



Washington Tax Brief

June 21, 2017



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Ask your questions

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- Access today's slides and learning materials by clicking this green 'Resources' button at any time during this presentation.
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Note: There is no CPE credit available for this webcast.



About the Washington Tax Brief

Webcast Series to Update You On:

- The regulatory and political environment for tax issues
- AICPA's advocacy efforts to:
 - protect your professional interests
 - support sound tax policy
 - promote effective tax administration
- Open to All AICPA Members
- Open to All State Society Staff and Committee Members





Today's Presenters



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Today's Agenda

- **Tax Reform & the Political Landscape**
- **Framework for Improvement of IRS**
- **Federal Tax Issues Impacting the States**
- **Latest AICPA Advocacy Efforts**
- **Lightning Round**
- **Q & A**





Tax Reform & the Political Landscape



Reasons for Tax Reform

Desire for a lower corporate rate

Equity issues

Growing tax gap

Complexity and its costs

Economic efficiency/neutrality

Modernization

International competitiveness

Campaign promises

IRS enforcement challenges



Political Landscape



Chairman Kevin Brady
House Ways & Means Committee

*“This will be a daily,
coordinated, intensive
effort to move tax reform
in 2017.”*

Political Landscape



Chairman Orrin Hatch
Senate Finance Committee

“Republicans agree on the ‘fundamental issues and principles’ for tax reform, there are questions about ‘detail and design’ that have to be worked through.”



Political Landscape



Hon. Steven Mnuchin
U.S. Treasury Secretary

"We hope that this won't take until the end of the year," said Treasury Secretary Steven Mnuchin.



Political Landscape



Sen. Ron Wyden
Senate Finance Committee

“Mr. President, the history of successful tax reforms are ones where both sides come in early, try to find some principles that they hold dear, that the other side can agree with.”

Political Landscape

- American Health Care Act
- Consolidated Appropriations Bill, 2017
- Gorsuch confirmed as Supreme Ct. justice
- Executive Budget for FY 2018 issued
- FY 2018 Budget Resolution
- Debt ceiling increase needed
- Presidential executive orders
- 2018 mid-term elections on the horizon



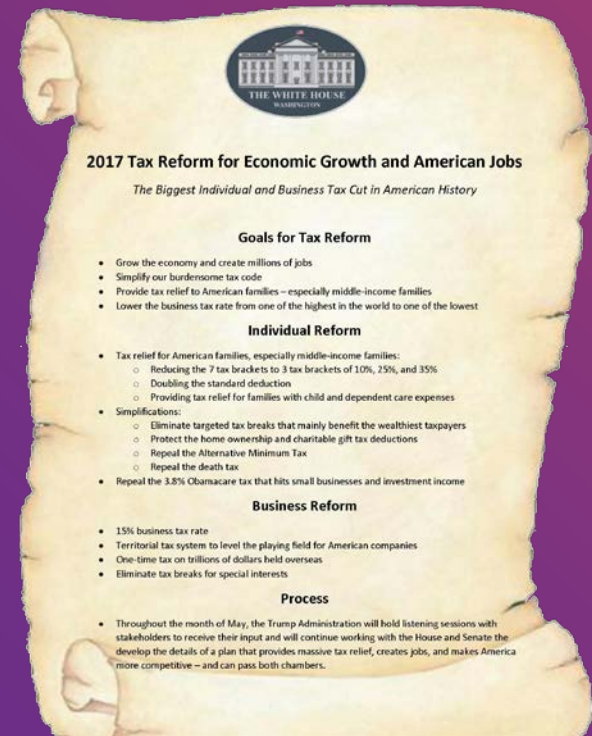
The Administration's Approach

2017 Tax Reform for Economic Growth and American Jobs

“The biggest individual and business tax cut in American history.”

