The Biz Beat Podcast – Episode 08: Tariff Deal with China, Inflation Update, and 401k Roth Rollovers Explained

Lee: Hey everyone, and welcome back to The Biz Beat by SVA, the podcast that helps business owners stay sharp when it comes to taxes, business trends, and important strategies. I'm your host, as always. Lee Schwartz, Director of Business Development and Sales, and always joined by Eric Trost, Tax Principal and President here at SVA Certified Public Accountants. Eric, how you feeling this week? You ready to get going?

Eric: I'm ready to go. How about you?

Lee: I feel great. There's, as always, a ton of news to talk about. If this is your first time listening, each week, we break down a key business or tax issue. We will update you on the status and the details of the upcoming tax legislation and we will answer a real question from our listener mailbag.

Tariff Deal with China

Lee: So, let's jump in, Eric. We've talked about it a bunch, but we're going to get right back to it. Just in the last just few hours, really, there's been some discussion about an agreement, at least, on a framework, of a deal with China. Can you talk a little bit about that? And then we'll jump into some other economic news in the, out there today?

Eric: Yeah, so just tweeted today, and I and it's not really tweeted because it's Truth Social.

Lee: Truth

Eric: Is something out there. Yeah, have we decided what we call those?

Lee: Truth. It is a truth. I believe it is a truth.

Eric: With a capital T or just small a small "t"?

Lee: I think it's all caps. Knowing him, it's all caps.

Eric: Super true. So anyway, Trump put a truth out there today, today being Wednesday, that he's reached a deal, or the United States, I should say, has reached a deal with China, and they've set the tariffs. The tariffs being 55% on China, and then 10% on US goods going into China. So, I want to talk a little bit about the 55% coming to the US.

Eric: Those tariffs really had been all over the place, and what it looks like is they're settling on this flat 55% which might be additive. We have to wait till the details come out on this but might be additive to some other tariffs that were already in place for specialized products. So, what we'll look at when the details finally come out is how, across the board, this 55% is and if it is additive to some other tariffs that were already in place. Now what Trump said in His truth is that the deal's reached, but then he said it's subject to approval by the President of China and in himself. So, there are some details to be worked out yet, and sometimes the details might get in the way of a final deal, or maybe those are details that they're going to finish up. But it looks like at least Trump is very optimistic that soon we're going to have this deal ironed out with China and then can move on to other countries. Because I think China is one of the countries that they were using to set a baseline with on how other countries are now going to fall into place in their tariff negotiations.

Lee: And Eric, if this is a done deal, if it does end up that way, this is a, this is a huge deal. I mean, this is you think about them as big of a trading partner as they are, and as we think about our clients, and how many of our clients are sourcing products from China, like this potentially provides some clarity into the future. Is that right?

Eric: Yeah, I think that's what they're trying to get to here, and what the, we'll see what the, how the markets ultimately end up reacting to this, because that's a good gage as to how business leaders think of these things. But you would think that if you can get some stabilization with this tariff with China, which is one of our biggest trading partners, and certainly we are China's biggest trading partner. If that adds stability to the market, you might see that come through in the next couple of days here.

Inflation Update

Lee: Okay, well, we'll stay tuned for that. And Eric, the other big news just today is new inflation numbers coming out for the month of May. You talk about that and what that is telling us?

Eric: Yeah, so there was inflation numbers released by the CBO today that were at 2.4% inflation, which is not a significant high number. So that's 2.4% annualized, and that's not a very high inflation rate. That means a couple of things. One is, at some point, does the pressure on interest rates come down, which all businesses would like that. So, the borrowing rates. That also helps if your country happens to be running a deficit. That also helps your interest rates on a deficit that might be out there. So, to those that are in debt seeing a low inflation rate generally, is good news, because that means that the pressure on interest rates probably starts to come back down instead of rise upwards, and then that reverberates for the whole economy, because it's not just interest rates then on, you know, those bigger items, but it goes down to mortgages and credit cards and everything else.

Eric: So, seeing a low inflation rate is generally good news for the economy, not a negative, but a low inflation rate. It also means, though, that the previous tariff wars have not yet impacted how inflationary some predicted they were going to be. The tariffs get yet, as of yet, and maybe this is it's still got to come through the system, but as of yet, those tariffs have not really hit hard in the inflation numbers.

