The Biz Beat Podcast – Episode 04: Trump's Tax Bill Advances, China Tariffs Shift, and How Long to Keep Tax Records

Lee: Hi everyone, and welcome back to The Biz Beat by SVA, the podcast that helps business owners stay current with what's happening in business and tax and what it means for you. I'm Lee Schwartz, Business Development Sales Director at SVA, and I'm joined once again, by Eric Trost, tax principal, also here at SVA Certified Public Accountants.

Lee: Eric, good to have you back. You ready to get going?

Eric: I'm ready Lee. All right here.

Lee: Absolutely. So listeners, if you're new here, each week, we break down what business owners need to know, whether it's tax changes, business trends, or financial strategies, and hopefully without all the fluff. So let's dig right in. So, Eric, we were going to talk a little bit about AI this week after talking about Trump's budget last week. But you know, just as it seems to be all the time, everything's changing, new information coming out, and the House Ways and Means Committee has advanced a slew of presidents of, excuse me, President Trump's top tax priorities just recently. There's a whole bunch of new stuff in there. Why don't you lay it all out for us? What's new, what's the same and what's left out?

Eric: Yeah, so what's happened in just the last couple days is the House Ways and Means Committee has released a bill that they're eventually intending to go in front of the House of Representatives for vote, and it contains the Trump priorities that he talked about in the past with some additional items that we'll get to. The bill itself is titled, and we joked about this before, because Trump's been calling it his big, beautiful bill, and that's what they call the bill. It actually does have in the title of the bill, The One Big Beautiful Tax Bill. So right now, it's going the BBB, for short, is how we're calling it, and what it does, the proposal, and it's proposed, remember, it has to go through the House first. Got to get a vote. It's got to get a vote at the Senate, the President's got to sign it. So, what I'm about to talk about, these are proposals. Okay? Lee, I want to make sure that's clear. What does proposal mean? Is it law right now, or is it not law?

Lee: You know, I'm not a tax expert. That's too hard of a question for me.

Eric: Okay. So what a proposal is means it's not law yet. So, when I say these things, you know what I'm about to talk about, this is what's proposed to be in the new tax law. It is not actually tax law, yet. It's clear, and I want to be clear, as I'm saying that, you know, don't run off and start saying that this is what's happening, or it has happened. It is still in progress. So, in the proposal, for starters, there's the Tax Cuts and Jobs Act provisions that we're going to terminate at the end of 2025. For the most part, those are all being extended into 2026 and after, at least through 2029 or 2030, depending on the provision, and what does that include? That includes essentially lower tax rates for most individuals, and it also includes things like the Qualified Business Income deduction, which is going up a little bit. **Eric:** So, what that means is business income maybe was going to have a maximum tax rate of 30%. That's actually going to go down to about 29% now. So there's a small tax cut there for businesses within that. It also includes some increases to the Child Tax Credit, which is currently at $2,000, going up to $2,500. So it's provisions within the Tax Cut and Jobs Act, maybe with a little more juice thrown into them.

Eric: Now there's also some new things. And the new things, some of them are recast of old things, very old things. And then some of them are totally new. Some of the new things that used to be around are, there's no tax on tips. We've talked about that in previous podcasts. That's now in this bill. And so what's allowed for in the bill is you record all your tip income. It probably comes on your w2 but then you get to deduct your tips prior to calculating your tax liability. Effectively, what it does is makes tips tax free, and that's the same thing for overtime. So overtime is not going to be subject to taxes either. It'll come through on your w2 as you were paid this much, but how much overtime did you have? And you're going to be able to deduct that before you fit it, before you figure your tax liability, so that overtime pay will not be subject to at least income taxes.

Lee: Eric, let me jump in here for a second. I know we want to talk about, obviously, what's in this bill, but I'm just that seems like a big thing for business owners and clients of ours. Like, what do you think that's going to mean for a business if those employees are no longer taxed on overtime?

Eric: Yeah, I. Yeah, well, I think employees will be encouraged to work more overtime then. There's going to be incentive for that to happen, which is part of what I think Trump intended for this is those that you know really want to put the effort in are going to get rewarded. And that is, you know, for your over 40 hours a week, there's going to be no tax on those additional wages that you earn. Now, how do companies deal with that? Do they start looking at it as, hey, if you're not going to pay taxes on this money, do I somehow adjust my overtime rules, either to encourage or discourage more overtime, depending on how I want to play that. So, I think employers are going to have to understand, you know, what they're going to have to deal with is, what is the new employee mentality going to be? And how do we deal with that new employee mentality if there truly is going to be no tax on these overtime amounts?

Lee: Right. Thanks. Okay, sorry to cut you off. You were talking about Social Security overtime. What's next?

