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**William A. Dow** | Warren Averett

William Dow is a Member and Tax division leader at Warren Averett, with over 30 years of experience serving companies ranging from Fortune 500 to closely-held enterprises in industries such as financial institutions, energy, manufacturing and technology. He advises on mergers and acquisitions, accounting for income taxes, state and local taxes and has provided extensive estate planning and executive income tax services during his career. Before joining Warren Averett in 2003, Dow served as a partner and director of the tax department for an international accounting firm. William is a member on the Board of Directors of Business Council of Alabama, the American Cancer Society's Jefferson/Shelby County Board of Directors, as well as the Advisory Board for Alabama Entrepreneurship Institute and Samford University School of Business – where he was awarded the Accountancy Alumni of the Year 2007.



**Stephen N. Smith** | Barfield, Murphy, Shank & Smith LLC

Steve joined Barfield, Murphy, Shank & Smith in 1994. He is the senior member of the Tax Practice Group, managing the tax quality control process for the firm. As a member, Steve predominantly focuses on technical tax needs in the areas of S corporations and partnership taxation with an emphasis on transactional work encompassing the life cycle of a business: formation, ongoing operations, mergers and acquisitions, dispositions and liquidations, and the impact on the owners of the business. With more than 30 years of experience in his field, Steve works with all industries represented by BMSS with an emphasis in real estate, professional service firms, manufacturing, and wholesale businesses.

**Q: In the past, how have new administrations impacted the economy or various industries after taking office? How long does it generally take before you start seeing some effects?**

**William A. Dow:** You have heard the adage, “You cannot turn an aircraft carrier on a dime.” Well, that is definitely applicable to the U.S. economy. Factors such as unemployment, interest rates, economic outlook, etc., all impact the economy, and none of these can be fixed overnight. However, I think you are already starting to see many businesses react to a new Trump Administration even before taking office. This is evident by the recent news about Carrier and Ford. Carrier has agreed to retain

1,110 jobs in the U.S. Ford decided to cancel its plans for a new plant in Mexico and, instead, decided to make a significant investment in their Michigan plant to expand production. I do not think it is simply coincidence that these two international companies made these decisions irrespective of our new president. In the past we have seen presidential administrations hamper business with undue regulatory burdens, taxes and unrealistic social agenda issues. I think the Trump Administration is going to be a radical change to what we have had in the past. He is promising decreased regulatory burdens, reduced taxes and a repeal of Obama Care. It is interesting to note that we have witnessed a significant

increase in the stock market since the election.

**Steven N. Smith:** The impact can be fairly quick as evidenced by the 40th President, Ronald Reagan. A major piece of tax legislation was passed and signed into law during August of the first year of the Regan Presidency. The legislation was part of Regan’s overall economic policy, which became known as Reaganomics.

**Q: Regarding the Trump Administration, how soon do you anticipate major changes that will affect large numbers of businesses?**

**Smith:** The ACA and tax reform appear to be two of the Administration’s major focus points. ACA will likely be a harder nut

to crack from the standpoint of developing a viable replacement. From a tax legislation standpoint, Trump has indicated he would like to have major tax legislation enacted in the first quarter of the year. A more realistic expectation of major tax legislation is the fall of 2017 or perhaps even 2018. Trump’s proposals are just that – proposals. Trump may have greater control of the Congress than some prior presidents, but some consensus building will still be required and the exact timing and content of any legislation is hard to predict. Many of Trump’s tax proposals are the same or similar to the House Republican plan for tax reform rolled out in 2016, but there are differences that will have to be

worked out.

**Dow:** All presidential candidates campaign on a first-100-days plan. That plan gives us a blueprint of the direction the new administration hopes to go. With a Republican president and a Republican-controlled House and Senate, I think we will see much quicker action and thereby quicker impact on businesses. As I mentioned previously, you are already seeing a positive economic upturn just on the knowledge of the election outcome.

**Q: How should businesses plan in early 2017 while considering the uncertainty of the changes a Trump presidency may bring?**

**Dow:** That is a common question we are getting on a regular basis. The answer is somewhat based on the industry. Financial institutions will hopefully see a reduction in regulatory oversight, especially some relief from Dodd-Frank. Manufacturing, construction and aggregate companies should see a significant pickup in business with the promised infrastructure

improvements. I think looking at this as an early 2017 issue is probably short-sighted, and there is too much unknown right

now. I would continue to focus on my core competencies, knowing these opportunities are out there. Trump has an ambitious plan and the legislative process could be tricky to work through. The fiscal impact of his tax policies has a wide range of estimated impact. Many are projecting a considerable deficit. In that case, he has to contend with the fiscal conservatives as well as the labyrinth of the legislative process. If he is able to get infrastructure spending enacted, and with the Federal Reserve already raising interest rates, businesses that have floating rate financing in place should anticipate greater cost of borrowing in the future.

