Taxation

A Roundtable Discussion

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LUCAS HORSFALL provides financial and advisory services for a diverse group of clients throughout the southwest. Areas of concentration include manufacturing, wholesale distribution, real estate development, construction, insurance brokers, professional organizations, high tech and not-for-profit entities and foundations. The firm also works with many individual clients in the area of tax preparation, tax and estate planning, and family trusts.

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With the unique and uncharted scenarios that we have faced over the last few years, business owners, CFOs and other C-suite professionals have had to tackle more challenges than ever before. The economic climate has forced companies to make changes to the way they do business and to the way they approach their economic strategies, including the way they manage their taxes.

Financial stewards (accountants, financial planners, CFOs) have found themselves needing to be on the pulse of changing tax laws and strategies more than ever before while navigating the ever-changing business finance terrain. How has the taxation landscape changed and what do businesses need to know to optimize their balance sheets? To answer these and other pressing questions, we turned to the expertise of some of the leading taxation authorities in the region.

Are there any big changes to tax laws in 2025 that businesses should be aware of?

WIENER: Given the results of the November 2024 election and the looming expiration of key provisions of the Tax Cuts and Jobs Act, tax legislation will likely be a high priority this year. It is too soon to know what the contents of this legislation will be, but I think it is reasonable to expect that matters like the SALT Cap, QBI deduction, bonus depreciation and qualified opportunity zones will be addressed.

ELKNER: The bonus depreciation is 40% in 2025, continuing to phase down unless Congress makes changes. On January 23rd, 2025, the Supreme Court issued a stay of a nationwide injunction that banned enforcement of beneficial ownership information (BOI) reporting requirements. We are not sure at this moment how the Financial Crimes Enforcement Network (FinCEN) would enforce BOI reporting requirements. We will have to wait and see. Significant portions of the Tax and Jobs Act (TCJA) are set to expire at the end of 2025, and it will be hard to forecast what is going to be extended and what is not due to the high cost/the increase of deficits.

McLEOD: There are a lot of unknowns about where the new administration will land with tax reform. Trump recently stated his desire to end tax breaks on carried interest and for sports team owners while also expanding the state tax deduction. He also reiterated his campaign promises around decreasing taxes on overtime, tips and Social Security.

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It remains to be seen whether that applies to businesses, individuals, or both. There are others that we are watching, such as increasing bonus depreciation (from the 2025 limitation of 40 percent), the likelihood of an extension or amendments for section 174 which requires capitalization of R&D expenses, and some hotly contested issues around the interest limitation under 163(j). It remains to be seen what happens with these as there are competing priorities with the OECD's focus on a worldwide tax regime and the cost related to some of these provisions. Additionally, during the prior Trump administration, the corporate tax rate was lowered to 21 percent from 34 percent – increasing that tax rate again is sometimes cited as a way to offset costly extensions of taxpayer-friendly provisions.

Can you elaborate on tax incentives and credits available to businesses and how they can leverage them effectively?

AMERIO: The Research and Development (R&D) tax credit is a way for businesses to reduce their federal tax bill by six to eight percent. Businesses and companies of all sizes and industries can qualify. The R&D tax credit is that it is not limited to research and development in the traditional sense in that it includes any activity or project undertaken for the purpose of improving existing products, creating new products, or improving software processes.

How would you forecast the fiscal outlook for businesses in California over the coming few years?

ELKNER: I would continue to forecast budget deficits for at least the next few years. Revenue may be rising slightly, but spending will likely be rising at a faster pace. Even though California has a large population of high wage earners, and they pay high income taxes to the state, those revenue increases are just not enough. High healthcare costs, disaster aid (wildfires) and public education are among the primary drivers of high costs in the state, and those are hard to reduce because they involve basic life necessities and key components for fueling an expanding economy. The recent run-up in the stock market, which appears tied to optimism surrounding artificial intelligence or confidence in a new administration, is a primary driver of the rapid growth in pay to high-income earners. Stock compensation has become an increasingly important form of pay among California's high-income workers, especially those at major technology companies.

