The Biz Beat Podcast – Episode 02: Tax Legislation, Charitable Giving, and the Shrinking IRS

Lee: Hey everyone, and welcome back to the Biz Beat by SVA, where we break down the latest in business and tax news to help you stay informed and stay ahead. I'm your host, Lee Schwartz, Business Development and Sales Director at SVA, Certified Public Accountants, and I'm here, as always, with my co-host, Eric Trost, tax principal, also here at SVA. Eric, you're back for round two. You ready?

Eric: I am ready.

Lee: All right.

Eric: Good to see you again Lee.

Lee: Man, it's good to see you too. All right. So quick reminder for our listeners. Every week, we'll cover current events in business and tax, spotlight tax strategy to keep note of, and then we'll answer real questions from business owners and leaders like you. So, let's jump right in. Eric, last week, we talked about something that we'll be talking a lot more about, which is tariffs. And I think our topic today is similar, and that we'll be talking about it a lot in the upcoming weeks and months, and that is potential upcoming tax legislation. There is a lot going on right now. It's been a lot of news. Can you start by just kind of setting the table where we're at right now, and then we'll talk a little bit about what to expect in the future.

Eric: Yeah, so right now, what's happening is there are tax cuts that were enacted in 2017 under Trump version one that are expiring at the end of this year. And so those are going to have to be addressed. What's been addressed so far is raising the debt ceiling to cover those or at least cover time to negotiate for what this new tax law is going to look like and whether those tax cuts are going to be extended all or in part, and what else is going to accompany them. The debt ceiling right now is about $36 trillion and is in place to cover the national debt until about the end of September. Lee, do you know how much 36 trillion is?

Lee: My average grocery bill? Not sure.

Eric: Yeah, it's probably a little more than that. I did some quick math in my head. And let's say that you were a caveman born a million years ago, and you started counting 123, every second, added a number. And you happen to live a long time. In fact, you lived all the way till today. You still would not have reached 36 trillion. So there are, 36 trillion is higher than the number of seconds between a million years ago and today. Just thought that'd be an interesting fact to try to put some perspective on what kind of numbers we're talking about. So, isn't that fascinating Lee?

Lee: It's hard to get your head around.

Eric: That's right. So, I try to use something like that to maybe help encapsulate just what kind of numbers are out there. So, what's happened is, with the debt ceiling that's being raised, both the Senate and Congress have passed essentially budget resolutions that's saying that we can raise the debt ceiling even higher. The House has said we can raise the debt ceiling about 4 trillion. The Senate a little higher than that, about 5 trillion. And that has to do with the House saying we're going to have some spending cuts coming up here, and the Senate saying maybe not as much spending cuts coming up here. So, what the House and the Senate have allowed for in their budget resolutions is an extension of the 2017 tax laws. So everything would be extended that was enacted in 2017 and some additional tax cuts, which include: the no taxes on Social Security, no taxes on tips and no taxes on overtime.

Lee: Thanks for setting the table on that. And I guess one of the big questions I have, and we talked about this last week, is, what role does tariffs play in all this?

Eric: Yeah, it's a good question. The tariffs are meant to be a revenue-increasing or revenue enhancement for the government. And so far, I think some of that is working out, but the tariffs are under the negotiation process, both with China and other countries that are currently subject to those tariffs. There's some thought, and Trump has expressed this, or at least some of his closest advisors have, that the tariffs are going to be used to offset even more tax cuts, especially for those making under 200,000 or less. Now, I think the ideal that's been floated is that tax liability will be eliminated for those making under 200,000 or less, and it'll be eliminated because the tariff revenue is going to offset what otherwise would have been taxes those folks would have paid. I think that's a long shot to get there, but undoubtedly the tariffs are going to have to play a role in balancing this overall tax bill.

Lee: Interesting. Okay, you mentioned the Social Security, no tax on Social Security, no tax on tips, a couple other things. Are there any, is there anything else that they're talking about right now that you think people have to keep in mind as they as they move towards legislation?

