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Boom time ahead for Long Island?

Tax reform, Wayfair case and business-friendly climate spurring growth

By BERNADETTE STARZEE

In the wake of last year's landmark tax law and amid a generally favorable business climate, there is potential for an economic boom in the Long Island businesses community, according to an attorney-accountant panel that met last month at the Uniondale law offices of Farrell Fritz.

The Tax Cuts and Jobs Act of 2017, which was passed last December, ushered in the most sweeping tax reform in more than three decades, including the introduction of many business-friendly tax cuts, including the reduction of the corporate tax rate from 35 percent to 21 percent.

However, with the new law come nuances and details that still must be ironed out.

"The tax law has just been passed, and guidance is coming out every day," said Louis Vlahos, a partner at Farrell Fritz who oversees the law firm's tax practice. "You have to make decisions based on what you foresee reasonably."

Attorneys and accountants have met with clients to come up with a customized plan based on each company's situation.

"There is no tried and true strategy yet," Vlahos said. "Some companies wanted to rush into converting to a C-corp because they would pay just 21 percent in tax, but it's not appropriate for every business."

Enough is known about the tax law to make many business decisions, according to Jeffrey Cohen, partner in charge of tax services at the Jericho accounting firm Grassi & Co.

"But the decisions must marry tax and economics," he said.

"You don't make business decisions on tax considerations alone," Vhalos concurred. "You want to do something because it makes sense either for the business or the family. The tax law may facilitate it."

Some clients, for instance, are taking advantage of the more favorable tax environment to sell their business, but only because the timing was also right for them personally.

"We're seeing more sales to private equity firms, and we closed two or three sales in the past few months in part because of the tax law," Vlahos said. "It's less expensive for both the buyer and seller, so the sale makes economic sense."

Other businesses are taking a more cautious approach and not rushing into important decisions.

"Our client base is very representative of Long Island," Vhalos said. "We work with closely held businesses, some larger, some smaller. For many, their business is their primary asset. It's difficult to divorce what you're doing for the business and for the owner and his or her family. Succession planning is always there; the estate planning and corporate planning group work hand in hand. The tax incentives go away for individuals at the end of 2025, and we don't know what the nature of the legislative process will be. It's difficult to plan around."

Cohen said many of his clients – he advises mainly businesses with 200 to 500 employees – are already expanding and hiring in the wake of tax reform.

"It's a great environment," he said. "Businesses can take advantage of R&D credits and bonus depreciation. You can do a cost-segregation study on a building and write off 80 to 85 percent of the building purchased. Businesses can expand and create jobs. It will spiral out of control in a good way."

Photo by Judy Walker

LIBN Editor Joe Dowd (left) moderated a panel discussion on the impact of tax reform on Long Island's economy.

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Clients are deciding not to leave New York because of the tax cuts and the improved business climate, he said.

"Companies that were going to leave New York now can stay and buy buildings and write it off," he said. "Before the tax law changes, many middle-class people were leaving New York for places like Charlotte (N.C.), St. Augustine (Fla.) and Austin (Texas). Over the next six months, more people because of this tax law will be willing to buy into New York."

The New York area, including Long Island, has become an increasingly attractive place for foreign investors.

"The tax rate, business climate, educated workforce and infrastructure are the reasons companies want to be here," said Timothy Speiss, partner in charge of the personal wealth advisors group at EisnerAmper, which has offices in Syosset. "I believe Long Island's tourism and manufacturing industries are ripe for foreign investment. Tourism investment – in restaurants, hotels and music venues – is going to increase over the next six months."

"A lot of people don't know that in many Asian countries, New York, including Long Island, is a brand," Cohen said. "It's a place they want to be. Nutraceutical and pharmaceutical companies want to come to New York."

The new tax law knocked down a tax wall that was preventing foreign money from coming ashore, Cohen said.

"Now we're talking about properties on Long Island being worth much more, because the tax rate is no longer prohibitive," he said.

"There are opportunities here for people at all income levels to retain more money, perhaps to reinvest in their business," Speiss said.

Importantly, "off-shore corporations want to come here because their money will be safe here," Vhalos said.

Adding to the appeal of New York is the recent U.S. Supreme Court ruling in the South Dakota v. Wayfair case, in which the court said that states may charge tax on purchases made from out-of-state vendors, even if the seller does not have a physical presence in the taxing state.

"Big states like New York and California will benefit, because they will be getting more money from sales tax that they were missing out on in online sales," Cohen said. "The money is coming back to the larger population centers. This creates an opportunity for the state government to give more business breaks and lower taxes for rank-and-file employees by bringing income tax down."

But though the state will "conceivably have more money because it will be collecting more sales tax," Vhalos cautioned that "it remains to be seen how the state is going to spend the extra money."

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