Winter 2017

VIEWpoint

MANAGEMENT COMPENSATION RESOURCES

Welcome to 2017!

It goes without saying (but I'll say it anyway!) that the 2016 Presidential election season was both educational… and surprising.

No matter your political leanings, the next couple of years should be very interesting!

I recently read some election result information that was news to me, related to the popular vote vs. Electoral College argument. Without winning "*huuuuge*" popular vote majorities in Los Angeles County, and four of the five counties in and around New York City, Ms. Clinton would have actually lost the national popular vote (while also losing 30 of the 50 states). When only five metropolitan counties (from the coasts) can tip the popular vote so dramatically — it makes me glad that those of us here in "flyover country" get our voices heard via the Electoral College.

At any rate — Republicans now control the U.S. House and Senate (and about 33 of the 50 state houses as well). If you have brushed up on your Civics lessons lately — you know that means that they have about 18 months to get something productive done before the 2018 mid-term election cycle kicks in. If they fail in that endeavor, they'll get voted out just like Democrats did in the 2010 mid-terms.

So what does all of this mean for income taxes in the next few years?

House Republicans put forth a "blueprint" for tax reform last year. Their goal is to put down a marker for a starting point on tax reform and simplification. We are hearing that a 25% corporate tax rate possibly including "pass-thru" earnings on small businesses like LLCs, S Corps. and Partnerships) might be in the works. That low of a rate would also involve the elimination of some corporate tax credits and deductions — so the effective corporate tax rate wouldn't decline as dramatically as the rate redux from 35% to 25% might imply.

There would also be a "repatriation credit" or special rate enacted as part of corporate tax reform for multi-national companies that want to bring some of the $ billions that are being held off-shore back to the U.S. — including a switch in our method to not tax overseas profits that have already been taxed in another country.

Individual taxes will hopefully be simplified — but not really reduced at the top levels; especially on an effective basis. The goal will be to broaden the base of actual taxpayers in the U.S. so that more people have at least some "skin" in the game. But since our individual income tax rates are low by historic standards, there isn't much more room for decreases — so tax-favored retirement savings will remain an important strategy.

So, as we embark on the New Year — and a new chapter in U.S. history — buckle up and stay tuned! And as always, please let us know how we can be of service to you and your company.

Thank you.
Scott Rollin

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Successful Leaders' Secret Asset: Their Roster of Specialists

In my business, I have the opportunity to get to know a client's business and their leadership teams on a personal level.

While we often think of leadership as one individual having an impact, today's reality is that a single leader, to be successful, must be able to assemble a leadership team comprised of individuals who are invested in the success of the organization and are the best at their areas of responsibility.

Effective leaders develop people around them who speak openly and honestly, provide expertise the leader lacks, and serve as sounding boards for critiques of the leader's ideas.

I've also found that effective leaders cultivate a roster of consultants that they can call upon when needed. Consider these specialists your company's "bullpen" — just like in Major League Baseball — you call on them when you need a "closer" to pitch when the game is on the line.

These specialists augment the company's internal team and provide resources or expertise that is required for the specific situation or project. They're there when you need them, and they disappear when you don't. You're not paying for chair time, you're only paying for results. That means you can afford someone of a much higher caliber than you'd be able to if you hired someone full-time.

Who are these specialists?

Depending on your company size and internal structure, your roster of specialists may include attorneys, accountants, recruiters, public relations specialists or other types of business consultants — anyone who would probably be prohibitively expensive to have

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as a full-time employee and whom you don't really need full-time, but you still want to have them at the ready.

The best type of specialists are people who, through a combination of history, research and experience, just "get" your business. You don't have to explain everything five times — or even twice. You just delegate and move onto other tasks, knowing that everything will be handled.

However, this relationship doesn't happen automatically. Nor can it work if you engage the consultant for the first time when there is a quick turnaround or crisis situation.

Building your specialists roster

First, you need to identify what expertise gaps your organization might have and what types of specialists you might need to have on "speed dial." As you examine your organization, think through worst-case scenarios and the "what-ifs" to determine what skillsets you would need to make it through any given situation. Do you need a crisis communication specialist at the ready in case of an incident at the factory, a lawyer to protect your company against patent infringements or a consultant to prepare your sales force to enter a new market?

One of the best things about using specialists is that you can ask others for referrals, because these specialists probably work with multiple clients and, unlike full-time employees, you won't be poaching them from anyone.

Business networking functions, as well as your network of clients and vendors, are great resources for referrals. Without a doubt there is someone in your network that knows of or uses a great specialist. You just have to ask. If you know of a business that gets a lot of press, ask them who does their public relations. Does a business contact seem to always hire the best talent? Give him/her a call and ask if they use a recruiter. Know a business that is extremely "buttoned up?" Don't be shy asking, "Who does your legal work?" Or "Who's in charge of your books?"

Building the relationships

Cultivating your roster of specialists is an ongoing process of development and refinement, it is important that you remember that you get what you pay for — so don't skimp. If you want to develop an "A-list" of specialists, you need to invest resources before you really need them.

Make sure the person is a good fit for your style and company culture. Experience in your industry is a bonus, but skill (and how easy they are to work with) trumps all. Why? A consultant can brush up on the specific brand of widgets you sell — that's the easy part. But there's no substitution for ability, attitude and commitment to the project.

Once you've found a specialist, engage them in a small project or to provide an assessment of your company based on their expertise. This allows both parties the opportunity to get to know each other in a low-pressure situation without a lot of risk. It also helps develop the relationship as well as the specialist's knowledge of your organization.

And if that doesn't work out…no biggie. You haven't hired someone full-time, so you haven't risked much. You haven't enrolled someone into an extensive onboarding program and you won't need to jump through a million HR hoops to part ways.

Need a referral? We come across a lot of smart people and we're happy to connect you.

Inspiration for this article (including partial content) was drawn from a recent piece by Owl Accounting.

Quick Tax Issues and Updates

With the start of the New Year, there are a couple of items you should be aware of regarding inflation adjustments to limits for many employee benefit plans and new IRS audit guidelines for Nonqualified Deferred Compensation plans.

#1 Inflation has caused the limits and values for many employee benefit plans, etc. to increase from 2016:

• Maximum annual 401(k)/457/403(b) contributions:	$ 18,000
• Social Security Wage Base:	$127,200
• Maximum wages allowed in Defined Contribution and Defined Benefit plan calculations:	$270,000
• Maximum Defined Contribution Amount:	$ 54,000

#2 In the summer of 2015, the IRS provided an audit guidebook to field agents for Nonqualified Deferred Compensation plans. In the book, agents are encouraged to:

- Review plan documents and ensure IRC 409A compliance;
- Ensure that the Plan is in operational compliance with 409A;
- Look for proper elections of deferred compensation and any improper deductions by companies for wages not taxed to employees; and
- Proper FICA tax withholding and reporting under those separate rules.

We've not heard of any actual increased IRS audit activity in this area, but we stand ready to assist our clients should their nonqualified plans get audited. Please let us know immediately if an audit arises.

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