Associated Press

Tax pros are suddenly very popular, if a little confused

WASHINGTON (AP) — Don’t feel bad if you don’t understand how the new tax bill will affect you. Chances are, your accountant doesn’t yet either.

From New York to Kentucky to Florida, accountants and tax lawyers are scanning the 1,000 page measure, fielding a swirl of questions from clients and swapping tips via email in their efforts to fully grasp the bill’s far-reaching changes.

When the House and Senate released the final tax bill late last week, it gave many experts their first look at what will become as vast rewrite of tax law. Congress gave approval to the measure Wednesday, and President Donald Trump is to sign it this week.

“The whole weekend I was overwhelmed with client requests on how this impacted them, and it hasn’t stopped, and probably won’t for several weeks,” said Gary DuBoff, an accountant at MBAF, a New York-based firm.

The uncertainties range widely.

Should some taxpayers try to reclassify their pay as business income, which is taxed at lower rates for top earners? Should small companies restructure as corporations to capitalize on a now-much lower corporate tax rate? Can people in high-tax states rush to prepay their 2018 state and local income taxes this year to fully capitalize on the deduction for such payments, before it’s capped next year?

The answers are: Maybe, maybe and no, though taxpayers may be able to prepay their 2018 local property taxes this year.

“Every one of your clients is calling you, and they all want to know what the effect is,” says Joseph Perry, an accountant at Marcum, based in Melville, New York. “It’s like, ‘Wait, slow down —we have to figure this out.’”

Most accountants scoff at the notion, pushed by the bill’s proponents, that it has simplified the tax code. For higher-income earners in particular, as well as many small businesses, tax law remains at least as complex as ever. And the bill has injected a new layer of uncertainty because so many changes are temporary and could be reversed in a few years.

The need for clarity is welcome news for the professionals who need to sort it all out.

“It’s going to be good for business,” said George Smith, a third-generation accountant based in Southfield, Michigan. “I’m a tax geek; I’m excited about the nuances.”

After the last major tax overhaul took effect in 1986, it became clear that many small businesses would benefit by reorganizing as partnerships, says Joseph DeGennaro, tax director for Doeren Mayhew in Detroit. Doing so allowed their business profits to be passed on as personal income, which was taxed at individual tax rates. At that time, the top individual rates were lower than the corporate rate.

Now, the situation is reversed: The new legislation sharply cuts the corporate tax rate from 35 percent to 21 percent — much lower than most individual rates. DeGennaro and other accountants say the question being posed most often by small business owners is whether those firms should now restructure as corporations. This time, the answer is not so simple.

If corporations pay out their profits to owners through dividends, those payments are taxed at 23.8 percent. That rate, once combined with the corporate tax rate, is much higher than individual rates.

And in some cases, if a business restructures, it can’t switch back for five years. What if a new Congress raises the corporate tax rate, in say, three years? At that point, DeGennaro pointed out, a business owner would be stuck paying the higher corporate rate.

“I’m telling clients that nothing is permanent,” DuBoff said. “If you restructure for the new law, you better have an exit strategy.”

Many critics of the GOP bill argue that it will encourage high-income earners to turn themselves into businesses and reclassify their salaries as business income, which will be taxed at a lower rate. But the bill seeks to bar this through complex rules and by blocking many professionals, such as lawyers, accountants and doctors, from taking that step.

Mark Nash, a tax partner at PwC, based in Miami, said that so far, the provisions are broad and general, making it difficult to advise clients on whether to essentially incorporate themselves.

“We’re left to scratch our heads about what it means in the real world for somebody’s actual circumstances,” he said. “It’s quite a complicated deduction to calculate.”

Some of these questions must be answered before year’s end — an additional source of frustration for tax experts.

“It’s too much, too quick and too little time,” Smith said.

DeGennaro noted that come Jan. 1, the changes will eliminate the ability of businesses to deduct their entertainment expenses.

“People should be looking at their entertainment policies right now,” he said.

Others point out that the sharp cut in the corporate tax rate could benefit — or harm — a company’s balance sheet. Companies that have postponed tax payments might enjoy a windfall because they will owe less in 2018. Other companies could absorb a hit because the value of their tax refunds will fall.

Such questions are consuming numerous hours for people like Howard Wagner, a Louisville, Kentucky-based accountant at Crowe Horwath.

“It’s going to be a miracle if I make it through the next two weeks,” Wagner said.