

**1 YEAR IN**



Donald Trump's first year in office  
**PROMISES KEPT AND BROKEN**

Mishpacha

# Mishpacha

**מִשְׁפָּחָה**

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**EXCLUSIVE!**

## just one picture

Rosh Yeshivas Orchos Torah  
Rav Shraga Steinman  
holds on to a single  
lasting image of his father

### THE MONEY TRAP

REAL PEOPLE.  
REAL MONEY.  
REAL MISTAKES.

A TERRORIST BULLET DARKENED  
RABBI RAZIEL SHEVACH'S  
EARTHLY LIGHT

### ON-SITE REPORT

TOUGH QUESTIONS FROM BIBI  
AT THE ANNUAL TOAST TO  
ISRAEL'S FOREIGN PRESS

### PILLAR OF SUPPORT

SHLOMO YEHUDA RECHNITZ'S  
TREASURED BOND WITH  
RAV AHARON LEIB STEINMAN



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with  
YITZCHOK SAFTLAS

# TAKE 5

BUSINESS TIPS FROM THE TOP

**ABOUT THE EXPERTS:**  
The father-son duo of **SAUL AND SIMEON FRIEDMAN** are partners at Saul N. Friedman and Co., a well-known CPA and consulting firm, founded in 1974.



## THIS IS NOT THE FIRST TIME MAJOR TAX REFORM LEGISLATION HAS BEEN PASSED – BUT IT IS THE FASTEST THAT MAJOR TAX REFORMS HAVE TAKEN EFFECT.

**1** WITH HIS EXPERIENCE, Saul Friedman has seen quite a bit of change. “A year or two before I started my practice — in the late ‘60s, early ‘70s — the top federal individual tax rate was 90%. When I started my practice in 1974, it was 70%,” Friedman recalls. “President Reagan changed the tax law, lowering the top rate to 28% in one fell swoop.”  
Sounds good, no? “Many, many tax loopholes and shelters were all discontinued,” he says. “It took a long time to get used to.” However, at the time, businesses and accountants had a number of years to prepare for and acclimate to these changes.  
With President Trump’s tax overhaul, the changes went into effect just days after the law passed. “This is a very short time to plan,” Saul Friedman admits. “There’s still a lot of ambiguity in the law... the more we absorb, the more we find out how complicated it is. We’re waiting for a lot of clarification.”  
“This pressure of change did not happen in my entire 44 years in the accounting industry.”

“The more we absorb, the more we find out how complicated it is... This pressure of change did not happen in my entire 44 years in the accounting industry”



## 2

### THIS MIGHT BE THE YEAR TO INVEST IN NEW, EXPENSIVE EQUIPMENT.

“TRUMP KNOWS THAT BUSINESSES THRIVE WHEN THEY GET NEW EQUIPMENT, WHEN THEY MAKE INVESTMENTS IN FIXED ASSETS,” explains Saul Friedman. “If you buy equipment or fixed assets that are eligible, you can expense the entire purchase amount in the first year. You don’t have to depreciate over a number of years.”  
This is the case even if you didn’t pay for the equipment in full. “If you buy a piece of equipment for \$100,000, and the bank finances \$80,000 of it, you can take a \$100,000 deduction even though you only paid \$20,000.”  
Not only that, but this part of the tax reform is the only change that is retroactive to September 27, 2017. “That’s because in anticipation of lower rates, some people went out and bought equipment,” the Friedmans explain. “Trump wanted to make sure they would be able to write it off.”

## 3

### PASS-THROUGH ENTITIES – IF THEY QUALIFY – WILL BE ABLE TO DEDUCT UP TO 20% OF TAXABLE INCOME.

“UP UNTIL NOW, THE TOP INDIVIDUAL TAX RATE WAS 39.6% ON THE FEDERAL LEVEL — that’s the tax rate you paid on income generated by your business,” explains Saul Friedman. The new legislation lowers that top rate to 37%, with a deduction for eligible pass-through small businesses of up to 20% of their business income.  
Say you earned \$1 million in profit and would have paid the 39.6%; now you’re going to pay 37%, but only on \$800,000 — because you’re getting a deduction

of 20%, or \$200,000.  
“That means the effective tax rate for pass-through businesses is 29.6%, a reduction of 10% off the top rate,” Friedman says. “In small businesses, that is a lot of money in the shareholders’ pockets.”  
“The entities themselves actually don’t get the deduction,” clarifies Mr. Friedman. “They report the income to the shareholders who then can deduct the 20% on their personal tax returns. However, the 20% deduction has certain limitations. The most important one is that

it is limited to 50% of the W2 wages for the year. There are other limitations and exceptions as well.  
Service corporations, including lawyers, accountants, doctors, consultants, mortgage brokers, and stockbrokers, are not eligible for this deduction — unless they file jointly with a spouse and make under \$315,000 a year.  
Architects and engineers, however, are eligible “because those professionals are working on building construction projects that President Trump wants to encourage.”

TERMS TO KNOW

**PASS-THROUGH ENTITY** a business structure that carries no tax burden on the entity level; income passes through the entity to the shareholders, who then report it on their personal returns. The actual structure can vary (e.g., an S Corporation, LLC, Partnership, Sole Proprietorship).  
**C CORPORATION** a business structure that retains income within the entity; taxes are paid by the entity. Typically thought of as large corporations, but even small businesses can be C corporations.



# 4

## IT MAY BE LUCRATIVE FOR CERTAIN BUSINESSES TO CHANGE THEIR STRUCTURE.

TAX CHANGES FOR C CORPS SEEM LESS COMPLICATED, AT THE SURFACE.

"The highest federal tax bracket is knocked down from 35% to 21%," the Friedmans explain. That's why many companies like Walmart and Pepsi are giving bonuses, sharing their windfall with employees.

Sounds like large corporations got a better deal than small businesses. Not so, say the Friedmans. Though a C corp now pays less tax at the entity level, when it distributes dividends to its shareholders, the shareholders have to pay dividend tax again — essentially a double tax. Pass-through companies only pay once — at the individual level, and do not pay any tax on dividends.

Yet if a shareholder doesn't pull profits out of the business — it just leaves them there to grow — it will only pay the 21%, with no dividend tax (since there were no dividends). If this company is currently an S corp, switching to a C corp could save about 9% in taxes.



To hear more, tune in to Yitzchok Saftlas's *Mind Your Business* radio show on 77WABC Sundays at 10 p.m.

# 5

## IT'S WORTH INVESTING IN A GOOD ACCOUNTANT OR TAX PROFESSIONAL

SWITCHING TO A C CORP IS EASY, SAY THE FRIEDMANS, "providing it's done before March 15, 2018." The hard part is making the decision. "We have to do an analysis — how much distribution do you take every year, what are the anticipated profits, are you planning on taking out money to invest in other ventures? Once you switch from an S to a C, you cannot switch back for five years."

The Friedmans describe one analysis they conducted for a client who, over a ten-year period, would save \$70 million by switching to a C corp. "In the first six years, the client will be saving a significant amount of money," they explain, "but for the last four years, the client will be paying more taxes as a C corp." At that point (after six years), they may be able to switch back to an S corp — if the IRS doesn't change the rules before then.

This illustrates the level of complexity — and potential savings — of the new tax reforms. "The small businessman is the one who's most affected," the Friedmans stress.

"Until the laws settle in, it's going to be very complicated," says Saul Friedman. "I urge you to sit down with your accountant or your tax advisor, and see how you can take the most advantage of the tax cuts."

"Conceptually you should understand the basics, so you know when to ask questions," adds Simeon Friedman. "At the end of the day, rely on a professional so you can be sure the decisions are the correct ones."

