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webinar to begin shortly

Emerging Developments and Hot Topics

Tax Policy in Transition: Post-Inauguration

January 29, 2025

1:30 – 2:30 ET

emerging developments and hot topics

tax policy in transition: post-inauguration

Event Disclaimer

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January 29, 2025

agenda:

1 Tax Reform: What to Expect in 2025

2 Tariff Updates

3 Income Tax Disclosure Update: ASU 2023-09

4 Accounting Methods

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today's panelists

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tax reform: what to expect in 2025

overview of relevant TCJA provisions

Permanent TCJA Provisions	**Expiring** TCJA Provisions
Corporate tax rate from 35% to 21%	Limitation on SALT Deductions
Transition to global tax system for corporations	Section 199A Qualified Business Income Deduction
Limitation on deductibility of business interest expense (section 163(j))	Increased Estate Tax Exemption
Phasing out of enhanced bonus depreciation deductions (gone after 2026)	Cut in Individual Income Tax Brackets
Required amortization of section 174 R&D expenditures	Increased Standard Deduction & Elimination of Personal Exemptions

overview of president trump's stance on relevant TCJA provisions

Corporate Income Tax Rates

Decrease corporate income tax rate from 21% to 20% (or 15% for domestic manufacturers)

Individual Income Tax Rates

Extension of TCJA tax cuts (to avert top tax rate increasing from 37% to 39.6%)

Capital Gain & Dividend Tax Rates

No changes provided (i.e., likely maintenance of preferential rates on investment income)

SALT Limitations

TBD – limitation is scheduled to expire, and President Trump has floated permitting this restoration of full deductibility (in contrast to his prior law) if the TCJA is extended

Estate Tax Exemptions

Extend TCJA increased exemption permanently (to avoid steep reduction in amount of estate wealth to be removed from estate tax)

Section 199A Qualified Business Income Deduction

Extend the QBI deduction within the TCJA, to preserve 20% deduction on certain pass-through income

trump's tax policy proposals and pronouncements

Specific Industrial, Construction, or Manufacturing Policy

Proposed tariff of 10-20% broadly on all imports into US

Clawback of certain clean energy credits from President Biden's Inflation Reduction Act (IRA) of 2022

Floated tariff of 60% on all US imports from China and 25% on Canadian/Mexican imports

Proposed return to 100% bonus depreciation allowance for capital investments

Threat of 100% tariffs on BRICS+ nations

Maintenance of section 1031 deferred gain treatment

potential price tag of trump's proposals

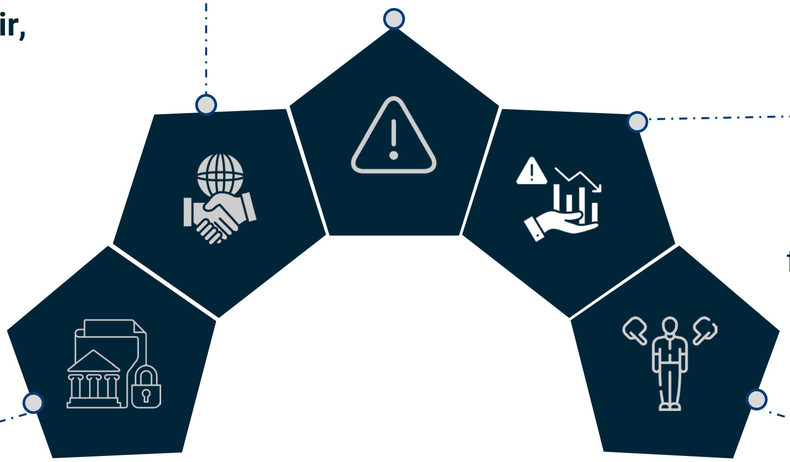
The Trump Plan
(billions, 2026-2035)

