; (ii) add undue complexity to the Federal tax laws; or (iii) exceed the statutory authority of the Internal Revenue Service."

The policies to be advanced are to lessen tax burdens, promote economic growth and unleash business from fines, complicated forms and frustration.

The interim report will be due in 60 days from April 21, 2017.

*Author's Comment: While the House Ways and Means Committee has put together the Blueprint (<https://waysandmeans.house.gov/taxreform/>), the President has his position as well. The two plans are similar in nature. We should expect some change in the Internal Revenue Code.*

One item that could be on the chopping block is IRC Section 199. The House Ways and Means Committee through the Blueprint expresses on page 27 the following:

"Today, the tax code is littered with special-interest deductions and credits that are designed to encourage particular business activity. These provisions create incentives for businesses to make decisions because of the tax consequences rather than because of the underlying economics".

"For example, the domestic production ("section 199") deduction would no longer be necessary. Section 199 effectively provides a small rate reduction for income from certain specific activities, including domestic manufacturing, production, growing, and extraction. For

corporations, the deduction effectively reduces the rate on such income from 35 percent to about 32 percent. For pass-through entities, the top rate is reduced from 39.6 percent to about 36 percent. But section 199 is highly complex, often frustrating both those businesses that fail to qualify as well as businesses that do qualify but only after navigating a substantial paperwork burden. By cutting the corporate rate to 20 percent, and by cutting the top rate on the active business income of pass-through entities to 25 percent, the Blueprint makes section 199 unnecessary."

This is an extremely popular section of the Internal Revenue Code and is used by a lot of our clients. Not only does it apply to traditional manufacturers it applies to many broadly defined firms that would otherwise not be considered manufacturers. Items such as growers, software firms, and construction and even automotive rebuilders can be considered manufacturers.

Another identifiable issue is the Earned Income Tax credit. The Blueprint states:

"The IRS makes billions of dollars in improper payments through the programs it administers, particularly the Earned Income Tax Credit (EITC). At 24 percent, the EITC has the highest level of improper payments of any Federal program, with nearly \$15.6 billion in improper payments in fiscal year 2015, nearly double the rate of the next highest program."

Conclusion: This Executive Order and the House Ways and Means Committee's Blueprint means that tax reform will come. This reform will have an impact on transferring businesses across the United States. Many are on the edge of selling your business and/or retiring and transferring it to the next generation. It is very possible that we will have more favorable tax rates in the near future. Selling a business is not like selling a car or a home. There are complexities that have to be ironed out and no two situations are alike. The Center routinely advises on tax planning, business valuations, succession planning and estate planning. If you would like to talk to one of our professionals, please contact us at 618-997-3436 to schedule your free initial consultation.

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

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# ORDER 13789

AND ITS FUTURE EFFECT ON THE TAX CODE



*Tuesday, July 25 @ 11:00 AM CST*