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In the wake of the recent devastating wildfires, what top-level financial advice would you give to businesses that suffered significant losses?

WIENER: Be aware of the tax relief options that are available. The IRS and Franchise Tax Board have both issued relief extensions. For affected taxpayers, most tax deadlines that fall between January 7, 2025 and October 14, 2025, are extended until October 15, 2025. The deadlines that are extended include both the identification deadline and the acquisition deadline for affected taxpayers engaged in 1031 exchanges. The application of the 1031 extensions is not always clear, and businesses should consult their tax advisors, but they should be aware that these extensions exist. Businesses may also take advantage of the benefits provided by Section 1033 of the Code, which allows taxpayers to defer gains realized due to property destruction.

McLEOD: The casualty loss rules are complex because they often result in income recognition that is different than the period in which the loss was sustained. It is important for businesses to be in contact with their tax advisors and to bring them along on the journey as they are discussing insurance reimbursements, federal assistance, state assistance and any other loss offset opportunities. This is an area that can be quite complicated and where the rules have recently changed.

ELKNER: First and foremost, our hearts go out to all who have suffered from the devastating wildfires. On the plus side, there are so many resources that are available to help rebuild businesses and individual property owners. On January 18th, 2025,

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Governor Newsom announced that five major financial institutions will offer mortgage relief for property owners in designated fire areas and has issued many executive orders to assist in the recovery. The American Bankers Association Foundation announced it will begin collecting tax-exempt contributions through its disaster relief program. The National Association of Insurance Commissioners has published a post-disaster claims guide offering a step-by-step overview of catastrophic claims processes. Ca.gov/LAFires has various resources available online.

What are some of the things that tech savvy accountants can do for their clients now that they couldn't before?

AMERIO: Accountants can now offer clients increased security and on-demand access to their data through cloud accounting. Financial information can be uploaded and downloaded from anywhere and clients can rest assured knowing that basic accounting like reconciliation are performed with accuracy. Many time-intensive processes can be automated and this enables accountants to focus more on analyzing results and tailoring services specific to each client's needs and spend less time on manual data entry.

What are some of the top concerns of CFOs in 2025 in terms of taxation — and how do you help them?

McLEOD: I think the uncertainty around what will happen with tax legislation is a top concern for most CFOs. There is lots of speculation but currently very little detail and the process of tax legislation is extremely complex. The most important thing for a CFO is to pay close attention to income acceleration opportunities in a year when you may have a lower tax rate and deduction acceleration opportunities or deferrals in a period when the tax rate might be higher. That is smart tax planning and something an experienced tax advisor can help any business navigate. Having a tax advisor that is familiar with your industry can be incredibly powerful because there may be industry-specific opportunities to defer income or accelerate deductions. Find an industry expert and make them your favorite tax advisor.

What specific federal or state changes to taxation are likely to cause the most significant problems for your clients' businesses? Why?

ELKNER: IRC 274(o) will be effective for costs for meals incurred or paid after December 31st, 2025, which means that meals provided at the convenience of the employer will not be deducted, and thus, employers will pay income taxes on those expenses. TCJA expiration would have a profound effect on tax planning for all. The top individual rate returns to 39.6%! The loss of the Section 199A deduction for certain pass-through business income would compound the problem, with the top effective rate on qualifying income flowing from S corporations and partnerships rising from 29.6% to 39.6%. In addition, millions of individual taxpayers would also be subject to the alternative minimum tax. Lawmakers will need to identify savings or new revenue sources and make difficult decisions to achieve their goals. Certain provisions of the TCJA may be allowed to expire, change, or adjust.

What strategies can businesses employ to optimize their tax liability while remaining compliant with tax regulations?

WIENER: I often tell clients first and foremost, do what makes the most business sense. Minimizing tax liability is important, but you should not make a bad business decision solely in order to reduce your tax liability. Businesses should first decide what course makes the most business sense and then work on structuring to reduce tax liability. The Treasury Regulations account for business realities and often provide sufficient flexibility for businesses to reduce their tax liability while complying with the regulations.