Administration's goals:

- ❖ Grow the economy and create millions of jobs
- ❖ Simplify our burdensome tax code
- ❖ Provide tax relief to American families – especially middle-income families
- ❖ Lower the business tax rate from one of the highest in the world to one of the lowest





A Better Way Proposal

Tax Reform Blueprint

Ways and Means Chairman Brady's “A Better Way for Tax Reform”

- ❖ An economic document to be used as a foundation for future tax legislation

Goals:

- ❖ Deliver a 21st century tax code built for growth
- ❖ Provide simplicity and fairness for taxpayers
- ❖ Redesign the IRS into a “service-first” agency





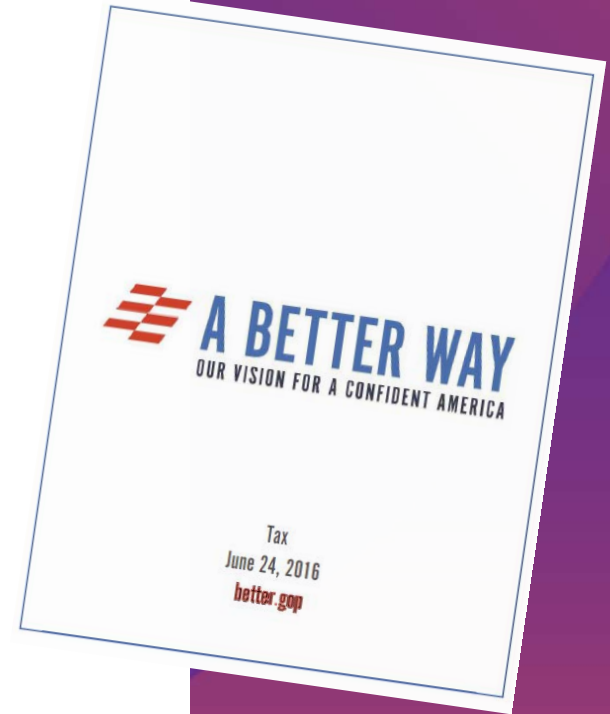
The Senate Plan





Blueprint: Impact on Individuals

- Consolidates brackets and lowers top rate to 33%
- Consolidates the standard deduction and personal exemptions
- Eliminates all itemized deductions except mortgage interest & charitable contributions
- Reduces tax on investment income
- Eliminates AMT, estate tax & GST tax





Blueprint: Business Provisions

- Lowers tax rates
- Repeals AMT
- “Requires” reasonable compensation
- Allows immediate write-off of investments
- Limitation on interest expense
- Maintains R&D credit
- Changes to territorial tax system





Tax Reform: Issues Impacting the Profession

Tax Rate for “Active” Business Income

- A rate reduction only for C corporations is inappropriate
- In between corporate & highest individual rate
- Definitional issue

Reasonable Compensation

- Distinguishing types of compensation impacts rate
- Support traditional approach – facts and circumstances
- Forced split should be considered as a safe harbor



Tax Reform: Issues Impacting the Profession

Limiting The Cash Method of Accounting

- Included in previous proposal but not the Blueprint
- \$26.3B score
- AICPA continues to oppose any new limitations

Limitation on Interest Expense

- Tied to new immediate expensing provision
- Adversely impacts service industry
- Deduction should be allowed to certain businesses



Next Steps

- House Ways & Means Hearings - ongoing
- Administration held “listening sessions” with stakeholders
- Sen. Thune’s bills on cost recovery and pass-through business provisions
- Revisit the Camp Proposal?
- Draft legislation? Permanent or Temporary?
- Senate Finance Hearings?





Framework for Improvement of IRS





Blueprint: A New IRS for the 21st Century

- Calls for streamlined IRS that would rebuild IRS dedicated to delivering world-class customer service
- Focuses on three major units:
 - Families and individuals
 - Business
 - Small claims court
- IRS must be forward looking and continually adapt to the ever changing economy.