Eric: Yeah, there's a couple breaks out there for businesses that are not in the 2017 tax cuts that they're talking about adding, and one of those would be the state and local tax deduction, which is important to individuals, especially in high tax states. The other one is R&D expenses. R&D expenses currently are not deductible immediately, but instead, that deduction is spread over five years. Well, what would happen in a new tax law, ideally, again, is what they've been negotiating for, is that R&D expenses would be deductible at 100% again. So going back to how it was prior to 2020.

Lee: Great. So, we'll be keeping an eye on this, and last week, I asked you for your prediction on when you thought this legislation would pass, Eric, and you guaranteed, I mean, I'll have to go back to the transcript, but I'm pretty sure you said word for word, I personally guarantee that it would be November 3. Any thoughts on that?

Eric: Yeah, yeah, the guarantee is probably a strong word.

Lee: That might be a misquote.

Eric: So yeah, to go back and check the tape, but I did think November 3 was going to be the date. Recently, Trump announced that actually he's shooting for July 4. I'm not sure July 4 is going to happen, but he's going to put pressure on to make it happen quicker. I'm going to stick with my November 3 for now.

Lee: All right, guaranteed. I think you guarantee. Yeah, heard it here first. All right, just to be clear, not a guarantee. Okay, so Eric, let's move on to our next segment. We've been talking about some creative tax strategies, things to think about. One of the things that has come up a lot recently with some clients is gifting appreciated assets instead of cash. Can you talk about when to think about that and what role that can play in an overall tax strategy?

Eric: Sure. This especially comes into play for individuals that have a donation or a donor of intent, a charitable purpose, I should say. They want to make sure that certain causes get, you know, they commit to cash or other gifts to these causes. And giving cash does offer a charitable donation deduction, and there's a benefit for that. However, there's a further benefit by giving appreciated assets that would otherwise, if sold, produce capital gain. And so what kind of assets are those? The most easily you can think of is stock that's been that's appreciated, that's held for more than one year. So stock held for more than one year, if sold, would produce a capital gain. If you give that stock away, that gain completely escapes taxation, but the deduction that you get on your tax return is based on the fair market value of the stock that you gave away. So giving cash does have a benefit, and you give away cash of $10,000 you get a $10,000 deduction. Think of giving away stock that's worth $10,000 though, so it's the same economic giveaway. But let's say you bought that stock for $4,000 and there's $6,000 of appreciation built in. Normally, if you sold that stock for $10,000 you'd pay a gain based on a $6,000 gain, you'd pay tax on that, but giving the stock away, you completely avoid that gain but still get your $10,000 deduction. So the tax savings there is really, you never have to pay tax on the gain that you had for that appreciated property, that appreciated stock.

Lee: So Eric is, is the gifting that you just talked about? Is that similar to like a donor advised fund?

Eric: It's not the same, but a donor advised fund is can be used to implement a gifting strategy or charitable contribution strategy. What happens with a donor advised fund is you make a gift to a fund and take a deduction in the year that you make that gift to the fund, and then you, over time, can advise the fund on when to make gifts to the intended charity. So, for example, let's say that you have a commitment to give a charity $50,000 over five years. You might say, well, I'm going to give $10,000 each year to the charity to meet my committed gift of $50,000. Then you'll get a charitable deduction of $10,000 for five years running. The issue with that is you might not exceed your standard deduction for a year. And what happens then is, if your charitable deductions and your other deductions don't exceed your standard deduction, you just take your standard deduction against your taxes. With a donor advised fund and gifting all 50,000 up front, that's going to exceed the standard deduction for the year, and now you actually are getting benefit as a tax deduction on your return for giving that $50,000 up front.

