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Confusion clouds tax law's impact on small business

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The new federal tax law is drawing fairly good reviews from small business owners and advisers in Fairfield County, although there are both some caveats and some confusion.

"There is a lot of confusion right now," said Ben Maini, a partner at Ridgefield accounting and consulting firm Reynolds & Rowella. "There's still a lot of speculation about what will happen."

Indeed, although the Tax Cuts and Jobs Act was signed into law by President Donald Trump on Dec. 22, the Internal Revenue Service only provided an online calculator for taxpayers to ensure their paychecks are accurate on Jan. 11. The Trump administration has strongly urged businesses to use the tool to help them calculate how much taxes to withhold from paychecks by Feb. 15.

For small businesses, chief among the changes to the tax law is the 20 percent deduction for "pass-through" companies. Those are businesses that don't pay income taxes at the corporate level; instead, business income is allocated among the business' owners and income taxes are assessed only at the individual level.

William Conron, a partner at the accounting and tax advisory firm Citrin Cooperman in Stamford, noted that the new tax law identifies a small business as one that has averaged $25 million in gross receipts over the past three years, up from $5 million in the old law. In addition, a business previously was allowed to expense up to $500,000 of the cost of qualified business property; the new law increases that amount to $1 million.

Kathleen DeCruze, a partner at Martin, DeCruze & Co., a Stamford accounting firm, noted that to qualify for the full 20 percent deduction for pass-throughs, an individual's taxable income must be below $157,500 if single or $315,000 if married and filing jointly. If those requirements are met, "A business should see a substantial decrease in their taxes," she said.

"If you have $100,000 of pass-through income, you'll get a $20,000 tax deduction," explained Maini. "But that's going to be a big point this year. If you're getting close to that (income) threshold, you need to try and get below it to get that 20 percent."

A number of legal ways to do so are available, he noted, including paying bonuses to employees, making big asset purchases before the end of the year or implementing a more robust pension plan.

"In my opinion, the deduction is a freebie, a gift from Congress," Maini said. "You either qualify or you don't."

Accounting firms such as Maini's fall under the "don't" category. Certain personal-service providers like accountants, attorneys and physicians are subject to a phase-out of the deduction when their taxable income reaches the $157,500 level for an individual or $315,000 for married couples.

Prior to the law's passage, Treasury Secretary Steven Mnuchin explained the exceptions by saying that the income of people working in those professions can resemble wages too closely.

"If you're an accountant firm and that's clearly income, you'll be taxed an income rate, you won't be taxed a pass-through rate," Mnuchin said. "If you're a business that's creating manufacturing jobs, you're going to get the benefit of that rate because that's going to be passed through to help create jobs and better wages."

DeCruze agreed. "If you're a retailer or a restaurant, an import-export or distribution company, selling computers or software, you're not considered a service-based business," she said, "so you'll see that additional reduction in taxes."

Conron noted, however, that given how many personal-service companies exist in Fairfield County, the overall economic impact on the state could be considerable.

He also voiced concern over the $10,000 cap on state and local tax deductibility in the new law. "In a high-tax state with significant property and state taxes, like Connecticut, you may not get much of a benefit anyway," he said.

Last month, Connecticut Gov. Dannel Malloy, New York Gov. Andrew Cuomo, and New Jersey Gov. Phil Murphy announced that a federal lawsuit was being prepared challenging the new tax code as unfair to residents of high-tax states. On Feb. 3, Maryland Attorney General Brian Frosh said his state was preparing a similar lawsuit.

Among small businesses, opinion is split on the new tax law.

National Federation of Independent Business President and CEO Juanita Duggan praised it saying it "dramatically improves the way small businesses are treated, delivering hundreds of billions of dollars in tax cuts."

Area small-business owners weren't as confident.

Marty Tyrrel, one of the owners of On Track Karting in Brookfield, said, "It should be a positive for our company and the owners." As an S corporation, he said, "We expect it to be favorable for us."

The new tax rates will help On Track as it builds its third facility at the Foxwoods Resort Casino, Tyrrel said. Due to open in late spring, the multilevel track required spending "three to four times as much as we did at either of our other locations," which also includes Wallingford, Tyrrel said. "It's a several-billion-dollar investment."

Nevertheless, Tyrrel said he personally favored a flat tax rate, "so you could prevent some of the gaming that goes on with how some companies account for things."

Jeff Egol, director of finance at Stamford's TNS Group, which provides managed IT services to business clients, said there were "positive and negative aspects" of the new law. "For us, there are some advantages at the tax level that will help us to take our profits and reinvest them in the company," he said.

Egol said that revenue at TNS, a privately held company, grew by about 25 percent from 2016 to 2017 and that he expects a similar growth rate this year.

"But I'm cautioning people to be realistic" about all the tax-break talk, he said. "We still have to see how this all shakes out, especially when it comes to impact on paychecks."

Dawn Reshen-Doty, president of Danbury's Benay Enterprises, which provides back-office administrative management and bookkeeping services for companies, said her firm would probably see a tax break on the corporate side, but thought any decrease in her own taxes or those of her employees would be "nominal."

"It's not like we're all suddenly going to get an extra $100 in our paycheck," she said. "It's really a nominal benefit for the less well-compensated employee."

Reshen-Doty said all of Benay's clients "brought their CPAs into the conversation much earlier this year" at the approach of the first tax season under the new federal law.

"Small businesses have to be proactive with their accountants to plan for the whole year," Maini said. "You can't wait until April to start planning it out."