Lee: It's, it's interesting. And like you said, I know neither one of us are economic professors or researchers, but you would think that that would have shown, and I know, you know, the things that we've read, or everybody was a little surprised that inflation wasn't higher than it than it was.
Eric: Yeah, well, you know what they say, if you get like 10 economics guys in a room, you end up somehow with 11 different opinions.

Lee: Fair enough.

Eric: Right. I think everyone has their opinion on it. There was a lot of opinions that there was inflation would hit harder and faster, but it clearly hasn't come through, at least in the current numbers.

Lee: Okay, well.

Eric: The other thing that's happened, though, is that there's been some revenue raised from the tariffs, and I don't know what the impact is yet on those other than the government's announcing that it's funds that are coming in are 10 to 15% higher than last year's funds that are coming in and higher than projections. And that leads to another thing and what's happening, which is there is a tax bill that's out there. We've been talking about, and within that tax bill, there's also an ask from Congress for a debt limit increase. They want to increase the debt limit between four and $5 trillion. Without that debt limit increase, the government runs out of money, and they have to renegotiate, and that gets to the negotiations regarding government shutdown.

Eric: We've probably seen those in the past, and each side takes a stand, and somewhere along the lines, they finally get to an agreement on it. What they're asking for now with this four to 5 trillion increase in the debt limit, which is going to run out about the end of August or so, as a prediction right now, it's maybe they bought a little more time to pass that debt limit, which also means they bought a little more time probably to pass this tax bill, which is going to add to the ultimate debt. So, they've got to get this debt limit passed in conjunction with passing this tax law, effectively, because the tax law is expected to increase the deficit. So, we'll probably see both of these pass again. Trump wants them July 4 so that maybe he can sign the bill under the night sky and fireworks, but they do have more time than that, from a debt limit standpoint, to pass this bill.

Lee: So it's interesting from a political perspective, because that pressure to pass it is probably something that in some ways, Trump would, Trump would like, but obviously also good news that there was more revenue than, than expected, and maybe they have a little bit more time. So let's, let's get our periodic update from you. Originally, beginning of November, I think you would, you would anticipated, maybe speeding that up a little bit, and then things slowed down again. Right now, if you had to guess when you think this tax legislation is going to pass.

Eric: I'm still sticking with my November date. And the reason is, I think there is a lot to be worked out yet in the Senate with the bill, and it's still the fight between, you know, the tax bill and the things that everybody likes and are easy passes. They're easy yeses. The no tax on tips, I think for sure is going to go through. There's some other things that for sure are going to go through. They're not expensive and they're, they make people feel good, they're easy yeses.

Eric: The hard part is that spending cuts and how much that certain members of the Senate want to stick to their guns and say, “We're just not going to raise the deficit that much”, and that means, well, they've got to cut programs or costs somewhere else. And it's easy to say, in general, there's a lot of bloat out there, let's cut it. But every time you cut something, that affects a home district of some congressman or some senator, and so it always, what do they say, it's always easy to say, but until it's your ox getting gored, you know, then it's, then it becomes a much harder pill to swallow.

Lee: Absolutely.

Eric: Someone's got to take one for the team.

Lee: Yeah, it'll be interesting to see who ends up, who ends up taking it. Well, great. That's, that's great. So we'll continue to keep you all updated on what's going on with the tax bill. And it does sometimes feel, Eric, like it's like moving a million miles a minute, and then all of a sudden we're at a standstill. So, a lot of economic news affecting the potential of movement here. But I have also haven't heard you update us much on actual specifics around what might have changed in the last week or two.

Eric: Yeah, so I think the positions, what's changed in the last couple of weeks is that the positions of senators are outlining right now, are becoming public. What I don't know what's changing is behind closed doors. The Senate's trying to redraft this thing, and in general, there's not a great insight into that, because that changes so often, I think, and never gets made public. So there's a certain amount of shielding that the public has to, what they call the sausage making here, as they make the deals to get this done. And all you can really do then is glean from press releases, Truths, tweets, on how people are thinking about this, and what we've got now, I think, is some more solidified positions from some senators that they can't all come together.

Eric: You know, they're not going to be able to find a win solution that gets everyone what they want. And that's the hard part now, is, you know, who's going to give in and how's this negotiation going to go? Are they going to end up raising the debt limit and passing this bill with a bunch of debt attached to it? They end up trying to throw some spending cuts in there that don't seem to be popular with everyone. That's going to be the hard part. And you know, we're not going to see that, I think, until we see more proposals from the Senate. That's what we're waiting for now, is, what does the Senate Bill look like, right? We know what the House bill looks like. What does the Senate Bill look like?

