The Biz Beat Podcast – Episode 01: Tariffs, the Augusta Rule, and Tax Predictions

Lee: Hey everyone, and welcome to the very first episode of the Biz Beat by SVA, where we break down the latest in business and tax news to help you stay informed and stay ahead, and who are you?

Lee: Well, you're probably a business owner or shareholder in a closely held or family-owned business. Maybe you're a CFO. Maybe you're a senior accountant, and maybe you're located in our home markets of Wisconsin and Colorado, or maybe you're not.

Lee: I'm your host, Lee Schwartz, Sales Director at SVA, and I'm joined by my cohost, Eric Trost, tax principal here, also at SVA Certified Public Accounts, and one of the sharpest CPAs that I know. Eric, you ready to kick this thing off?

Eric: You said one of the sharpest, Lee, I'm not the sharpest?

Lee: You’re, I know a lot of people. You're great.

Eric: Okay.

Lee: All right, let's do this, though. All right, before we dive in, I want to take a quick moment to explain why we're doing this, and with how fast things are moving, tax laws, economic policies, industry updates, it is really, really hard to keep up, and that's hopefully where this show comes in. We're here to give you a quick, trustworthy way to catch up on what matters for your business, and maybe hopefully have a little fun while doing it.

Lee: So, every week, we're going to cover current events in business and tax. Going to try and spotlight a surprising or lesser-known strategy, and we'll answer real questions from business leaders like you.

Tariffs

Lee: So, let's jump right in. Eric, I don't think it's going to surprise anybody, but first topic on our first podcast is tariffs. So, I want you to give us a little bit of background on where we've come to so far.

There's been a lot of change just in the last 24 - 48 hours. So, bring us up to speed on what's happening, and then we can dive into a little bit more about what to do with that information.

Eric: Yeah, thanks Lee. Where will I start? I think this is a good place to start, is trying to understand the mentality that's behind these tariffs and what they're trying to accomplish. I think if you understand that, you can understand maybe where the potential outcomes could be. So there's a lot of moving parts, and it's going up and down, but if you keep in mind the context of what are these tariffs trying to accomplish, and what I picture Trump doing with these is going back in time to say 1955. What was the United States like in 1955? and I think this is his vision of where he'd like things to look again, economically for the United States. And so what was happening back then? A lot of manufacturing, growing cities with job bases in manufacturing, and a large middle-class America that was involved in the manufacturing process. So, I think Trump sees that these tariffs are a way to try to retro the United States back into a manufacturing country again, from where it is right now.

Eric: And I think he's also trying to level the playing field with these tariffs and attack the causes of what happened to the United States from becoming a manufacturing powerhouse to having all this other global competition for manufacturing, seeing the jobs go offshore, and what's causing that? And a lot of that has to do with labor costs and finding labor in these lesser expensive areas that they have labor, but also lesser regulations, such as in China and in Mexico. And you'll see what some of the things we're going to talk about, China in particular, has become a target for Trump.

Eric: So coming to where we are now, what's been happening? On April 2, Trump announced the Liberation Day for the United States, and we are liberated from, I guess, unfair trade policies is what was set in place. So, a lot of these tariffs that came in were announced on April 2, and they were fairly significant tariffs for not just China, but for all of our trading partners. And through that announcement, you might have noticed the stock markets took a hit. They didn't like how this was going and introduced a lot of uncertainty.

Lee: Yeah, I noticed it. I can tell you, I noticed there. I felt right, yeah.

Eric: So trying to look too hard at it in your retirement plan. But anyway, on April 9, Trump then announced a pause on this, a 90 day pause for every country except China. And in fact, China has been doubled down on so the China tariffs right now sit at 145%. These are new tariffs in addition to whatever tariffs were out there, whereas every other country has dropped down to 10% with the idea, though, that this is temporary, and Trump intends to negotiate with each country specifically on working on a new trade deal, and we're seeing some of that come to fruition now.

Eric: Lately, there's been news on the US - India trade deal, coming to an agreement, and US - Japan coming to an agreement, along with some other countries. So, I think what's happening is it's a reset to trade with these foreign countries, and what Trump is doing is trying to get us in a position, I think, to recast all these trade agreements, and doing it on a one by one basis. Now, one thing you can say about Trump is he doesn't like to nibble at the edges. I think what this is, is he's knocking the system down and trying to create new trade rules for all these foreign countries.

Lee: Yeah, and, you know Eric, as I think about it, we're probably not going to be your main source for, you know, coming to us for breaking news on this stuff. This is a great place to get us to where we are. Now, the question is, what do you do with that information? You know, we've been through this now for a few weeks. We've got 70 days to go until the 90-day pause is done. In that time frame, if you're a business owner, what are you doing right now?