AICPA Leading Stakeholders To a Solution

- Convened meeting with 10 stakeholders in February and March
- IRS Commissioner and National Taxpayer Advocate met with the group
- Letter submitted to tax writing committee leadership on April 3



Framework for Improvement of IRS

- AICPA convened tax practitioner community to develop recommendations for improving the agency
- Efforts to modernize should build on foundation set by the Report of the National Commission on Restructuring the IRS
- Highlights of Framework
 - IRS Governance & Oversight
 - IRS Taxpayer Service
 - IRS Practitioner Services Unit



Recommendations: IRS Governance & Oversight

- Re-establish the **annual joint hearing review**
- Require the Joint Committee on Taxation to provide a **bi-annual report** on the overall state of the Federal tax system
- Require a GAO **review of the IRS Oversight Board**
- Enable the **hiring of qualified and experienced professionals** at the IRS



Ensuring a
Modern-
Functioning
IRS for the
21st Century



Recommendations: IRS Taxpayer Service

- Determine the **appropriate level of service** and compliance the IRS is accountable to and **dedicate appropriate resources** for the agency to meet those goals
- Gauge performance with **customer satisfaction surveys**



Ensuring a
Modern-
Functioning
IRS for the
21st Century



Recommendations: IRS Practitioners Services Unit

- It is crucial for the IRS to designate a new dedicated **“executive-level” practitioner services unit**
 - Immediate account access to all clients’ information
 - Single sign-on authentication
 - Digital POA and disclosure authorization
 - Robust practitioner priority hotlines with higher-skilled employees
 - Customer service representatives assigned to address complex issue



Ensuring a
Modern-
Functioning
IRS for the
21st Century



Federal Tax Issues Impacting the States





Federal Tax Issues Impacting the States

- Tax Reform (obviously!)
- New Partnership Audit Regime
- Section 385 Debt/Equity Regulations
- Mobile Workforce Legislation
- Sales Tax on Professional Services



Tax Reform and the States

- Changes to starting point – Federal Adjusted Gross Income or Federal Taxable Income
- Impact of Border Adjustment Tax
- Full expensing of asset acquisitions
- Denial of net interest expense deduction
- Repatriation tax on foreign earnings
- Transition rules



State Issues Related to New Partnership Audit Regime

- Election out
- Role and authority of partnership representative
- Modifications of imputed underpayment
- Partnership election to “push-out” adjustment
- Nexus and residency issues
- Apportionment and allocation calculations
- RAR statutes and authority to require amended returns



AICPA Activities on New Partnership Audit Regime and Model RAR Statute

- Working with IRS and Congress on federal regulations
- Issued Policy Paper for State Societies
- Working with State Societies to preempt early state action
- Working with Multi-Organization Task Force on model legislation
 - Includes model for reporting of any Federal adjustment



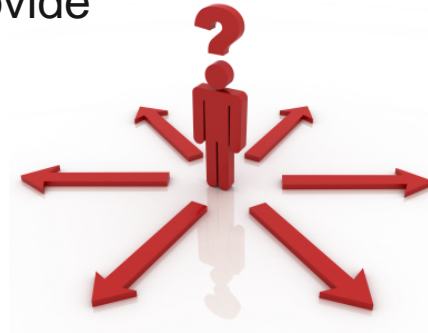
IRC Section 385 – New Regulations

- Intended to prevent U.S. corporate tax planning strategies regarding inversions and related party debt
- Place documentation requirements on U.S. corporations
- Include an October 21, 2016 effective date
- Broad federal and state tax consequences
- Lack of existing state guidance



Considerations for State Conformity to IRC 385

- Are states that generally conform to the IRC bound to adopt the Regulations?
- How will states that do not conform provide for the computation of taxable income?
- How will states incorporate federal exceptions?
- How will states with existing case law on defining debt incorporate the Regulations?