**Smith:** With the focus of my time being mainly on the tax matters of

my clients, my perspective concerns some planning measures that might be considered by businesses in anticipation of tax legislation.

*“A more realistic expectation of major tax legislation is the fall of 2017 or perhaps even 2018.”*

-Stephen N. Smith

Due to tax proposals that would allow the immediate expensing of the entire cost of capital investments for manufacturing, real estate and perhaps other businesses, delaying capital expenditures until later in the year or even to 2018 might yield greater tax benefits. These same expensing proposals also seem to be connected to a proposal that would eliminate the deductibility of interest

expense, but the interest on debt existing at the time of any legislation being introduced or being signed into law might be grandfathered and the deductibility preserved. Debt financed capital expenditures will present a careful analysis for businesses contemplating that situation. Accelerating deductions might also be a consideration for

businesses if tax rates decrease pursuant to the Administration and House GOP tax plans.

**Q: Based on Trump's platform, Cabinet choices and comments, what are some key issues/potential changes that businesses should be aware of?**

**Smith:** Tax reform, deregulation or regulation reforms for various industries, healthcare reforms, foreign trade policy strategies, and foreign political and national security policies that might impact the ability of US companies to compete in foreign markets.

**Dow:** He is deviating from the common playbook in the area of cabinet appointments. Instead of choosing seasoned politicians, he states that his candidates are best for the position, and not using the appointments to pay back favors. Many of his cabinet picks have significant business experience that could be very beneficial. Businesses should view these cabinet choices as generally being pro-business and against undue regulation.



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**Q: What are some ways a Trump presidency could impact taxes for both businesses and individuals?**

**Dow:** We may see the most sweeping changes in the tax code since 1986. There has been a groundswell underway for many years to change the tax code. There is a strong public sentiment for this and the Republicans control both houses of congress, so we should anticipate some significant changes. While Trump has his tax proposals, they are just that – proposals that have not been fully articulated and lack specificity on certain key points. Also, there are a few other competing proposals that will factor into the final outcome. He wants to reduce the corporate tax rate from 35 percent to 15 percent, eliminate corporate AMT, provide for a 15 percent tax rate on pass-through income, reduce the top individual rate to 33 percent and provide for a 10 percent tax rate of the repatriation of foreign earnings.

**Smith:** During his campaign, Trump discussed various tax proposals that effect businesses and individuals, all of which seem to be

part of a plan to broaden the tax base and lower rates. In this regard it is conceptually reminiscent of the Tax Reform Act of 1986 passed during the Reagan Administration. Both individuals and businesses could see substantial income tax rate decreases. A highest marginal rate of 33 percent proposed for individual rates would be lower than they have been since a short window following the TRA of 1986, and for many years prior to that window. A proposed corporate tax rate of 15 percent would be lower than they have been since 1937. The corporate alternative minimum tax might be eliminated. Other proposals for individuals include the elimination of the alternative minimum tax, elimination of the 3.8 percent net investment income tax, elimination of personal exemptions, an increase in standard deduction amounts and a cap or maximum allowable amount for itemized deductions.

*“Jeff Sessions as Attorney General will be a positive to the state in general.”*

-William A. Dow

**Q: Are there any potential Cabinet appointments that have caught your eye in terms of what they could mean for the economy or a particular industry?**

**Smith:** The Cabinet nominees seem to be dominated by retired military leaders and wealthy business executives. This makeup is not altogether surprising given Trump’s polices espoused during his campaign. Scott

Pruitt, the Oklahoma attorney general, is Trump’s nominee to lead the Environmental Protection Agency. If confirmed by the Senate, he is expected to slow down or roll back the recent wave of aggressive environmental enforcement. He would likely utilize a more collaborative approach with the industries that the agency is charged with policing. The coal, oil, gas and energy production industries would likely face less regulation.

**Dow:** Jeff Sessions as Attorney General will be a positive to the

state in general. In many cases, Trump seems to be choosing cabinet appointees who have significant experience in their respective fields, and many have overlapping business experience. This should bring a fresh eye to all areas. When you review his cabinet choices you can see a definite pattern. He is choosing highly successful leaders. President Obama would often place technicians in the roles. Case in point – the two people who led the EPA under President Obama were both physicists. Both brilliant men, but possibly not the best to lead an agency. There is one in particular, though, who I would not mess with. That is the nominee for Secretary of the Interior, Ryan Zinke. He is a former Seal Team Six commander and I have a hunch he will be a strong, outspoken leader.

**Q: Since the election, there has been considerable speculation about the future of the Affordable Care Act. How do you think the new administration and Congress will approach it, and what could it mean for Birmingham health care?**

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**Dow:** It is very likely that we will see significant changes to the Affordable Care Act. Trump campaigned on eliminating the Affordable Care Act and I believe he has now made some comments about keeping parts of it. The Affordable Care Act was written, voted on and implemented too quickly. We have seen some of the benefits with expanded coverage but the administrative burden is devastating to many businesses and the cost seems excessive.