Policy Proposals	Low	Central	High
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	-$4,600	-$5,350	-$5,950
Exempt Overtime Income from Taxes	-$500	-$2,000	-$3,000
End Taxation of Social Security Benefits	-$1,200	-$1,300	-$1,450
Exempt Tip Income from Taxes	-$100	-$300	-$550
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	-$150	-$200	-$600
Enact or Expand Other Individual and Small Business Tax Breaks	-$150	-$200	-$350
Strengthen and Modernize the Military	-$100	-$400	-$2,450
Secure the Border and Deport Unauthorized Immigrants	$0	-$350	-$1,000
Enact Housing Reforms, Including Credits for First-Time Homebuyers	-$100	-$150	-$350
Boost Support for Health Care, Long-Term Care, and Caregiving	-$50	-$150	-$300
Subtotal, Tax Cuts and Spending Increases	**-$6,950**	**-$10,400**	**-$16,000**
Establish a Universal Baseline Tariff and Additional Tariffs	$4,300	$2,700	$2,000
Reverse Current Energy/Environment Policies and Expand Production	$750	$700	$550
Reduce Waste, Fraud, and Abuse	$250	$100	$0
End the Department of Education and Support School Choice	$200	$200	$0
Subtotal, Revenue Increases and Spending Reductions	**$5,500**	**$3,700**	**$2,550**
Net Interest	**-$200**	**-$1,050**	**-$2,100**
Total, Net Deficit Impact	**-$1,650**	**-$7,750**	**-$15,550**

*Source: Committee for a Responsible Federal Budget (as of November 12, 2024)

tariff updates

congress has delegated power to the president to impose additional tariffs under several statutes, including...



01

Section 232 of the Trade Expansion Act of 1962
grants the president authority to impose tariffs if the Department of Commerce determines that **specific imports threaten U.S. national security**.

02

Section 301 of the Trade Act of 1974
allows the president to impose tariffs or other trade restrictions to address foreign policies or practices deemed **unfair, discriminatory, or harmful to U.S. commerce**.

03

International Emergency Economic Powers Act (IEEPA)
grants the president authority to regulate commerce, including imposing tariffs, during a declared **national emergency linked to foreign threats**.

04

Section 122 of the Trade Act of 1974
authorizes the president to impose tariffs up to 15% for a maximum of 150 days if necessary to address a balance-of-payments emergency.

05

Section 338 of the Tariff Act of 1930
gives the president authority to impose additional tariffs, up to 50%, on imports from **countries engaging in discriminatory practices against U.S. commerce**.

modern supply chains were built on 3 assumptions that are no longer stable.....

Protectionist Trade Policy and a high Coefficient of Variability are fast-tracking the deglobalization of trade.

Rational Government Policy

Low Variability in Supply and Demand

Ease in Flow of Goods and Transportation

globalization and open market access are being reshaped by modern, protectionist trade and policy interventions

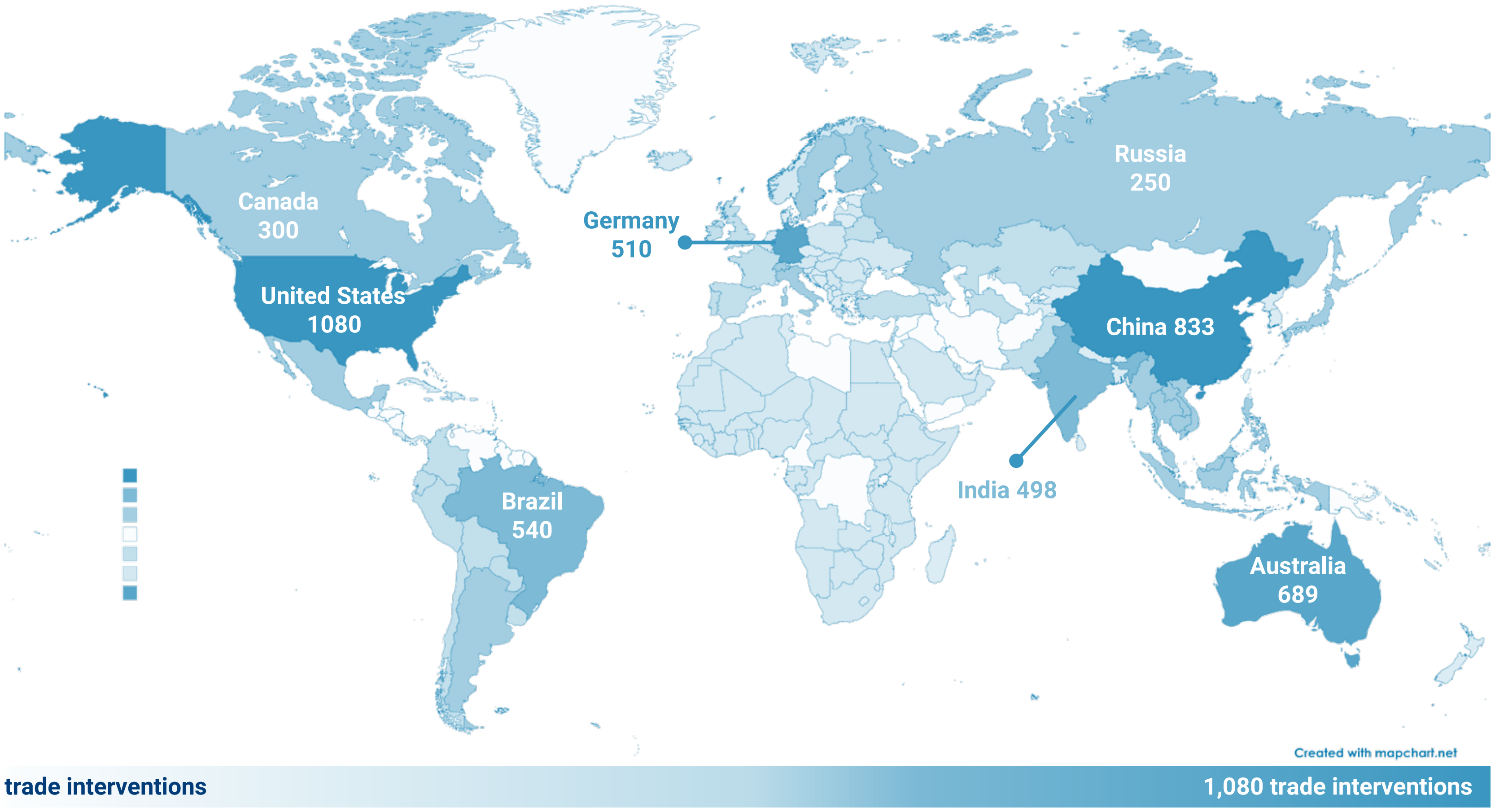
Tariff Escalation: The evolution of trade interventions and who is affected