Eric: Now, actually, I didn't talk about Social Security. I talked about tips and I talked about overtime. That's right, yeah, no, that's all right, because it's good you bring up social security. That actually was one of Trump's initial plans, is no tax on Social Security. That did not make it into this bill. So Social Security is still being taxed at the old rules, except what did make it in is that seniors get an additional tax deduction of $4,000. That's not offsetting total social security. So as of yet, this proposed bill does not say no tax on Social Security. It's just a small, small additional deduction for seniors.

Lee: Okay.

Eric: Some newer things in the building that are totally new, is there's something called a maga account, M, A, G, A. That stands for…

Lee: They like their names and their acronyms, don't they? They don't like any of this, you know, boring TCJA, like they did the first time around. He's, he's, he knows what he's, he's a marketer. He knows what he's doing. All right.

Eric: Yeah, I thought that was kind of a smart move if you're trying to brand yourself calling it a maga account, M, A, G, A, and what it is, is it's an account to set aside after tax dollars for beneficiaries like kids, and then at some point, those kids can get those savings at the end of a certain period, say, at age 18, or if you put it away longer in a trust. And so what would happen is you can fund these accounts with $5,000 a year, up until the kid reaches a certain age, and then that amount continues to grow, and it grows tax free, until the kid takes it out at 18 or later. And so that is a totally new concept. And in addition to that, the government would fund the first $1,000 that go into these accounts, starting in the year 2025 through the year 2028. So there'd be $1,000 funding by the government for any newborn to get the account started, and then you could add to it. So that's a big change in tax law to essentially get people starter saving kits for their kids.

Lee: Okay. And Eric, so essentially, it sounds like similar to a Roth IRA, and that it is post-tax dollars, but then builds, builds tax free.

Eric: Yeah, that's right, it's post-tax dollars. It builds tax free. And when you take it out, it's not subject to tax. The difference is, a Roth is for retirement. You start putting away money for yourself now, and then at age 65 you start taking it out. Well, in this case, it'll be starting to put away money for your kids now, but then when the kids 18, they can take it out. So it's kind of like a Roth retirement plan, but instead for kids who can now take it out when they're 18 for schooling or housing or whatever they're going to use.

Lee: Gotcha, okay, interesting.

Eric: Now, also included in the bill is a couple new things. There's a deduction for gym membership. So that's kind of part of the, what do they call it, The Make America Healthy Again? So you can have a deduction for gym memberships. There's a deduction for auto loans. So if you buy auto, take a loan out, the interest is deductible for the next three or four years. So I think the other things about this bill is there are some other business provisions in here as well, and then there's some funding for the bill that comes from Medicaid cuts. There's other cuts in here, but the big cuts are Medicaid. That I think is where the negotiation is going to happen. Some Republicans have already come out and said, We're not going to sign on to a bill that cuts Medicaid as much as this bill cuts Medicaid. And within the bill and cutting Medicaid, there are provisions for able-bodied people cannot collect this unless they're working and things of that nature. So there's more hoops to jump through to get to the Medicaid dollars that currently they don't, that recipients don't have to jump through. So that's going to be part of the negotiation. And if that comes out, then do you keep all the tax provisions in there, which is going to increase the deficit, or do you have to start trimming back some of these tax provisions.

Lee: Okay. And it sounds like, from what I've seen, and fill us in on the on the details here, if you like, but it seems like a lot of the negotiation still also is for that SALT, that SALT level, level is probably the wrong word, but you know what I mean, any idea of where you think that's headed.

Eric: Yeah, it's so what SALT stands for is State and Local Tax deduction. Currently, that SALT deduction, so the most you can take in deductions for state and local taxes, which includes income taxes and real estate taxes, is $10,000. That's a maximum amount you can take as a deduction. Again, whether you spend a million dollars on taxes or we spend $10,001 on taxes, you get a $10,000 deduction. That SALT cap at $10,000, the proposal is to increase it to $30,000. Now, the folks in the higher tax states still want a higher number than 30,000, so Republicans, say, from New York say, have said that number is not high enough. We need more, a higher cap on that SALT number. So that's going to be part of the negotiations as well as, what does that SALT cap ultimately end up being? Does it stay at $10,000, does it rise to $30,000 or does it go to even higher? There's a lot of revenue within that SALT number, meaning this: that that SALT deduction is worth something, and the higher that goes, the more it costs within the tax bill.

Lee: Okay. Well, again, as we've said, pretty much every episode so far, stay tuned. We will have continuing updates, which you know, every time we think we're going to have a little bit of a lull, more stuff happens. So, I know if, if we've talked about this sort of offline Eric, but if, if and when this bill passes, or a bill passes, not only will be covered on the podcast, but we'll probably do a standalone webinar going through it all too, because you just touched on the surface of some of these things, right?

Eric: Yeah, this is, there's more to this. And ultimately, what's going to happen for our profession is, you know, I think it will probably have more full employment act for us for the next three or four years as all this is implemented. There will be a lot of material to go through, and those that are filing tax returns now using programs like TurboTax or doing it on your own, some of these things that are being thrown in there may say you should probably get professional help to get this done and make sure you're taking advantage of them.

