How did preparing for the Tax Cuts and Jobs Act affect this year’s tax season?

RONALD B. HEGT | Tax Partner | White Plains

I don’t think the tax season was drastically worse than before. It presented me with the more fun part of the practice: the thinking and planning and working through new issues. We all make our living on compliance, but the planning is where the real fun comes in.

Everyone basically asked the same question: “How much, how badly, will this hurt me?” We began planning for these questions in December. We ran generic projections for different income levels and locations, and we knew what group of people this was going to hurt and which group it would help. So we had advance conversations with clients about what their picture was probably going to look like. Then, using software, we were able to project what their 2018 [taxes] might look like, too. This was good for clients, not just so they could get a handle on what was to come, but because it got them thinking about tax planning early.

Now, the thing that took a lot of time is the new pass-through entities deduction. The big challenge was figuring out who qualified [because of the exclusion for a “specified service trade or business”]. Certainly, at one end of the spectrum, you know the law firm or doctor’s practice doesn’t qualify; and at the other end, a manufacturer does. But we live in the 80 percent of the world between those two. “Can I spin off the nontechnical part of a professional practice into a separate entity and maybe turn that into an eligible business?” “Is an insurance broker eligible?” “Is a headhunter eligible?” We don’t have answers to these questions. I can’t tell clients to start the legal reorganization of their business if there’s the possibility that I’ll have to tell them later that we got the regulations and they wasted their time. Mostly, we’ve been telling clients to just hold off until we get more concrete information.

ROBERT S. BARNETT | Partner | Jericho

With estate planning, our wealthier clients were more inclined to make gifts to utilize the doubling of the estate tax exemption before it could either sunset or reverse. So they were looking at gifts, with a renewed attention on the generation-skipping tax (GST) because the increased exception also applied to the GST, and they were very proactive in taking advantage of that to alleviate the next generation’s estate problems.

Because in New York you lose the benefit for all deductions past a certain point, those close to that cliff were very focused on utilizing either direct kinds of shelter trust planning or disclaimer planning for qualified disclaimers—we found a tremendous interest in that. Clients also paid a tremendous amount of attention to the step-up in basis [changed value of an inherited asset], which was very interesting to see. Our elder care department has been seeing a lot of interest in developing the step-up features within an elder care or Medicaid trust.

The other thing that got a lot of attention—I think too much—was entity choice and 199-A [business deduction for pass-through entities].

KATHRYN H. VUNIC | Sole Practitioner | Manhattan

I think, for the most part, practitioners found it difficult to accurately calculate estimates the way we’ve been able to do in the past because so many of the changes impact one another. For example, now we have the SALT [state and local tax] deduction limit of $10,000, but the changes to the alternative minimum tax (AMT) need to be considered to determine how exactly the SALT changes impact an individual taxpayer. When practitioners are calculating an individual’s estimates, they really need to ensure that they are looking at each change in the law to see how the various changes play against each other. A lot of times, for example, clients who used to be in the AMT zone aren’t as impacted by the adjustments to SALT deductions, but you may have other clients who now won’t be impacted by the AMT at all, or who, for the first time, will be impacted by it, so the whole thing is more complex because of all the moving parts. Additionally, tax brackets have changed, so that is another piece of the calculation that needs to be addressed. And this is just what’s actually in the law—there are also a lot of misconceptions you need to address, where even those who are very financially astute can sometimes have difficulty understanding how the new law would impact them.

Overall, what this has meant is that things took a little more time this year. All these changes mean that I had to spend a little more time than in other years reviewing information to make sure everything was accurate.

VINCENT J. COSENZA | Tax Manager | Manhattan

Our clients have been asking a lot of questions, especially about the 20 percent business deduction for pass-through entities. Determining whether they qualified was difficult because of all the different variables, like the W-2 wages of each entity, and all the different thresholds to deal with. I had to figure those numbers out and see how they stacked up against the limitations. At the end, a few clients were able to qualify. A lot of people were also affected by the changes to the state and local tax deductions. Most had to pay more in taxes due to the loss in benefits.

Overall, things were challenging because we basically had to do tax planning for two years—2017 and 2018—to see how the 2018 taxes would affect them, and give them a heads-up on what to expect. This meant we had to put in more time in what was already an intense busy season.