Eric: Yeah, I think there's a couple things, a couple simple things to pay attention to. One is, what's your supply chain like? I think if you are believing that Trump is going to accomplish some of this is really changing the landscape of where manufactured goods are going to happen and certainly trying to slide it more towards the US. So, looking at your supply chain right now, if it's heavily relied on foreign supply, such as from China, I think you've got to rethink where some of these things are going to come from in the future, and at least consider alternative sourcing for it.

Lee: Can I ask you a question before you go on, as you look at supply chain, how, so obviously if you're buying from a Chinese company, I think that's pretty straightforward. How concerned do you need to be about where your suppliers are also brought buying from?

Eric: Yeah, and I think you'll feel that as well. So it's not just understanding your direct supply chain, but where the ultimate supply of some of these products is coming from, if it's coming through suppliers even located in the here in the US, if their supply chain is coming from foreign countries, such as in this case, China.

Lee: Okay, so you were going to say the second thing,

Eric: I was but I was interrupted.

Lee: We'll get you. That's going to be a primary part of this podcast. It's going to be interrupting,

Eric: Yeah, and I think it should be, because you're very smart man too. Lee.

Lee: Sure.

Eric: The second thing is, and this is the easy thing too, is it's paying attention to what's coming up because of how fluid this is, you just simply have to stay in tune with what the tariff rules are right now and watch what's happening, and you're trying to use that to anticipate what could happen in the future. So, it's been a long time since our business owners and clients have paid attention to tariffs. There's been a lot of set-in place, things that haven't changed much over the years, not now. So now is the time to pay attention to how these tariffs are going and pay attention to the news and what's happening.

Lee: So then looking forward. So we're talking about sort of the next 70 days, and then we're going to see, we'll see what changes. Looking long term, if some of this knocking down the system is successful, and some of these things are more long term, what do you think the opportunity is then for, let's just go with manufacturers, but really for anybody to take advantage of what might become a different landscape out there?

Eric: Yeah, and I think what you mentioned is it starts with manufacturers. I think there's going to be new opportunities opened up as companies look to re onshore products that were formerly made offshore. And I think what you're going to see is an increased activity and increased demand for having at least an alternative source here in the United States for doing manufacturing.

Lee: We've talked about what the what you should do the next 70 days, maybe what long term looks like. But some of the things that I've been hearing out there Eric, and I'm hoping you can provide, shed some light on talk to us about tariff engineering.

Eric: Yeah, there's some companies looking out there at what's called tariff engineering, and what that implies, and what it really describes, is you're looking at the goods that you're importing and are under a certain tariff code, and perhaps trying to change them to get them under a different tariff code with a lesser tariff. So how the tariff system works is there's a bunch of codes that are set up to describe the products that you are importing, and if your product falls in one of these certain categories, there's an associated tariff that applies to that category. Not all tariffs are the same. So if you can move a product from a high tariff category to a lower tariff category through some kind of engineering process, then you might want to take a look at that.

Eric: And an example of that might be something as simple as, for example, the set of eyeglasses I'm wearing. An eyeglass itself as a completed manufactured product might have a high tariff. However, if imported, it comes in with the stems and the frame and the glass all separate those each might have separate lower tariffs that can be assembled here and essentially reduce your cost by having an assembly process done in the United States versus having a completed product come in.

Augusta Rule

Lee: Okay, that's super helpful. Really interesting information on tariffs. I'm sure we'll be talking about tariffs a lot in the coming weeks and months. But let's move on to our next segment. And I want to ask you a little bit Eric about you know, with the Masters wrapping up recently, the NFL draft is in Green Bay, there's a lot of talk about this Augusta rule. Can you give us a little bit of an overview of what that is and how people use it?

Eric: Sure. The Augusta rule is one of the rules that's very individual-friendly within the tax code. Not every rule within the tax code is this friendly. This one allows for tax free income for renting your house. And so how the Augusta rule works is that you can rent your house out for a period of less than 15 days during the course of the year, and you don't have to declare that rent income on your tax return. Now why it's called the Augusta rule is it really started with folks renting out their houses to people that were traveling to Augusta to watch the tournament. So folks would abandon their house or leave their house, rent it out for a period of, say, seven days while the tournament was going on, collect that income, and the government decided to offer a tax break there and say that income is not subject to taxation. Now this works for other than just Augusta. You don't have to be living in Augusta to take advantage of this. You can live in Green Bay and take advantage of this. So during the NFL Draft, if you are renting your house out to have someone stay there, in which case, I hear is what's happening, you can collect that cash, and as long as it's under 15 days, then the rental income from that is tax free.