Interventions include more than tariffs:

- Grants
- Subsidies
- Export Controls
- Internal Taxes
- Licensing Requirements
- Trade Finance Restrictions

Trade Interventions since 1 Jan 2023:

Interventions are trade policies which cause a change in the commercial flow of goods being traded.



**Trade intervention data source: https://www.globaltradealert.org/

trade interventions extend far beyond the U.S./China trade war, and will impact global trade flows

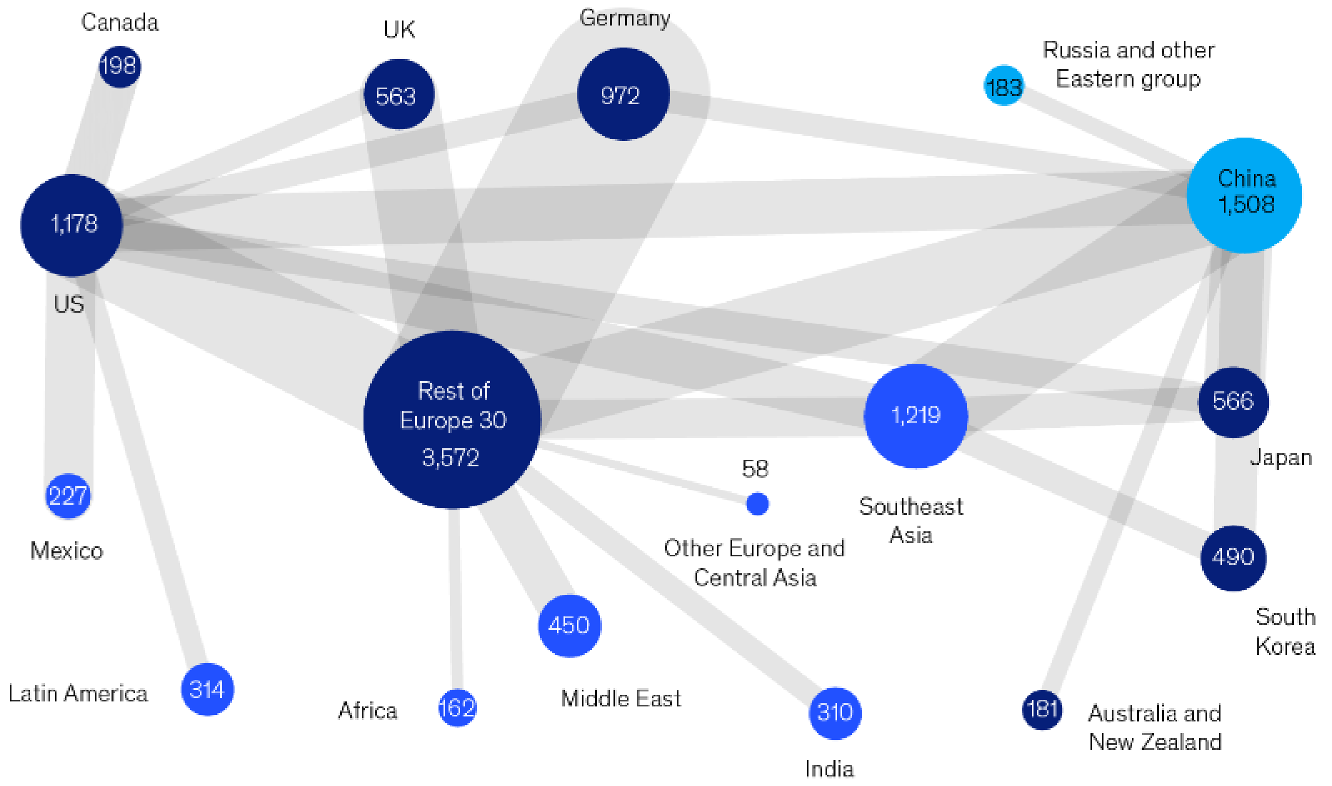
Trade interventions are reshaping global trade flows at a dramatic pace.