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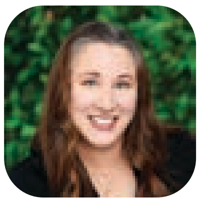
What role does depreciation play in business taxation, and how can businesses use it to their advantage?

McLEOD: Depreciation is an opportunity for a business to invest in long-lived assets and capital improvements while recapturing the benefit of that investment over a period of time. The rules are not the same for book as they are for tax; in some instances, there is an opportunity to accelerate the investment recapture for tax purposes. Depreciation can also be a quite tricky area if you file in multiple states. Every state has different rules with respect to their conformity to federal depreciation. In some cases, bonus depreciation may or may not apply depending on your state filing requirements. Take advantage of opportunities to accelerate deductions using provisions like Section 179 and bonus depreciation and understand the depreciation rules for your industry.

AMERIO: Depreciation allows businesses to recover the cost of certain assets, such as vehicles, furniture and buildings, over a number of years by deducting a part of the cost every year until the cost has been fully recovered. The amount of taxable income is reduced as the value of assets is depreciated. Ultimately, depreciation reduces the amount of taxes a business pays.



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In terms of tax reform, what do your clients need to know about the road ahead?

ELKNER: The current administration's tax initiatives may progress swiftly due to majority control in the Senate and House. However, it is challenging to predict the final version of the law or which provisions of the TCJA will be extended or eliminated. Given the narrow majorities, there may be negotiations before the final product is enacted. Therefore, it is important to remain flexible in tax planning and closely monitor developments. There could be both positive and negative implications, such as potential reductions in income taxes and the possibility of high inflation due to tariffs. Consider the impact of provisions that may have less widespread support, such as estate and gift tax lifetime exclusions.

McLEOD: With a Republican majority in the House and Senate, it remains to be seen how the current administration will address tax reform and tax legislation. There are a lot of competing priorities and many of those are quite expensive for the Treasury. As is always the case with tax legislation, businesses and industries will begin lobbying for their preferred tax regime, which can slow down legislation. Additionally, the IRS issued a flurry of regulations at the tail end of 2024, many of which are still being digested by tax professionals. There is some question about whether a Supreme Court case regarding the enforceability of certain administrative regulations may impact some of those regulations. Needless to say, there is ambiguity and complexity that will require businesses to have up-to-date tax advice.

How does the tax treatment of employee benefits impact both employers and employees?

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AMERIO: For employers, the cost of employee benefits is tax deductible. Offering non-taxable benefits, such as group life insurance policies, tuition reduction, transportation and commuting costs, in addition to fringe benefits (including bonuses, a company car, and moving costs) to employees is a highly effective way to attract and retain top talent. Both types of benefits bring in top talent, enhance morale and keep turnover low.

In what ways can businesses ensure compliance with tax laws and regulations to avoid legal issues and penalties?

McLEOD: Consult, consult, consult and consult more with your tax advisor and do not wait until the last minute. GHJ is helping Los Angeles County clients navigate disaster relief extensions for the wildfires, which have pushed tax deadlines to Oct. 15. The reality for those types of extensions is that they often result in businesses decelerating their tax compliance processes. Waiting until the last minute can hurt a business if they do not allow adequate time for consultations with their tax advisor. Avoid any pitfalls by reaching out regularly to your tax advisor.

ELKNER: Non-compliance with tax laws can result in significant financial costs. To mitigate these risks, it is crucial to retain a qualified and knowledgeable tax practitioner or a reputable tax professional. Maintaining accurate and reliable recordkeeping is essential for maximizing deductions and avoiding legal issues. Poor recordkeeping can lead to significant problems, as receipts and other documentation may become unreadable over time. Businesses should ensure they have detailed documentation for Schedule C and E deductions. Without proper source documentation, tax courts may dismiss accounting records as mere arguments rather than evidence, reducing the likelihood of a successful audit or court challenge. Proper substantiation of noncash charitable contributions, including letters of acknowledgment and qualified appraisals, is also necessary to avoid denial of deductions. Staying informed about tax law changes is vital. Businesses should follow reputable news sources and attend seminars to keep up to date. Avoiding disinformation and political hyperbole will help ensure compliance and facilitate appropriate tax planning for optimal results.

