GOP Makes Tax Cuts

By Craig Johnson, Staffing Industry Review

Thanks to big changes in the new federal tax bill, businesses of all stripes will feel the impact of the tax law, including staffing firms.

Congress approved the $1.5 trillion tax cut law on a party-line vote in December. The Tax Cuts and Jobs Act bill was promoted by President Donald Trump as making the tax code simple for individual taxpayers while cutting taxes for businesses, although the bill is controversial.

However, many executives in the industry believe the law will help their businesses, and a number of firms are paying bonuses to workers in light of what they felt were constructive impacts — staffing firms among them. And some point to positive business momentum in the wake of the tax law leading companies to increase hiring and use more workers from staffing firms.

“It’s like a volcano,” said Robert A. “Bob” Funk, co-founder, president, chairman of the executive committee, and vice chairman of the board of Express Employment Professionals, based in Oklahoma City. “The positivity of the medium and small companies has been exceptional.”

Funk attended a dinner with President Trump in Washington, and businesses’ reaction to the new tax law was one question from the president. And their reaction to the law — as well as regulatory reform — was upbeat, Funk said.

“We did see an increase in the job flow,” he added. “Once the tax cut was there, the gates just opened up and, candidly, we were flooded with good jobs.”

With the passage of the law, Express gave all its nonexecutive-level corporate employees a $2,000 bonus in addition to its other bonus and benefit offers, he says.

Professional employer organization Insperity also announced Feb. 9 that it would pay workers a bonus of between $1,000 and $4,000, dependent on tenure, for a total cost to the Houston-based company of approximately $9 million. The management team and other senior leaders will not receive the bonus.

“We believe the passage of tax reform is positive news and should provide for stronger growth of Insperity, the small business community and the broader US economy,” Chairman and CEO Paul Sarvadi said in a statement at the time.

To be sure, the Tax Cuts and Jobs Act of 2017 has a lot of moving parts, and the effects will be felt in many quarters. Anything to do with taxes can be complex, and media reports also indicate groups, the US Chamber of Commerce among them, are requesting fixes for items in the law.

Industry reactions to the tax cut

“One, it affects all employers equally on things like transit expenses, meals and entertainment deductions; those go across the board.” But the staffing industry is a people business, and the new tax law does away with the employer mandate and that could have an impact on firms. “You still have to offer coverage, but the people don’t have to take it — so that means adverse selection. I think that’s going to make healthcare marginally more expensive for staffing firms or difficult to find.” — Alden J. Bianchi, attorney and member, Mintz Levin.

“As the bottom line, companies and firms should expect the tax plan to accelerate the already-burgeoning gig economy trend. The attractiveness of the tax break provides a powerful incentive for workers flirting with independence to jump right in.” —Teresa Creech, CEO, TalentWave.

“I think we are going to see people more willing to invest in new plants, equipment and locations. As a result, we’re likely going to see employers more willing to invest in staff. … The future looks fairly bright. I don’t feel that it’s going to likely impact the workers as much. … The new tax laws are so complicated I don’t think the average worker will be able to gauge how they will personally be impacted to begin with.” — Greg Palmer, managing director, G. Palmer & Associates.

“Most staffing companies, except for the very largest, are LLCs or SubSs, which would get a savings of the first 20% of pass-through income being sheltered along with marginally lower tax rates. These are important positives. With the great demand for medical personnel, agencies are already hiring as many temporary personnel as they can, so I don’t see this as having a major impact on their business. But, since personnel will see greater take home from their pay, I believe it will translate in a greater willingness to work that extra shift and fill an opening. So, I see the tax cut as a benefit to medical (and nonmedical) staffing.” —David Savitsky, CEO, ATC Healthcare Services.

“While the new tax code is a great stimulus for economic growth and staffing industry expansion, many staffing firms aren’t able to fully benefit from the tax cuts since they operate as pass-through businesses. The new rules deny full tax breaks to high-earning S-corps, LLCs and partnerships since we’re deemed professional service organizations. But amidst all the tax uncertainty, there’s still opportunity to shape new regulations so our businesses aren’t unfairly impacted.” — Gary Zander, founder, president and CEO, Project One.

Looking Ahead

Overall, the tax law could result in increasing wages for workers and spur economic growth that benefits staffing companies, says R. Shane Jackson, president of Jackson Healthcare based in Alpharetta, Ga., which ranks among the largest healthcare staffing firms in the US.

“I don’t know that the impact on staffing is going to be much different than other industries,” Jackson says. “I think the tax cuts will certainly give both companies and individuals more free cash flow.”

Economic growth outpacing available labor will put pressure on wages to go up. That will help workers, and could help bring back a segment of workers who have not yet re-entered the workforce since the end of the Great Recession. Workers will also see more choices in where they can work.

“One of the things about our industry is that we are just so efficiently market-driven,” Jackson says. The industry experiences every day the effects of the demand for workers — what people are willing to pay and what workers are willing to work for. And to the extent the economy grows, that’s good for the market and good for people, he says. And he also sees the boost from the tax law and deregulation pushing the economy in a favorable direction.

Under the new law: Six changes affecting staffing firms the most

Here are six changes under the new tax law highlighted by Nick Florio, a partner and staffing practice lead at accounting firm Citrin Cooperman.

1. C Corporation tax rate. C Corporation tax rate reduced to a flat 21% from 35%. That's good news for staffing companies that operate as C Corporations. For those operating as "pass-through" businesses such as S Corporations, limited liability companies and partnerships, please see the next point.

2. "Pass-through" business tax rate. Under Sec. 199A, 20% of pass-through business' income may be nontaxable. It's unclear whether staffing companies are eligible for this, but the American Staffing Association is taking the lead to lobby the government for clarification. "While this is not a slam dunk, we're optimistic there will be new guidance and clarity," Florio says. Hopefully, sometime around June or July of this year, we will know. But being taxed on only 80% of income is huge, he says.

3. Business interest expense deduction. This limits the ability of many businesses to deduct interest expenses paid or accrued. It also limits the net interest expense deduction for most business to 30% of adjusted taxable income. But it only applies to firms with more than $25 million in revenue. Also, there are special rules that apply to pass-through entities.

4. Entertainment allowances. The standard meals and entertainment allowances have changed. Entertaining clients was 50% deductible, now there is no deduction for entertainment, amusement or recreation expenses. Business meals are still 50% deductible.

5. Depreciation rules have changed. Money spent on new assets such as the cost of new computer systems and hardware is now 100% deductible for qualified assets purchased after Sept. 27, 2017. This rule went into effect early. The other change in depreciation: The section 179 deduction for qualified purchases is increased to $1 million in 2018.

6. The Work Opportunity Tax Credit. Used especially by light industrial staffing firms and others, the Work Opportunity Tax Credit was extended to 2019. It had been scheduled to sunset in 2017. It provides a tax credit for hiring certain people that can include unemployed veterans, Temporary Assistance for Needy Families recipients, food stamp recipients or long-term unemployed persons.