As nations retaliate with policies and protections the volume trade is shifting to regional and local for local supply chains.

Largest trade flows, critical goods and services, 2022, $ billion

Western group | Mid-aligned group | Eastern group

Circle size is proportional to total exports
Line thickness is proportional to bilateral trade value



2022

15% Trade between Eastern and Western groups as a share of global trade, for more critical goods and services

16% Mid-aligned economies exports as a share of global exports, for more critical goods and services

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**Trade flow data source: https://www.mckinsey.com/mgi/our-research/geopolitics-and-the-geometry-of-global-trade

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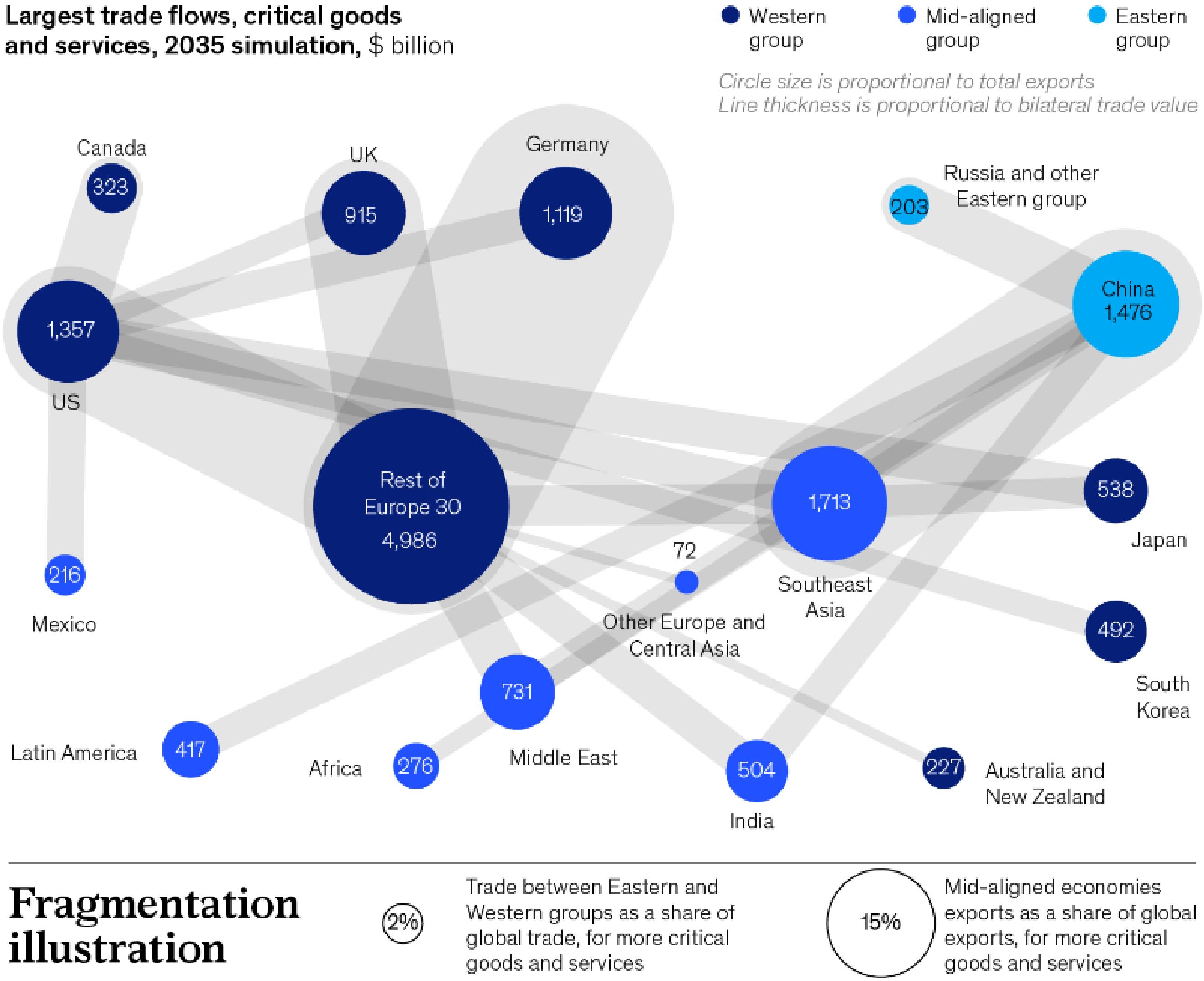