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Can you discuss the impact of tax planning on a business's financial performance and long-term sustainability?

WIENER: Prudent tax planning can boost any business's bottom line. Tax planning allows businesses to defer their tax liabilities, which allows them to invest – and generate additional returns from – the money they would otherwise use to pay their taxes.

McLEOD: Cash taxes are often one of the larger expenses for a business and that can become even more complicated when you have a business with potential nexus in multiple states or foreign jurisdictions. Understanding your tax footprint is an important part of managing your cash outflow and gives your business the opportunity to be thoughtful about bringing down your overall tax rate by investigating certain planning opportunities. Tax compliance is really only one small part of the impact taxes can have on a business when you consider sales taxes, property taxes, income and franchise taxes, employer taxes, etc.

What considerations should businesses take into account when planning for succession or ownership transfer in terms of tax implications?

AMERIO: A few things to take into consideration are the following: What is the desired outcome? Who is taking over ownership? A family member? One or more employees? To what extent are the original owners planning on being involved? If a family member is to take over the ownership, there are a few approaches that can be considered. First, the business can be gifted directly to family members during the owner's lifetime. This is the most straightforward approach, and has the benefit of reducing the size of the taxable estate. The business can also be transferred through an estate plan. This is also a simple and straightforward approach, and makes sure that the business goes to the intended beneficiaries.

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McLEOD: Succession is an incredibly important part of ownership and wealth transfer for any closely held business. It involves a comprehensive look at both the business's growth plans and the family's wealth plans and requires your tax advisor to be in lockstep with your estate attorney. In fact, GHJ often consults with both estate attorneys and real estate attorneys to come up with the best approach for our clients. Having a comprehensive estate plan is critical to any business succession plan and all of these pieces have to come together in order to create the best outcomes.

WIENER: One consideration that is often overlooked in succession planning is property taxes. When property is contributed to a legal entity in a proportionate transfer that is exempt from reassessment, the so-called "original co-owner" rules apply. If the original co-owner rules apply, a transfer of more than 50% of the ownership interests in the transferee legal entity will cause a reassessment of the property. The ownership interest transfers referred to in the previous sentence include transfers made upon death or for estate planning purposes. Taxpayers need to be mindful of these rules and plan accordingly.

California Wildfire Victims Qualify for Tax Relief

Various deadlines postponed

Last month the Internal Revenue Service announced tax relief for individuals and businesses in southern California affected by wildfires and straight-line winds that began on Jan. 7, 2025.

These taxpayers now have until Oct. 15, 2025, to file various federal individual and business tax returns and make tax payments.

The IRS is offering relief to any area designated by the Federal Emergency Management Agency (FEMA). Currently, individuals and households that reside or have a business in Los Angeles County qualify for tax relief.

The same relief will be available to any other counties added later to the disaster area. The current list of eligible localities is always available on the Tax relief in disaster situations page on IRS.gov.

FILING AND PAYMENT RELIEF

The tax relief postpones various tax filing and payment deadlines that occurred from Jan. 7, 2025, through Oct. 15, 2025 (postponement period). As a result, affected individuals and businesses will have until Oct. 15, 2025, to file returns and pay any taxes that were originally due during this period.

This means, for example, that the Oct. 15, 2025, deadline will now apply to:

- Individual income tax returns and payments normally due on April 15, 2025.
- 2024 contributions to IRAs and health savings accounts for eligible taxpayers.
- 2024 quarterly estimated income tax payments normally due on Jan. 15, 2025, and estimated tax payments normally due on April 15, June 16 and Sept. 15, 2025.
- Quarterly payroll and excise tax returns normally due on Jan. 31, April 30 and July 31, 2025.
- Calendar-year partnership and S corporation returns normally due on March 17, 2025.
- Calendar-year corporation and fiduciary returns and payments normally due on April 15, 2025.
- Calendar-year tax-exempt organization returns normally due on May 15, 2025.

