THE BUSINESS OF

ACCOUNTING

A Discussion with the Experts

The San Fernando Valley Business Journal has once again turned to the experts at gish SEIDEN LLP — who are among the leading accountants in the region — to get their assessments regarding the current state of business accounting, economic variables, and the various trends that they have been observing, and in some cases, driving.

What follows is a series of questions we posed to these financial stewards of the Valley area and the unique responses they provided – offering a glimpse into the state of business accounting in 2018 – from the perspectives of those in the trenches delivering financial advice and leadership to the businesses of our region today.

Participants in this discussion included:

DARRYL J. GROSS, CPA
PARTNER
gish SEIDEN, LLP

SARGIS ISAVI, CPA
TAX MANAGER
gish SEIDEN, LLP

BARRY WOLFE, CPA, MBA
SENIOR AUDIT MANAGER
gish SEIDEN, LLP

gish SEIDEN LLP
Certified Public Accountants & Advisors

ACCOUNTING ROUNDTABLE

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BARRY WOLFE

'A well-structured estate plan gives you peace of mind by naming a guardian for your minor children, appointing trusted people to manage your affairs, keeping your affairs private, building a legacy to pass on to your loved ones, choosing who will make emergency health care decisions for yourself and loved ones in the event you are unable to do so.'

SARGIS ISAVI

'Arguably the biggest change in the tax law for California residents is a new cap on the state and local tax deduction, also known as SALT, which has been claimed by about 35% of California taxpayers. The deduction allows filers who itemize to write off their local property taxes and state or local income or sales tax, but that deduction is now capped at $10,000 under the reform law.'

DARRYL J. GROSS

◆ Are there any new accounting pronouncements that will greatly affect future financial statements?

WOLFE: Yes, the new lease pronouncement, which will be effective for private companies beginning in the year 2020, will put operating leases (i.e. facility rent, autos) on the books as loans. Those that have loan agreements may put the company out of compliance with their covenants. It will be important to educate both the owner and their lender so they can rewrite the loan agreements as to not be impacted by this change in accounting method.

◆ What are some of the biggest mistakes companies make when it comes to managing their finances?

WOLFE: Commonly, companies have a mismatch of their finances relative to their assets and operations. For example, companies often borrow on a term-loan which reduces their working capital as they repay the loan which can stifle cash flow. A better alternative would be to finance a portion of their assets with a term-loan and finance their working capital needs with revolving lines of credit. Your CPA can help you by identifying the optimal financial structure, as well as assisting you in developing a presentation to bank and non-bank lenders.

◆ What's the biggest piece of advice you give your clients when it comes to planning?

WOLFE: Companies need not be so internally focused and react to changes in their business environment. Changes are presently so rapid that a proactive approach is needed for long-term planning and survival. Owners should look to both inside and outside resources to monitor changes in their industry and business environment. For example, a company could put together a committee of internal innovators charged with staying abreast of changes as well as identifying opportunities that they can take advantage of as a result of the rapidly shifting environment.

◆ Why is estate planning important?

ISAVI: It is important because without proactive planning, state laws will determine how your assets are transferred, to whom they pass, and when they pass. This can lead to undesired results and is perhaps the costliest way to leave assets to loved ones, even if those assets are small.

◆ What are some of the benefits that a well-structured estate plan provides?

ISAVI: A well-structured estate plan gives you peace of mind by naming a guardian for your minor children, appointing trusted people to manage your affairs, keeping your affairs private, building a legacy to pass on to your loved ones, choosing who will make emergency health care decisions for yourself and loved ones in the event you are unable to do so.

◆ How does estate planning help save money or protect assets?

ISAVI: Estate planning helps to avoid delays and expenses related to probate, prevent costly will contests and disputes, protect your children's inheritance if your surviving spouse remarries, protect assets passed to your children from lawsuits and divorce, minimize possible Federal and state taxes at your death, optimize consistency with current laws (which have changed dramatically).

◆ What are some of the important tax reform changes for 2018?