Is this only a US/China scenario?

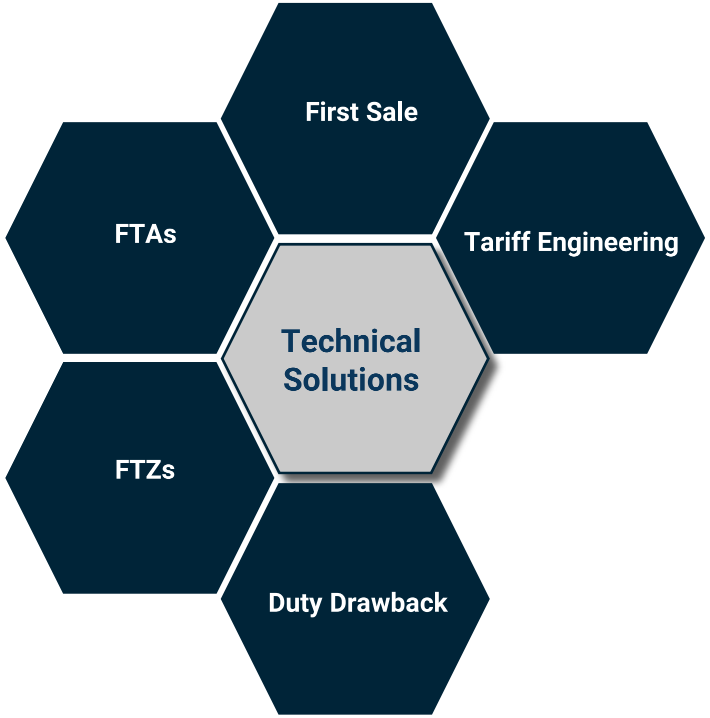
How does it affect other countries such as Canada, Mexico, Brazil, Europe, India and Southeast Asia?

**Trade flow data source: https://www.mckinsey.com/mgi/our-research/geopolitics-and-the-geometry-of-global-trade

how can organizations build resilient supply chains in the face of tariff escalation and uncertainty in trade policy?

Opportunities to mitigate the costs/risk of tariffs and geopolitical pressures on supply chains are both **Technical** and **Operational** in nature:

Technical measures are those related to trade compliance, while **Operational measures** are those related to supply chain network optimization and strategic scenario planning.



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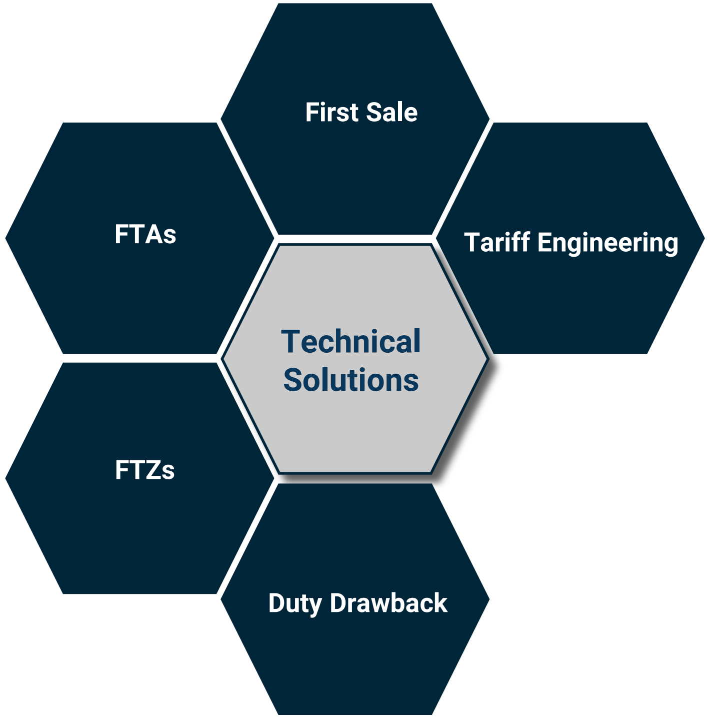
duty avoidance/minimization strategies can help mitigate the risks/costs associated with new tariff policy