The IRS is offering relief to any area designated by FEMA. Currently, individuals and households that reside or have a business in Los Angeles County qualify for tax relief.

The Disaster assistance and emergency relief for individuals and businesses page has details on other returns, payments and tax-related actions qualifying for relief during the postponement period.

The IRS automatically provides filing and penalty relief to any taxpayer with an IRS address of record located in the disaster area. These taxpayers do not need to contact the agency to get this relief.

It is possible an affected taxpayer may not have an IRS address of record located in the disaster area, for example, because they moved to the disaster area after filing their return. In these kinds of unique circumstances, the affected taxpayer could receive a late filing or late payment penalty notice from the IRS for the postponement period. The taxpayer should call the number on the notice to have the penalty abated.

In addition, the IRS will work with any taxpayer who lives outside the disaster area but whose records necessary to meet a deadline occurring during the postponement period are located in the affected area. Taxpayers qualifying for relief who live outside the disaster area need to contact the IRS at 866-562-5227. This also includes workers assisting the relief activities who are affiliated with a recognized government or philanthropic organization. Disaster area tax preparers with clients located outside the disaster area can choose to use the bulk requests from practitioners for disaster relief option, described on IRS.gov.

ADDITIONAL TAX RELIEF

Individuals and businesses in a federally declared disaster area who suffered uninsured or unreimbursed disaster-related losses can choose to claim them on either the return for the year the loss occurred (in this instance, the 2025 return normally filed next year), or the return for the prior year (2024). Taxpayers have extra time – up to six months after the due date of the taxpayer's federal income tax return for the disaster year (without regard to any extension of time to file) – to make the election. For individual taxpayers, this means Oct. 15, 2026. Be sure to write the FEMA declaration number – 4856-DR – on any return claiming a loss. See Publication 547, Casualties, Disasters, and Thefts, for details.

Qualified disaster relief payments are generally excluded from gross income. In general, this means that affected taxpayers can exclude from their gross income amounts received from a government agency for reasonable and necessary personal, family, living or funeral expenses, as well as for the repair or rehabilitation of their home, or for the repair or replacement of its contents. See Publication 525, Taxable and Nontaxable Income, for details.

Additional relief may be available to affected taxpayers who participate in a retirement plan or individual retirement arrangement (IRA). For example, a taxpayer may be eligible to take a special disaster distribution that would not be subject to the additional 10% early distribution tax and allows the taxpayer to spread the income over three years. Taxpayers may also be eligible to make a hardship withdrawal. Each plan or IRA has specific rules and guidance for their participants to follow.

The IRS may provide additional disaster relief in the future.

The tax relief is part of a coordinated federal response to the damage caused by these storms and is based on local damage assessments by FEMA. For information on disaster recovery, visit DisasterAssistance.gov.

REMINDER ABOUT TAX RETURN PREPARATION OPTIONS

- Eligible individuals or families can get free help preparing their tax return at Volunteer Income Tax Assistance (VITA) or Tax Counseling for the Elderly (TCE) sites. To find the closest free tax help site, use the VITA Locator Tool or call (800) 906-9887. Note that normally, VITA sites cannot help claim disaster losses.
- To find an AARP Tax-Aide site, use the AARP Site Locator Tool or call (888) 227-7669.
- Any individual or family whose adjusted gross income (AGI) was $84,000 or less in 2024 can use IRS Free File's Guided Tax Software at no cost. There are products in English and Spanish.
- Another Free File option is Free File Fillable Forms. These are electronic federal tax forms, equivalent to a paper 1040 and are designed for taxpayers who are comfortable filling out IRS tax forms. Anyone, regardless of income, can use this option.
- MilTax, a Department of Defense program, offers free return preparation software and electronic filing for federal tax returns and up to three state income tax returns. It's available for all military members and some veterans, with no income limit.

Learn more at IRS.gov.