**Smith:** Trump seems to have been adamant that the Affordable Care Act has to be repealed. Even if the Act is not repealed in its entirety, he will attempt to make significant changes through other legislation or rule-making to move toward his objective for health-care reform. Health care is such an important business segment in Birmingham that the changes – regardless of direction – will cause additional analysis and adjustments by the parties in that business segment, who will be forced to likely make significant changes once again in a fairly short time frame.

**Q: How could Trump's trade policy affect the economy?**

**Smith:** The answer depends on exactly what that trade policy actually ends up being and the actions taken. Does he attempt to renegotiate specific trade agreements and address specific trade and product arrangements that have treated the U.S. unfairly in his view? Or does he go more aggressive and place broad-based tariffs on goods from selected countries? The former might not have that great an impact. The latter would likely result in swift and fierce retaliation from trade partners, possibly resulting in damage to the

economy. Being a businessman, hopefully Trump will seek the wise counsel of other businessmen and take carefully measured steps.

**Dow:** His foreign trade policy has certainly been a lightning rod for many economic experts. I will be the first to admit that most of the ivy tower economists are much smarter than me when it comes to world trade. However, you have to give him credit for taking a protectionists position as it relates to the U.S. We have seen an exit of manufacturing and technology jobs, and we need to place the U.S. in a stronger worldwide trading position. Trump is taking specific aim at China, NAFTA and the Trans Pacific trading partners. He does need to proceed with some caution, though, as foreign countries could retaliate by imposing tariffs on US goods, thereby driving up the cost of U.S. manufactured products.

**Q: Based on his Cabinet choices and platform, what do you think Trump's administration will mean for small businesses?**

**Dow:** Trump is pro-business and has vowed to reduce the regulatory burden on businesses. I think he realizes the importance of small business as the backbone of the U.S. economy. His tax policy alone will be a boost to small businesses. I am a little surprised that he selected Linda McMahon for this position, but I hope we can look back and see the wisdom in his choice.

**Smith:** When you mention small businesses, I think of the Small Business Administration. When I think of the SBA, I now think of Linda McMahon, which makes me think of WWE and Vince McMahon, which makes me think the SBA under Linda McMahon will go to the mat for small business. Seriously,

in general, a Trump Administration may mean less regulation, lower taxes, greater access to capital and hopefully more affordable healthcare options for its employees.

**Q: If Trump's administration dials back regulations on banking and financial companies, what would that mean for the lending environment in Birmingham?**

**Smith:** The lending environment would presumably benefit from a rollback of banking regulations, but it will also be interesting to see if there is any counter-balancing effect from a couple of the Administration's tax proposals. The substantial increase in the standard deduction might mean that fewer individual taxpayers will itemize deductions in the future. Without the tax benefits of deductions for home mortgage interest and real estate taxes, will fewer individuals buy versus rent their principal residence or other housing? Also interesting to follow will be the proposal for the immediate expensing of capital investments but with a corresponding elimination of interest-expense deductions. A long-term benefit for the lending environment may also depend on whether the lending industry and all parties associated learned their lessons, or whether excessive deregulation causes a repeat performance of irresponsible lending practices and another financial crisis in the future.

**Dow:** I would not limit this issue to just lending. The magnitude of regulations that burden financial institutions is staggering, and these companies incur a significant cost simply to try and monitor and comply with all of the regulations. I have seen many financial institutions make business decisions based

solely on how the regulators will perceive it. This is no way to run a business. A reduction in regulations will enable financial institutions to deploy more capital (money and people) in the business, and thereby become more profitable. In short, this would be great news for Birmingham financial institutions.

**Q: Are there any potential elements of Trump's platform that could bode particularly well for specific industries in Birmingham?**

**Dow:** Well, as I just mentioned, financial institutions could be a beneficiary. Additionally, his plans to repeal the Affordable Care Act could be a big benefit to the healthcare industry as well as the medical insurance companies. He has also vowed to boost defense spending which, while not Birmingham specific, could be very beneficial to the State of Alabama as a whole.

**Smith:** Trump's plan to begin an extensive repair or expansion of infrastructure could make construction, steel production, manufacturing and related businesses winners under this Administration. Coal interests might also benefit if regulations in that area are relaxed. Possible benefits to the banking industry were mentioned previously. Healthcare businesses, such as Blue Cross Blue Shield, UAB and many others in our area – as well as health care professionals – could also be impacted profoundly by changes to the Affordable Care Act, but whether that impact will be positive remains to be seen. Another industry to follow with interest is real estate. The impact of a Trump Administration may be uncertain, but it will certainly be interesting to follow, especially given his significant real estate interests.