There are several opportunities to use **technical mechanisms** to legally avoid, minimize, or eliminate duties when importing into the U.S.



- **First Sale for Export:** Allows importers to use the price from the initial sale for customs purposes, potentially resulting in lower duties.
- **Tariff Engineering:** Legal strategy used by importers to design or modify products in a way that allows them to qualify for lower tariff rates or duty exemptions when entering the U.S. market.
- **Duty Drawback:** A refund mechanism that allows businesses to recover customs duties, taxes, or fees paid on imported goods when those goods are subsequently exported.
- **FTZs**: Foreign Trade Zones are designated warehouses within the U.S. where goods can be stored without entry into U.S. Customs Territory, nor incurring duty, until they are withdrawn for consumption or manufacturing.
- **FTAs:** Free Trade Agreements are between two or more countries that aim to facilitate trade by reducing or eliminating tariffs, duties, and other trade barriers on goods and services.

strategies to build resilience in supply chains include operational contingencies to maintain business continuity, retain market access, and contain costs

- **X-Shoring:** Strategic relocation of production or sourcing activities to regions or countries that minimize exposure to escalating tariffs, trade restrictions, or unfavorable trade policies
- **Inventory Optimization:** A deliberate surplus of inventory maintained to absorb supply chain shocks, such as delays, increased costs due to tariffs, or restricted imports.
- **Sales & Operations Planning:** Integrated business process aligns an organization's supply chain, production, sales, and financial goals to ensure operational efficiency and responsiveness to market changes.
- **Dynamic Optionality:** Maintaining flexibility in supply chain operations by having multiple options available at various stages of production & logistics.
- **Logistics Optimization:**
    - Route & Mode Diversification
    - Inventory Positioning
    - Supply Chain Visibility & Flexibility

income tax disclosure update:
ASU 2023-09

income taxes disclosure update: ASU 2023-09

Significant changes to income tax footnote disclosures take effect **this year**:

- Public Business Entities (PBE) = annual periods beginning after 12/15/**2024**
- All other entities = annual periods beginning after 12/15/**2025**
- NOTE – Early adoption and retrospective application are permitted

Affects disclosures related to **the rate reconciliation** as well as **income taxes paid** information

The term “public entity” is replaced with “public business entity” for ASC 740 disclosure purposes (in accordance with ASU 2013-12)

- Provides consistency without significant modifications in practice
- Non-public Business Entities include non-profits and employee benefit plans
- Community banks are now within the scope of the new disclosures

income taxes disclosure update: ASU 2023-09 (cont’d)

New Rate Reconciliation Requirements

Tabular reconciliation using both percentages and reporting currency amounts (Required for PBEs only)

Breakout of 8 specific categories:

- State and local income tax, net of federal (national) income tax effect
- Tax credits
- Foreign tax effects
- Changes in valuation allowances
- Effect of changes in tax laws or rates enacted in current period
- Nontaxable or nondeductible items
- Effect of cross-border tax laws
- Changes in unrecognized tax benefits

income taxes disclosure update: ASU 2023-09 (cont'd)

Further detailed disclosure requirements

Separate required disclosure for any reconciling item where the tax effect is at least 5% of the income (or loss) from continuing ops x applicable statutory tax rate

Example:

U.S. reporting entity + Income from continuing ops of $10,000 → Separate breakout required for each reconciling item that *exceeds* $105 (10,000 x 21% x 5%)

Disaggregation requirements

- **By Nature:** item relates to cross-border tax laws, tax credits, nontaxable or nondeductible items, or if it does not fall within one of the 8 categories on prior page
- **By Jurisdiction (i.e. country) and Nature**: item relates to foreign tax effects