GROSS: For starters, one of the most important tax reform changes are the reduced individual rates. The tax law kept the existing seven income brackets, but it changed the income levels and reduced most of the individual tax rates. The top rate dropped from 39.6% to 37% under the new Federal law and it starts at $500,000 in taxable income for single taxpayers rather than $418,401. The bottom rates are 10% for single taxpayers with incomes below $9,525 and couples below $19,500; 12% for single taxpayers earning between $9,526 and $38,700 and couples earning between $19,500 and $77,400; and 22% for single taxpayers earning between $38,701 and $82,500 and couples earning between $77,401 and $165,000.

◆ What about deductions?

GROSS: The standard deduction went up from $6,350 to $12,000 for single taxpayers and from $12,000 to $24,000 for couples. The change means that couples with taxable income of less than $24,000 will essentially pay no Federal income tax. Currently about 34% of California's taxpayers claim the standard deduction. The personal exemption of $4,050 per person that filers could claim in prior years has been eliminated, but the child tax credit doubled from $1,000 to $2,000, and as much as $1,400 of that credit may be refundable. The law also created a new credit for families caring for an elderly relative and those with adult dependents enrolled in college.

◆ What happened to the state and local taxes deduction?

GROSS: Arguably the biggest change in the tax law for California residents is a new cap on the state and local tax deduction, also known as SALT, which has been claimed by about 35% of California taxpayers. The deduction allows filers who itemize to write off their local property taxes and state or local income or sales tax, but that deduction is now capped at $10,000 under the reform law.

◆ What else changed?

GROSS: Taxpayers will now only be able to deduct the interest they pay on their mortgages for up to $750,000 in new mortgage debt. Married couples filing taxes separately can deduct interest on up to $375,000 in new mortgage debt. This is a decrease of the former limit of $1 million for single filers and married couples filing jointly, and $500,000 for married couples filing separately. Mortgages that were either under contract or in place before December 16, 2017 are grandfathered in at the original $1 million limit for single filers and married couples filing jointly, and $500,000 for married couples filing separately.

◆ Where there changes for businesses?

GROSS: The Federal corporate tax rate took a big dive from 35% to 21% under the new law. Also, the reform established a brand-new tax deduction for owners of pass-through businesses. Pass-through owners who qualify can deduct up to 20% of their net business income from their taxable income, reducing their effective income tax rate by 20%.

◆ Are all those changes permanent?

GROSS: Several of the lower individual rates, enhanced child tax credits and business provisions are due to sunset after 2025.

About Darryl J. Gross, CPA

As a Partner at gish SEIDEN, Darryl Gross concentrates on tax planning and business advisory services for small to mid-size businesses, as well as successful individuals and families. Darryl works closely with his clients to develop tax-efficient strategies to grow their businesses. With over 12 years of experience in both public and private accounting, Darryl continues to expand his knowledge of tax planning and business consulting into a variety of industries. Darryl has a concentration of clients in the auto dealership, manufacturing and restaurant industries. Darryl's commitment and dedication are valuable assets to gish SEIDEN's business practices. His outgoing personality allows him to bring a personable and memorable experience to his clientele.

About Barry Wolfe, CPA, MBA

Senior Audit Manager Barry Wolfe has significant work experience in public accounting and consulting and as an entrepreneur. He specializes in identifying and solving problems, developing strategic plans, and assessing and valuing businesses for financing, purchase or sale. Client industries include commercial finance companies, banking, manufacturing, distribution, business services, energy and commercial real estate. Barry has applied financial principles in four arenas, accounting, business valuation, mergers & acquisitions and credit underwriting. Having credentials in both accounting and finance allows him to uniquely combine the healthy skepticism of an auditor and the financial analytics of a finance professional, when analyzing a business.

About Sargis Isavi, CPA

As a Tax Manager at gish SEIDEN, Sargis Isavi provides consulting and advisory services to growing and successful small to mid-size businesses and their owners. Services consist of income tax preparation and planning for all types of businesses and individuals, estate and trust tax preparation and planning, IRS and state audit representation, and compliance reporting. With over 16 years of experience in public accounting, Sargis has gained experience from working for a small boutique-style CPA firm to mid-sized firms and developed unique abilities to offer clients personalized quality tax services for all types of business entities, personal, fiduciary, gift, and estate tax returns. Sargis is a member of AICPA, CalCPA, and San Fernando Valley Estate Planning Council.

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21800 Oxnard Street, Suite 300, Woodland Hills, California, 91367
818.854.6100 | gishSEIDEN.com

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