Lee: Great. Okay, so stay tuned. All right, we've touched on them before, but Eric, let's move on to our next segment. But this time, we're going to talk about China and the China tariffs, because yet again, in the last week, we have news there. Tell us what's going on.

Eric: Sure. Recall back on April 2, I think it was, when Trump declared some kind of Independence Day and…

Lee: Liberation Day.

Eric: Liberation, that's right, yeah, independence, I guess, is July 4, so April 2 is Liberation Day. So Trump instituted a number of tariffs on foreign countries, and one of those countries being China. China retaliated with its own tariffs, and then Trump retaliated back with 145% tariff on Chinese goods. What that really did is between China and the United States slowed down trade between the nations. Just recently, China and the United States have agreed on a level of tariffs. China's tariff is 10% coming in. The United States has a 30% tariff for Chinese goods coming in. This is a temporary rule for 90 days. So until about the middle of August, tariffs are set at these levels, which is certainly lower than the punitive rates that each country had on each other before. While this 90 days is in place, it United States and China are probably intending to work out a trade deal that will be more permanent.

Eric: Once that deal is done. I think what happens is a lot of other countries will look to that and say, Okay, now that the China is done, they'll be able to get their trade deals done too. So very few trade deals have been done yet. There's one with the UK they're being worked on. I think the China deal is the big deal to see how committed the United States is to, you know, keeping tariffs and essentially charging a premium for out of for outside countries to access the United States market. That's what the tariffs end up being, is a premium to come in and sell goods to the United States market. How committed is Trump to doing that? We'll see how that happens at the end of the day with the Chinese tariffs, because that's one of the United States biggest trading partners.

Lee: Yeah. So Eric, I know we've talked in previous episodes about the importance of business owners knowing where their products are coming from, understanding their supply chain, but I'm also hearing from you like, understand that, but also wait and see, because things are still moving and changing as quickly as possible.

Eric: Yeah, that's right, that's right and right now, I would think the advice is, what are you doing with your supply chain? And do you have alternative sources if you're currently getting goods from China?

Lee: Great. Okay. Again, we'll continue to touch on it as things change. But let's move on to our next segment and check the inbox. You can send us your questions at bizbeat@sva.com, or head over to sva.com/bizbeat to submit one. So, Eric, this week's question is, I've got a whole bunch of tax documents in my filing cabinet. How far back do I need to keep those? I think need being the key, the key question there.

Eric: Yeah, so let's start with need in terms of what the tax rules say. What the IRS can do is, the IRS can go back for up to three years and make an assessment of tax against you, and after that, there's something called the statute of limitations, and they can't go back any further than three years. So where do they start measuring the three years from? Let's say you filed your tax return for 2024 by April 15 of 2025. If the IRS is going to come and look at your tax return and do an audit and assess tax, they need to make that assessment by April 15 of 2028. So three years from the date you filed your tax return is when they have to make the assessment. So you want to keep your tax documents at least three years.

Eric: Now, Wisconsin's different. Wisconsin's four years. So Wisconsin has four years to come back and assess tax. So in that case, April 15 of 2029 would be the date. And then there's one other date out there, and that is, if the IRS thinks that you are understated your income too much, they can actually go back six years. So if you're in a position where you know maybe you forgot to report a large amount of electronic currency transactions, you know they can look back and argue that we should get to go six years backwards. So you want to keep your documents maybe six years to cover that, and then maybe an extra year or seven years at the outside. Anything longer than seven years, there's probably not a reason to keep from a tax standpoint, because it will likely never be needed by anyone outside of any outside tax authority. So seven years is probably the cap on when you'd want to keep all those documents.

Lee: And so for those people who have those tax returns going back 20 years, what do you suggest? Just shred them?

Eric: So I think they can shred them. Now, personally, I keep mine. I just keep all my tax returns from when I started, but that's more so I can look back at my own history. Anything older, though, than seven years from a tax standpoint, yeah, can be shredded. Maybe keep your tax returns if you want to just have records of what you earn, when you earned it over time, but that would be your own personal reason.

Lee: Great. All right. Awesome. Great advice. Keep those questions coming. We love hearing what you're thinking about. That wraps up this week's episode of The Biz Beat by SVA. If you liked what you heard or saw, go ahead and hit subscribe, leave a review and share the show with someone who's trying to stay ahead in business. New episodes drop weekly on Apple Podcast, Spotify, and on YouTube, and if you're one of the first 100 people to sign up at sva.com/bizbeat, you'll be entered into our $100 Amazon gift card drawing.

Lee: And of course, as a reminder, we're just talking general concepts here, so before you run ahead with any strategies that we may have discussed here, check in with your CPA or advisor, and if you don't have one, you should be calling us. So give me a call. Love to talk to you. Thanks again for tuning in, and we will see you next week on The Biz Beat by SVA.