Sales Taxes on Professional Services

- 3 states have a tax on services
 - **Hawaii, New Mexico, and South Dakota**
- 13 states introduced tax on services related legislation in 2017
 - **California, Georgia, Indiana, Kentucky, Louisiana, Missouri, Montana, Nebraska, Oklahoma, South Dakota, Utah, West Virginia, and Wyoming**





Latest AICPA Advocacy Efforts





Latest AICPA Advocacy Activities

Numerous legislative meetings, public hearings and written submissions

December 2016 letter on profession's issues

Compendium of tax proposals

House and Senate Small Business Committee hearings

Meetings with Senate Finance and House Ways & Means Committees



Latest AICPA Advocacy Activities

Recommendations for the IRS Priority Guidance Plan

Spring Council Visits to the Hill

May 2017 Letter on Executive Order regarding Tax Regulations Review

Face to Face meetings with Top IRS Officials

June 2017 Letter on Partnership Audit Regime Effective Date



Guiding Principles of Good Tax Policy



1. **Equity & Fairness**
2. **Certainty**
3. **Convenience of Payment**
4. **Effective Tax Administration**
5. **Information Security**
6. **Simplicity**
7. **Neutrality**
8. **Economic Growth & Efficiency**
9. **Transparency & Visibility**
10. **Minimum Tax Gap**
11. **Accountability to Taxpayers**
12. **Appropriate Government Revenues**



Lightning Round



Crowdfunding/
Sharing Economy



Identity Theft



Retirement
Plan Issues



Information
Reporting



Estate Tax
Issues



Disaster Relief

Lightning Round

[AICPA Tax Policy & Advocacy Website](#)



Questions?





Upcoming Events

Mark your calendars for the next Tax Practice Quarterly:

- [Trends in Tax Technology](#), Thursday, July 20 from 1:00 – 2:45pm ET (2 hours of CPE)*

Other Upcoming Webcasts/Conferences

- [Fundamentals of Expatriate Taxation for Clients Who Live and Do Business Abroad](#), June 27 from 1:00 – 2:45pm ET (2 hours of CPE; discounts for Tax Section members)
- [Disasters and Taxes: Understanding Tax Relief for Disaster Victims](#), July 18 from 1:00 – 2:45pm ET (2 hours of CPE; discounts for Tax Section members)
- [Trending Topics in Tax](#), July 25 and August 30 from 1:00 – 2:45pm ET (2 hours of CPE; discounts for Tax Section members)

**Tax Section members can attend [free](#) as part of their membership.*



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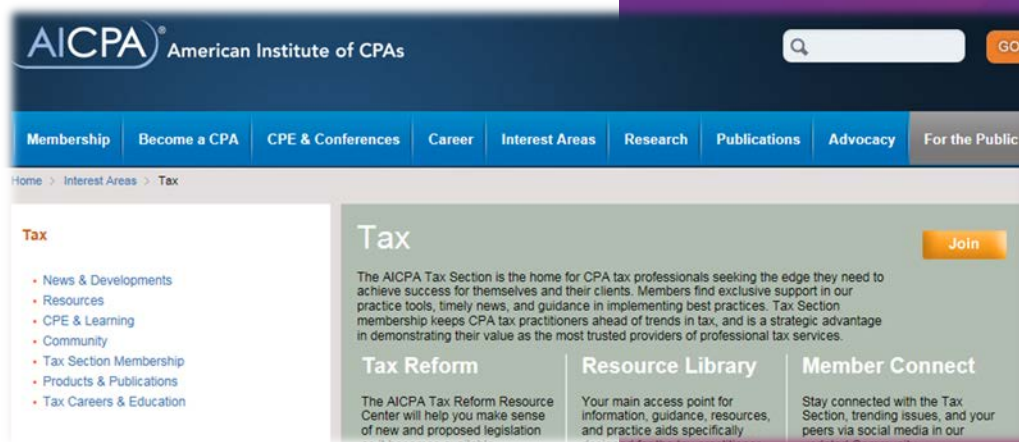
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