CFO Optimism Continues to Grow

A new survey from Grant Thornton, revealed a dramatic surge in confidence and optimism from chief financial officers (CFOs).

Grant Thornton's Q4 2024 CFO survey engaged more than 250 senior finance leaders and found the uncertainty associated with the election in November has given way to unrestrained optimism about the US economy and meeting business goals. In fact, that optimism rose to 68% — the highest mark since the third quarter of 2021.

Compared with the previous quarter, the rises in optimism and some key confidence metrics are unmatched in the four years that this survey has been conducted. Respondents reported 13-quarter highs in their confidence in meeting growth projections (65%), increased demand (64%), cost control goals (62%) and labor needs (60%).

Paul Melville, national managing principal of CFO Advisory for Grant Thornton Advisors LLC, said the reduction of uncertainty that defined a contentious election period is fueling CFO optimism.

"The fact that the election was clear one way or another has CFOs feeling a sense of relief," said Melville. "Now finance leaders can proceed with more confidence."

AN EYE ON TAX POLICY CHANGES

With the expiration of much of the Tax Cuts and Jobs Act set to take place at the end of 2025, and following the November vote, 33% of respondents said tax policy is the election-related factor that will have the biggest impact on their business in the coming year.

Despite the lack of specificity related to taxes, Dana Lance, national Tax Solutions leader for Grant Thornton Advisors LLC, suggested that there are important tax considerations an organization can start assessing now. Interest and research expense planning, Pillar 2 implementation, transfer tax planning and fixed asset strategy implementation can put an organization in a favorable position while awaiting more specific policy details.

"Doing this can help a business get ready so that, as soon as the policy direction clears up, leadership can act quickly to get the best result from the changes," said Lance.

With that, 45% of respondents will be increasing or accelerating investments as a result of the election, while just 15% are holding off on some investments.

DIGITAL TRANSFORMATION AND AI ADOPTION SURGE

The rapidly accelerating use of artificial intelligence (AI) reflected in the survey has been accompanied by a substantial return on investment (ROI) for many organizations. Eighty-seven percent of the respondents who are using generative AI said they have calculated the total cost of implementation, including setup, training and third-party advisory costs.

More than two-thirds (68%) of generative AI users said they have realized returns of at least double their investment. They're deploying the technology for data analytics and business intelligence (73%), cybersecurity and risk management (63%) and customer experience management (61%).

The survey shows that many organizations might need to reinforce AI guardrails, as the portion of CFOs who said their board of directors has taken an active role in understanding governance fell to a six-quarter low of 41%.

Meanwhile, CFOs who said their organization has formal training in place on generative AI fell to 48%, down from 58% in Q2.

"Boards are engaging in thoughtful discussions about AI with management, particularly around generative AI and where experimentation with these new tools could lead to risks," said Mike Notarangelo, partner and Private Equity Audit & Assurance leader at Grant Thornton LLP. "They want to understand how it's being used, how risks are being addressed, and how spend is being managed as part of maintaining an appropriate AI governance framework."

BEEFING UP CYBERSECURITY

Cybersecurity is the second-highest focus area for CFOs, just slightly behind cost optimization. The dramatic rise in use of generative AI and other technology has CFOs determined to make substantial commitments to cybersecurity upgrades.

The survey showed that 69% of respondents expect cybersecurity expenses to increase over the next 12 months — a 16-quarter high and an increase of 16 percentage points over Q3.

Additionally, 63% of finance leaders whose organizations are using generative AI are deploying it for cybersecurity and risk management — up from 55% in Q3.

Derek Han, principal and cybersecurity and privacy leader for Risk Advisory Services at Grant Thornton Advisors LLC, said the pairing of cost optimization with cybersecurity is significant, as CFOs are looking for budget-friendly ways to manage risks.

"The increased cyber spend doesn't mean they're necessarily going to add more people," Han said. "They might actually be looking at reducing the overall labor cost but using the funding to invest in more automation to improve the efficiency and accuracy of their controls."

To learn more, visit grantthornton.com.