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Looking Ahead

Don't Be Paralyzed by Tax Uncertainty

During last year's presidential campaign, candidate Donald Trump spoke of boosting economic growth by at least 4 percent. More recently, Treasury Secretary Steven Mnuchin similarly predicted that the Trump administration's economic proposals would boost growth above 3 percent, with tax reform as a key factor in reaching that goal.

President Donald Trump ended his first 100 days with a new tax reform proposal. Released in late April, the proposal has piqued the interest of both business owners and individual taxpayers. The initial proposal suggested a corporate tax rate drop from 35 percent to 15 percent, with limited deductions and tax credits. Individual tax brackets would be reduced from seven to three, with an increased standard deduction but fewer tax breaks overall. The original goal for passage of tax reform was August, but this is now appearing less certain.

But this is no reason for tax planning paralysis — for your business or your family. There's plenty you can and should do now to take advantage of the current tax code. Following are a few strategies to consider:

Use R&D Sweeteners

The Research & Development (R&D) Tax Credit was made permanent in the Protecting Americans from Tax Hikes (PATH) Act. For manufacturers and distributors that develop, design or improve products, techniques, software or similar items — which includes almost all manufacturers and distributors — this tax credit can be powerful.

The R&D Tax Credit provides a 20 percent credit for qualified research expenses or a 14 percent alternative simplified credit if the taxpayer exceeds certain base levels of these expenses. Even if you haven't been taking this credit, it's not too late to start. And the permanency of the credit allows you to strategically tailor your R&D endeavors to maximize the benefit.

Also, small and midsize businesses with $50 million or less in average gross receipts for the three preceding years can use the R&D credit to offset their alternative minimum tax (AMT) liabilities. This is especially useful for owners or members of pass-through entities such as S corporations and LLCs.

If you are considering developing new technology or processes, be aware that startups can also now take advantage of the R&D credit. For tax years beginning after Dec. 31, 2015, startups with annual gross receipts of less than $5 million — and no gross receipts prior to the five-taxable-year period ending with the current tax year — can take the credit against their payroll taxes up to $250,000.

Consider QIP

Real estate owners should note that 2017 is the last year to take advantage of the 50 percent depreciation deduction for Qualified Improvement Property (QIP). For property placed in service in 2015, 2016 and 2017, IRC Section 168(k) provides a depreciation deduction equal to 50

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Word to the Wise

How to Build a Deeper Talent Bench

According to the U.S. Department of Labor, the median age of the manufacturing workforce is on the rise, with the average age of a high-skilled worker pegged at 56 years old. That's a worry for many manufacturing and distribution business owners because as their most skilled workers head toward retirement age, these talented individuals are taking an enormous amount of experience and business intelligence with them.

Who's stepping up to fill the gap in leadership? Unfortunately, it seems that the shortage of qualified manufacturing workers is getting worse, not better. A survey by the Manufacturing Leadership Council showed that 81 percent of companies reported a difficulty in finding qualified workers.

This double whammy of an aging workforce and an unqualified labor pool is hitting manufacturers and distributors hard. That's why creating a leadership development program and building a deep bench of talent are essential for a thriving future.

Here are some ideas to consider as you build your talent bench.

Perform a Skills Gap Analysis

In order to keep your leadership pipeline full, you need to know where your team stands now and what you're missing. A skills gap analysis begins with identifying the skills required to do the job — in this case, providing executive leadership in various areas of your business. Then compare the current level of talent to the level required.

This endeavor might start with a leadership skills inventory. For example, what skills do your current leaders possess that are most essential? Knowledge of specific parts of the business? Relationship-building with customers and suppliers? Industry involvement? Financial ability and acuity? Make a list.

Then turn to the next level of management. What are they lacking in these areas and how can you get them the skills they need to step into crucial leadership roles? This may involve individual training programs, job rotation, leadership positions outside the company, and even classes to get them up to speed.

Create a Mentoring Program

Manufacturing and distribution companies are good settings for mentoring programs because of the employment longevity of seasoned workers. Whether yours is a formal coaching program or a casual pairing of more experienced and less experienced workers, the resulting knowledge transfer will be formidable.

Depending on how you design your program, you may suggest monthly meetings to discuss career paths, job challenges and goals. Having a program like this in place will help you attract and retain workers and prepare them for the next step on their career ladders.

Define Career Paths

And speaking of career ladders, does your company have one? Your newest employees need to have some idea of their growth path and career potential in order to stay motivated. While it's not wise to make promises about where a specific worker might be in a few years, it's certainly helpful to illuminate the possibilities for merit-based promotion.

Often, asking about an employee's life goals and ambitions in an annual review is a good starting point for a meaningful conversation about how he or she might want to progress through the business.

The bottom line? Be proactive in building your next generation of leaders.

We've seen many examples of great leadership. Let us help you brainstorm ways to build your talent bench.

Tax Moves to Make … Despite Uncertainty

Continued from page 1

percent of the adjusted basis of qualifying property in the first year it is placed in service. The percentage decreases to 40 percent for 2018 and 30 percent for 2019.

As a reminder, QIP is a relatively new class of nonresidential property. It is defined as any improvement to the interior of any nonresidential real property as long as that improvement is "placed in service after the date the building was first placed in service," beginning after Dec. 31, 2015. Specific improvements such as expenses for building enlargement, elevators or escalators, and internal structural framework are excluded.

Know TPR Regulations

Tangible Property Repair (TPR) regulations went into effect several years ago. But given their complexity, many manufacturers and distributors are still discerning how to incorporate them into their business tax planning.