Eric: So a donor advised fund is effectively used to bunch deductions into one year when you still want to meet them out over time, and essentially control the amount that's gifted to that charity every year. So, you get the deduction all up front, but still can make the contributions and control when they actually go to the charitable contribution by advising the funds on when to actually cut the checks for the charitable donation to the recipient.

Lee: Okay, so Eric, if I'm understanding you, though you can combine both of those strategies. In theory, you could have a donor advised fund and put accumulated or appreciated assets in that. Is that correct?

Eric: Yeah, that's right. So to bring it together, which is what your question is doing there, Lee, is by using appreciated property and gifting to a donor advised fund, that's really getting the best of both those worlds. One is you're escaping any gain taxes on the appreciated property, and the second is, then the fund can be used to give controlled amounts every year to the intended recipients.

Lee: Great, appreciate that. Great overview. Lots more to talk about there, I'm sure. But let's move on to the inbox. Remember, you can send us your questions at bizbeat@sva.com, or submit one on our website at sva.com/bizbeat. So, Eric, this week's question stems from there's been a lot of talk about mass resignations at the IRS and less funding there. What effect, if any, do you think a shrinking of the IRS will have on business owners?

Eric: Yeah, so a couple things, and you say mass resignations, it's been encouraged resignations. Number one, the government's been offering early dismissal packages, we'll call them, to folks. They've also been doing layoffs for those that are in their probationary period. The probationary period being either the first six months or the first year that someone's working for the IRS. What they're doing there, with the intended cuts, is to take the IRS from about 100-105,000 employee organization and reduce it to about a 60-70,000 employee organization, and they plan to do that simply through these personnel cuts and then implementing more technology to essentially pick up the slack on where they're no longer going to have people. Initially, I think what we're going to see is more delays and not less, at working with the IRS, and probably less enforcement with what the IRS can pick up and audit. So, it is likely audit rates are going to go down, at least initially. Now we don't know how the technology implementations are going to cover for those less employees, but initially you've got to think they're not going to be ready right away. And so, there's going to be essentially less people there to enforce and answer questions.

Eric: It becomes important, then, in dealing with the IRS, and what our role will be, is to try to help alleviate those delays, make the right contacts with the right communication to get to the place that you need to get to to resolve your issue. And that's somewhat of an art to be able to do that. There's no magic red phone hotline that CPA firms have to the IRS. It just takes persistence, knowing how to explain the problem and get to the right person to end up resolving issues that are out there. And that's going to be even more important going forward, now that there's even less personnel at the IRS to talk with.

Lee: Right. That'll be, I know we end up being on the phone with the IRS a lot, folks here at SVA. I'm sure that's not going to get less painful, so that'll be fun for everybody to tackle when that comes.

Eric: Well, they do have some nice hold music. So, what I found when you're waiting for the IRS and you can work on something else while you're waiting, is it's very soothing hold music in the background.

Lee: It's not just elevator music? What do you, what do you got? What kind of stuff do they play for you?

Eric: Well, it's elevator music, but it's kind of contemporary, like little bit of jazz.

Lee: Okay, so I guess what I'm hearing is, if you're, if you don't have Spotify, you're not paying for that. Just call the IRS, and now you might be able to just stay on hold for a while. You get, you get your music for free. So that's good, right? Perfect. All right. Well, great, great overview of that.

Lee: That is a wrap on the second episode of the Biz Beat by SVA. Thank you for tuning in. New episodes drop every week on Apple Podcasts, Spotify and on YouTube. If you found today's conversation helpful, hit subscribe, leave a review, share it with the colleague, and you can visit sva.com/bizbeat to sign up, to submit a question and to get entered into our Amazon gift card raffle, if you're one of the first 100 subscribers, that is.

Lee: As always, we've reviewed some general tax ideas and strategies, but it's important to consult with a professional to determine what's best for you. So, if you're a client, reach out to your SVA professional. And if you're not, reach out to me, and we can talk about how to make you one. Thanks again for being a part of our growing community. We'll see you again next wee