  **Exception – items related to changes in unrecognized tax benefits (UTBs)*

income taxes disclosure update: ASU 2023-09 (cont'd)

Additional guidance by category

State and Local Income Tax Effects Category

- Reflects state or local income taxes within the jurisdiction (country) of domicile
- Qualitative description of jurisdiction(s) that make up more than 50% of effect

Foreign Tax Effects Category

- Reflects income taxes imposed by foreign jurisdictions

Remaining Categories

- Reflects federal (national) income taxes imposed by jurisdiction (country) of domicile

income taxes disclosure update: ASU 2023-09 (cont'd)

Presentation

Reconciling items are generally to be presented on a gross basis.

Exceptions which may be presented on a **net** basis:

1. Unrecognized Tax Benefits (UTBs) and related tax positions/effects
2. Effects of certain cross-border tax laws and related tax credits
3. Items presented in the changes in UTBs category may be disclosed on either an aggregate or net basis, but must be consistent for all jurisdictions

Required Qualitative Disclosures

- **PBEs** must provide explanation if judgment is used and otherwise not evident
- **Non-PBEs** must provide disclosure about categories that result in significant rate reconciliation differences

example of new rate reconciliation for PBEs:

	Year Ended December 31, 20X2		Year Ended December 31, 20X1		Year Ended December 31, 20X0	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. Federal Statutory Tax Rate	$ AA	aa %	$ BB	bb %	$ CC	cc %
State and Local Income Taxes, Net of Federal Income Tax Effect [(a)]	AA	aa	BB	bb	CC	cc
Foreign Tax Effects						
United Kingdom						
Statutory tax rate difference between United Kingdom and United States	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Share-based payment awards	AA	aa	BB	bb	CC	cc
Research and development tax credits	(AA)	(aa)	(BB)	(bb)	CC	cc
Other	(AA)	(aa)	BB	bb	(CC)	(cc)
Ireland						
Statutory tax rate difference between Ireland and United States	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Changes in valuation allowances	(AA)	(aa)	(BB)	(bb)	CC	cc
Enacted changes in tax laws or rates	-	-	BB	bb	-	-
Other	AA	aa	(BB)	(bb)	(CC)	(cc)
Switzerland	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Mexico	AA	aa	BB	bb	CC	cc
Other foreign jurisdictions	(AA)	(aa)	(BB)	(bb)	CC	cc
Effect of Changes in Tax Laws or Rates Enacted in the Current Period	-	-	-	-	(CC)	(cc)
Effect of Cross-Border Tax Laws						
Global intangible low-taxed income	AA	aa	BB	bb	CC	cc
Foreign-derived intangible income	(AA)	(aa)	(BB)	(bb)	(CC)	(cc)
Base erosion and anti-abuse tax	AA	aa	BB	bb	CC	cc
Other	AA	aa	-	-	-	-
Tax Credits						
Research and development tax credits	-	-	(BB)	(bb)	(CC)	(cc)
Energy-related tax credits	(AA)	(aa)	-	-	-	-
Other	-	-	(BB)	(bb)	-	-
Changes in Valuation Allowances	AA	aa	(BB)	(bb)	(CC)	(cc)
Nontaxable or Nondeductible Items						
Share-based payment awards	AA	aa	BB	bb	CC	cc
Goodwill impairment	AA	aa	BB	bb	-	-
Other	AA	aa	(BB)	(bb)	CC	cc
Changes in Unrecognized Tax Benefits	(AA)	(aa)	BB	bb	(CC)	(cc)
Other Adjustments	AA	aa	(BB)	(bb)	(CC)	(cc)
Effective Tax Rate	$ AA	aa %	$ BB	bb %	$ CC	cc %

[(a)] State taxes in California and New York made up the majority (greater than 50 percent) of the tax effect in this category.

*Source: Bloomberg Tax, ASC 740-10-55-230; 740-10-55-231 (Example 39, Case A)

income taxes disclosure update: ASU 2023-09 (cont'd)

Exceptions to the Numerical Reconciliation

- Entities other than PBEs
- Not-for-profit entities and employee benefit plans (generally income taxes are not significant)

Such entities should still provide qualitative disclosures that are helpful to the reader

changes to income tax paid disclosures: ASU 2023-09

Additional breakout of income taxes paid (net of refunds received) is now required for **BOTH** PBEs and non-PBEs, on an annual basis:

- By federal (national), state (and local) and foreign income taxes
- Further disaggregated by individual jurisdiction when income tax paid (net of refunds received) is at least 5% of the total income taxes paid (net of refunds received)
- Comparative information for all periods presented is NOT required
  (i.e., if California met the 5% threshold in the prior year, but does not meet the threshold in the current year, only the prior year disclosure for California is required)

accounting methods

what is a tax accounting method?