The regulations essentially describe how to account for costs associated with repair and maintenance of tangible property. The regs dictate that some expenditures must be capitalized and others expensed.

Recurring activities and expenditures that restore property to its operating state are typically deductible repairs. An example of this would be routine maintenance such as replacing worn and damaged parts. Expenditures that provide a "betterment" of property, adapt it to a new or different use, or result in a restoration of the property must generally be capitalized.

The TPR regulations also include a *de minimis* election covering maintenance, repair and improvement. This safe harbor election covers up to $2,500 per invoice or item for companies without "applicable" financial statements (generally not audited financial statements) or up to $5,000 per invoice or item for those with applicable financial statements (generally audited financial statements).

The TPR regulations are extremely technical so it's important to pay close attention and consult your tax advisor in order to maximize TPR tax benefits.

Look at LIFO

Many economists have predicted that higher inflation is likely in the Trump era. If costs are increasing and you're using the last-in, first-out (LIFO) method to value your inventory, as your cost of goods sold increases, you will report lower profits and therefore incur a smaller tax liability. Depending on the nature of your company and your inventory levels, this tax savings can be significant.

Note that making the change from first-in, first-out (FIFO) to LIFO is best done when prices are low. With the recent drop in oil prices, manufacturers and distributors using petroleum products might consider switching inventory valuation methods now.

Take SALT Seriously

No set of tax tips for manufacturers and distributors would be complete without a mention of state and local taxes (SALT). This is an area that can cause enormous headaches and also result in penalties for taxpayers. Remember, as state budgets shrink, state tax law enforcement grows. You must be aware of and comply with your sales and use tax obligations.

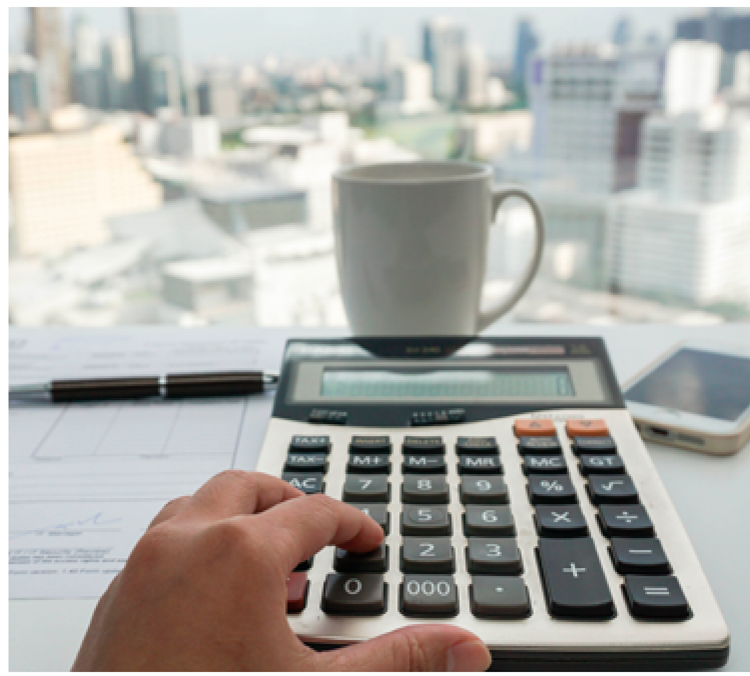
Do you have remote employees? Warehouses in other states? Are you engaged in e-commerce? Do you drop-ship? There are many nuances to SALT compliance and you don't want to be caught off-guard by various states' Department of Revenue laws.

Use tax can also trip up taxpayers. Keep in mind that use tax and sales tax are not always equivalent, and a majority of state tax audits are related to use tax.

Also, don't forget exemption certificates. Always keep them verified and up to date.

Defer Income

In the past decade or so, tax advisors typically suggested accelerating income into the current year in case tax rates increased. This year, many advisors are suggesting the opposite, telling their clients to defer income in expectation of the new administration's promised lower rates.



Take Advantage Now

Yes, the times are uncertain in terms of taxes and what's ahead. The best course of action will depend on your company's specific circumstances and needs. But don't be afraid to take steps now to avail your company of existing tax advantages.

Now is the time to talk with your advisors about 2017 tax strategies. Contact us today to set up a time to discuss your tax planning opportunities.

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Restrictions Proposed for Closely Held Business Transfers

Is your manufacturing or distribution company a family-owned business? If so, how far along are you on your estate planning? It might be a good idea to speed things up in light of proposed regulations from the IRS regarding the transfer of interests in closely held businesses.

IRC Section 2704 relates to estate, gift and generation-skipping transfer taxes and the value of interests in closely held businesses. Its intent is to limit valuation discounts for gift and estate tax purposes in family-to-family transfers of interest in family-owned or closely held businesses.

Currently, when assessing the value of ownership interests in these types of businesses for estate and gift tax purposes, it's common practice to discount the value to reflect lack of marketability and control of the shares. The proposed regulations would significantly impact the valuation discounts on these types of transfers, resulting in increased estate taxes.

For example, the current law treats a lapse of voting or liquidation rights as a taxable event if the individual and his or her family members control the entity immediately prior to the lapse. The new regs state that when a person transfers an interest in a way that creates a lapse — and the transfer happens within three years of the transferor's death — there is an additional transfer potentially subject to tax.

The result of this change would be the elimination or substantial limitation of the valuation discounts for these transfers.

The proposed regulations have caused a stir in the estate planning and valuation community. When they were put out for public comment, the reaction was severe. The regs were expected to become final sometime in 2017, but the negative reaction may give the IRS pause.

With this in mind, talk to your estate planning advisor to determine your next best steps.