Lee: Yeah, and I can think Eric, of a couple of other examples. Whether, you know, I'm located in Madison, you're in Brookfield, but we've got all of these locations have sort of their big annual event. And I, you know, I think back was it last year with the Republican National Convention, like people were renting out their houses all over Milwaukee for that. So this would fall under that rule as long as it's less than 15 days.

Eric: Yeah, that's right. And how some other folks use this is, and this is a more creative way, is that they might use their house for their management meetings throughout the year. So perhaps once a month, they have a management meeting at their house. And instead of paying a hotel for a conference room, having your managers come and set up and go through the agenda, they simply use their house. And so the company pays them a fair market value for the rental of their house for a day while they have that management meeting. So there are other ways to use the Augusta rule besides just these large events that you're referring to.

Lee: Great. Thanks. Super timely. Wanted to make sure we talked about that. Hopefully people can use that to their advantage when needed. So let's move on to our inbox. Every week, we're going to check our inbox. We're going to answer questions from you, our listeners. You can email us at: bizbeat@sva.com, or you can submit your question at sva.com/bizbeat. It's our first week, and I'm going to go ahead and tell you, we have fewer than 200 questions this week, Eric, so I'm going to I'm just going to pick up, I'm just going to pick one, and I'm going to put you on the spot. I've done this before. Maybe you can give us a little bit of background as to the why. But let's lock you in. There's been a lot of talk about tax legislation. We know it's coming. We know they're talking about it. What is your prediction for when tax legislation is going to get passed?

Eric: Yeah, I've given this a lot of thought Lee and I looked into my crystal tax ball, November 3. I think November 3 of this year is when tax law is going to get passed. Now here's how I got there, is I looked at the last couple of big tax law and health care changes under Obama that came up. When Clinton came in, in 1992, so first year he was elected, he got his tax law passed in August of 1993. So it took him about eight months in office to get his tax law passed. When Trump first got elected in 2016, he got his tax law passed in September of 2017, so it took him about nine months to get it done. And when Obama first got elected in 2008, it actually took him till March of 2010 to get Obamacare passed, and that was his big signature legislation. So it took him over a year, and Obama, at the time, had both the House and the Senate, just like Clinton did, just like Trump did when they did their laws. So why do I…

Lee: Just like Trump does now.

Eric: Just like Trump does now, it's a slim majority, but he's got a majority in both the House and the Senate. So I picked November because I think there is a lot to discuss on this tax law. Now there has been some agreement on what the debt ceiling is going to be raised to to allow these Trump tax cuts to continue on, but there will have to be a tax law because at the end of this year, there are so many things expiring that, these are things that Trump's wants to extend, but he also wants to throw in some other things within here. There's going to be some negotiation as to how they're paid for, or if they're going to be covered under an increase in debt, or if some of the spending cuts are going to pay for them.

Eric: Some of the things that Trump was looking for they campaigned on, are no taxes on tips, no taxes on overtime, and no taxes on Social Security. So those are all big moving things that if getting incorporated into the tax law happens, there's going to have to be some kind of offsets, either through debt, other tax increases or spending cuts. So I don't think it's going to go as fast as the first Trump tax law. Don't think it's going to go as fast as Clinton does, but I think it has to be done by the end of the year, and I'm hoping the politicians will do this before the last minute, in fact, before they go for their Thanksgiving breaks. That's why I'm picking November 3.

Lee: Okay, he's on the record. Well, I'm going to go on the record with November 2. And basically, that it's like a Price is Right. So that means I get all the dates beforehand, but we'll, we'll be…

Eric: That's a Sunday Lee. Guarantee it won't be signed on Sunday

Lee: Oh, that's fair enough. Fair enough. I think that's great and we'll be revisiting this, I'm sure we'll come back to this and see how, how that how your prediction, changes and obviously, we'll be talking about it as legislation starts getting put out there, and they start talking about what could potentially what could potentially be in that bill. We'll be visiting that on a regular basis as well. So, that wraps up our first episode of the Biz Beat by SVA. Thank you so much for joining us. New episodes drop every week on Apple podcasts and on Spotify. We will also be on YouTube. If you found today helpful, go ahead and subscribe. Share it with a colleague and let us know. Let us know what you'd like to hear next. Go to sva.com/bizbeat to sign up, and if you're one of the first 100 subscribers through that way, we'll put your name in a raffle for $100 Amazon gift card. And of course, if you have questions about your own business, tax planning or anything we talked about today, you can always reach out to me or the team at sva.com. Thanks again for joining us on the first ever episode of the SVA Biz Beat.