A taxpayer's **consistent treatment** of the timing of any item of **income or deduction**

Not a question of "if" it's taxable or deductible, but "when"

Examples:

1. Revenue recognition for tax
(GAAP vs. tax rules on deferred revenue)

2. Inventory Accounting

3. Accrued expenses
(payroll, contingent liabilities)

What's the importance?

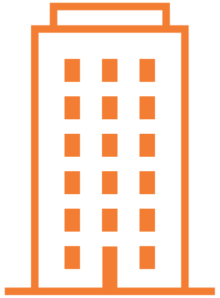
- Which year you allocate income or deductions to matters much more with variable tax rates
- Convert a time value of money issue into **permanent tax savings**

tax accounting methods with changing tax rates

Prepaid Expenses:

- **GAAP**: capitalize prepaid expenses and amortize/expense over the benefit period or when benefit is received
- **Tax**: default treatment is to follow GAAP; however, eligible prepaids may be deductible when paid

Example:



ABC Company

- A corporation with a calendar tax year
- Payment of $120,000 on 12/1/25 for a 12-month insurance policy
- Extending until 11/30/26

For GAAP, ABC Co. has a $110,000 prepaid insurance asset on its 12/31/25 financial statements

$120,000 initial asset less $10,000 (1/12th) amortization in December 2025

Assume the 2025 corporate tax rate is 21% and the 2026 corporate tax rate is 15%.

What are the tax accounting methods implications for tax planning?

tax accounting methods case study – static rates

Default Tax Treatment	2025	2026	Total
GAAP Expense	$10,000	$110,000	$120,000
Tax Deduction	$10,000	$110,000	$120,000
Tax Rate	21%	21%	
Cash Tax Value of Deduction	**$2,100**	**$23,100**	**$25,200**

Accelerated Deductions	2025	2026	Total
GAAP Expense	$10,000	$110,000	$120,000
Tax Deduction	$120,000	$0	$120,000
Tax Rate	21%	21%	
Cash Tax Value of Deduction	**$25,200**	**$0**	**$25,200**

In both cases, the $120,000 of insurance expense is worth **$25,200** of tax savings

It's just a **question of when** those tax savings are realized

tax accounting methods case study – changing rates

Default Tax Treatment	2025	2026	Total
GAAP Expense	$10,000	$110,000	$120,000
Tax Deduction	$10,000	$110,000	$120,000
Tax Rate	21%	15%	
Cash Tax Value of Deduction	**$2,100**	**$16,500**	**$18,600**

Accelerated Deductions	2025	2026	Total
GAAP Expense	$10,000	$110,000	$120,000
Tax Deduction	$120,000	$0	$120,000
Tax Rate	21%	15%	
Cash Tax Value of Deduction	**$25,200**	**$0**	**$25,200**

In this case, adopting the method of accelerating eligible prepaid expenses resulted in **permanent tax savings of $6,600!**

reviewing your tax accounting methods posture

Objectives:

- If anticipating a **decrease** in tax rates: push income out, pull deductions in
- If anticipating an **increase** in tax rates: pull income in, push deductions out

How to Accomplish?

C-corporations:

- Maximize your deferred tax liabilities (DTLs) and minimize your deferred tax assets (DTAs)
- Identify components of your deferred taxes which could be changed -> capture permanent tax savings

Other entity types:

- Review your existing accounting methods through a review of prior year book-tax workpapers

**While we don’t know if or when statutory rates will change,
be prepared early by knowing where you stand**

m&a and tax accounting methods

Landscape:

Interest rates are uncertain, but there's an expectation that transaction activity may increase

Ensure your diligence includes a review of tax accounting methods

Just with how **timing** of income or deductions matters with changing rates, it matters with changing ownership!

Tax Accounting Methods Applied to M&A:

Stock Sales:

- Seller's accounting methods carryover to the Buyer
- Buyers should be particularly concerned with any improper tax accounting methods: liability may come with purchase

Asset Sales:

- Less of a concern as tax accounting methods may "reset" – but some tax attributes may still be affected

If your buy-side diligence fails to catch a "bad method," you may have just bought it!

additional questions? contact us:

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