401k Roth Rollovers Explained

Lee: Right. So stay tuned. When we when we have a better sense of what that looks like, you will be the first to know listener. So, let's move on to our inbox. Eric. As always listeners, you can send us your questions at bizbeat@sva.com, or drop one at sva.com/bizbeat. Our question this week is: I'm already maximizing my 401k, but we have a 401k Roth option too. Which one should I be using?

Eric: Yeah, that's a good question. And we talk about this with clients all the time. The tradeoffs being a regular 401k deduction from your paycheck now is an immediate deduction, and it helps you on your tax liability this year. A Roth 401k contribution does not help you on your tax liability this year because it goes in with after-tax dollars. How it does help you, though, is that the earnings tax-free, and then eventually, when you take out those Roth 401k amounts at retirement, let's say, they're not subject to income tax anymore.

Eric: So there's calculations you can go through to say, hey, which one should I do based on where my tax rates are? Rather than to get into all that, what I'd like to also talk about that you might have an option as long as you're looking at 401k, is that some plans have been modified in the last couple years with rule changes that you can now roll over your 401k, pre-tax dollar amounts into a Roth 401k. So if you have a couple $100,000, let's say, in your 401k, you can pick an amount, say, $20,000, $30,000, and roll it into a Roth 401k. So it's very flexible. What you might want to look at is, what is my income for the year? What's my income expected to be? And should I start moving dollars over from that pre-tax 401k account I have to a Roth 401k account?

Eric: Now it's not in every plan. A plan has to allow it. Just because the law allows it, which it does now, starting in 2023, just because the law allows it doesn't mean your plan allows it. So you've got the law about 401ks and what you can and can't do. But then you have your company plan, which is established and has all the rules on how you can contribute to it. Some plans allow it, and some do not. So you have to start there with, say, your HR director or department and say, Hey, do we have this option? And even if you don't, if enough people ask about it, we're finding that companies are starting to adopt it.

Eric: So in general, it's easy enough to adopt to say, hey, we've got a 401k plan, we're going to amend it as a company, and we're now going to allow the Roth 401ks, and the rollover amounts to be put in there. So it pays to at least ask about it and know what your option is. And then you can start looking at tax projections and saying, Does it make sense if I start rolling things over, rolling amounts over from my regular 401k into my Roth 401k, pay tax along the way, but maybe I'm not paying a lot of tax right now, and now I'm going to build this up to be tax free when I take it out of retirement.

Lee: And Eric would, uh, I'm just trying to think of a situation where somebody would want to do this. And I know, as you said, it's more difficult than just, hey, here's a rule of thumb, there's calculations and all that needs to be figured out. But what would be sort of that, that main reason that somebody would look at and say, Yeah, I want to roll this over now. Is it just like my income is going to go way up later? Or how would you look at that?

Eric: Yeah, I generally looking at it income levels, because income levels determine your tax levels. The higher level of income you are, the higher tax rate you're generally in. So if you have a lot of income now and you maybe won't have a lot of income later, you might say, I'm not going to do these rollovers, because when I take out this money later, sure, it'll be taxable, but I'll be in a low-income tax bracket in retirement. However, you might be in a different situation where, you know you've got a lot of retirement funds and assets, and you're going to be in a higher income situation in retirement than maybe you are at the end of your earning career. And so you may say, I'm going to take advantage of some of this now. I'm going to take advantage of what is a lower earnings now, and lower income I up now. I'm going to roll some of this over tax-free as Roth dollars. I won't have as much tax on because I'm in a higher tax bracket, let's say, in my retirement years.

Lee: So Eric, would an example of this be then if you're a business owner, you have money in your 401k and your 401k plan allows for this. If you have one of those years where you're just not it's not a very profitable year, that might be a time to think about doing this.

Eric: Yeah, absolutely, absolutely.

Lee: Great. Well, thank you for answering that, and please everybody keep those questions coming. We love hearing from business owners and helping you all navigate this stuff. So that's a wrap on this week's Biz Beat by SVA. Make sure to subscribe on Apple Podcasts, on Spotify, and on YouTube, so you never miss an episode and share the show with someone you know who's running a business.

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