

# 'OC Silicon Cities' Pitch For Amazon HQ2 Project



Golf course: 162-acre site owned by Garden Grove, key part of HQ2 pitch

## Willowick Golf Course Key Part of 10Msf Plan

By MARK MUELLER

A cluster of Central Orange County cities plan to throw their hats in the ring to get e-commerce giant Amazon's second headquarters.

A joint bid under the banner of Orange County Silicon Cities, or OCSC, is on tap for this week and is expected to be endorsed by the cities of Santa Ana, Garden Grove and Orange.

Anaheim is also being solicited to back the bid, although its position hadn't been confirmed by the time the Business Journal went to press.

An Anaheim city official told the Business

Journal that the city endorses Amazon coming to Orange County, "whatever city that may be."

RFPs are due on Oct. 19 for the second base of operations for the Seattle-based firm that could potentially bring 50,000 jobs to a new region over a decade or more.

Figuring out the likely HQ2 spot for the company, whose market value is nearly \$480 billion, has become one of the biggest guessing games in the business world since Amazon announced its audacious plan last month.

At least 50 bids, and perhaps more than 100, are expected from across North America from a variety of cities, counties and municipalities, according to national news reports.

The city of Irvine has already announced its

intentions to file a bid that would be backed in part by Newport Beach-based Irvine Co. Amazon already employs more than 900 in Irvine, primarily in the Spectrum area.

Amazon estimates the HQ2 project would cost more than \$5 billion to build over 15 years and that the jobs it would bring to its chosen area—largely office positions, not warehouse jobs—would pay average salaries topping \$100,000.

The company is initially looking for 500,000 to 1 million square feet of office space by 2019, according to its RFP.

Future growth stages would likely be in the 1-million-square-foot range per phase, and

Amazon 16

## Southland Industries Adds in Garden Grove

**REAL ESTATE:** Contractor takes Money Mailer's old headquarters

By MARK MUELLER

Southland Industries, one of the country's largest mechanical, electrical, and plumbing systems contractors, is stepping up its presence in its home of Garden Grove.

The privately held company, which has a long history in Orange County, signed a lease this month to

Southland 19



Farokhyar: We've been aggressively hiring.

## Accountants Strategize On Tax Overhaul

Customers Seek Advice, Even as Congress Debates

By PETER J. BRENNAN

Accelerated deductions, and hold back on the income.

That's the advice Mike Silvio, tax director at Irvine-based Hall & Co., is giving clients as Congress debates a new tax package.

"It looks like rates are

Taxes 84



Silvio: number of things to be ironed out

## The Games We Play

How a Nobel Prize Winner Teaches Economics to Chapman Students



Lauded: Smith won Nobel Prize in 2002 for pioneering work in 'experimental economics'

By PETER J. BRENNAN

Ninety-year-old Vernon L. Smith likes to watch college kids play games.

Mind you, not just football or basketball games. There are also economics games.

In one, Chapman University students are given shares that pay dividends over 15 periods. The students are able to bid the share prices up or down. If they hold the shares to the end, they will earn a small amount of cash.

Like many market participants, the students start ignoring fundamentals, get ex-

Vernon 83

## Device Maker Vyaire Plans Irvine Move, Hiring Push

Yorba Linda CareFusion Ops Moving to Spectrum

By MARK MUELLER

One of the biggest medical device firms in Orange County plans a major expansion and hiring push after signing a deal to move its local operations from Yorba Linda to an office project being built in the Irvine Spectrum.

Vyaire Medical Inc., a

Vyaire 77



Stafford: CFO says move to Spectrum will help us with recruitment

3

OC Insider: Tennis Anyone?



3

Hyundai Seeks to Heat Up Sales by Cooling Off



6

Sibling Act's seek Second Act's

21

Special Report: General Counsel's Balance over Billable?



## Taxes

from page 1

coming down, so push income off as much as we can," Silvio said in an interview.

On the other hand, the proposal calls for elimination of certain deductions, so "take advantage of those deductions as much as you can now."

Business executives throughout Orange County are calling their tax accountants to discuss the proposed changes and what they should do now to prepare for this year and next. Accounting firms are trying their best to read the somewhat murky tea leaves of Congress and President Donald Trump, who introduced the proposals in late September.

"There will be winners and losers," said Steve Milner, managing partner at Newport Beach-based Squar Milner LLP.



Milner: 'There will be winners and losers.'

"That is true, even for a singular business owner. For example, he may have a benefit if he owns a pass-through business, but he will likely be losing some of his itemized deductions on his personal tax return. One may not necessarily know how it benefits him or her until a year after passage."

There are plenty of doubts about its passage, or what will pass, with some citing the tight deadline, the complexities, the budget rules and pure ugly politics.

"The Republican establishment is not behind the president, and I believe they want him out as soon as possible," said Larry Gregson, managing partner at Irvine's KSGJ LLP. "A tax change will give the economy a jolt, which will also give the Trump presidency a positive boost and will help his popularity, which both the Democrats and Republican establishment don't want to see."



Gregson: 'tax change will give the economy a jolt.'

Ironically, the failure to repeal the Affordable Care Act may be an impetus because it "put the Republicans in a do-or-die situation," Milner said.

"It may not look exactly like the one proposed, but a tax bill should be very probable."

The president's proposals are in italics below, followed by comments of leading accountants in Orange County.

### The 25% Rate

*Would limit the maximum tax rate applied to business income of small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25%.*

Middle-market companies are most excited about the 25% rate, said Brad Graves, partner in charge of the tax services group at

Irvine-based Haskell & White LLP of Irvine.

"If they get this rate, there will be a lot of expansion," Graves said. "They've been getting hit with the 39.6% rate that, when combined with a state tax, can get up to 53%. That is pretty onerous."

He said it would be difficult for taxing authorities to control abuses, as high-wage earners will try to devise ways their taxes can go through a small-business entity.

### Services Exemption?

*Contemplates that congressional committees will adopt measures to prevent the switch of personal income to business income to prevent wealthy individuals from avoiding the top personal tax rate ... Would modernize the tax treatment of certain industries and sectors ... to ensure that such rules provide little opportunity for tax avoidance.*

Accountants said this portion suggests some services might be exempt from the 25% rate, which could create further headaches.

"How do you define a service company?" Hall & Co.'s Silvio said. "There are a number of things to be ironed out. Some things will cause land mines. People will want to take less compensation so more of their income gets taxed at a lower rate. However, they must take a reasonable compensation."

Milner said, "I am a little leery that some earnings from pass-through businesses will be taxed at a lower rate depending on what that business does. I hate when government picks winners and losers. Services businesses, which would probably not receive such a benefit, also provide a lot of jobs."

Paul Burns, director of international tax services at the Irvine office of CBIZ MHM LLC, predicted that the services exemption would create many problems.

"Unless there is a safe harbor in the final legislation, there will be lots of uncertainty and lots of disputes between taxpayers and the IRS that will consume time and resources on both sides," he said.

### 20% Corporate Rate

*Would reduce the corporate tax rate to 20%, below the 22.5% average of the industrialized world. In addition, it aims to eliminate the corporate AMT ... also may consider methods to reduce the double taxation of corporate earnings.*

This proposal excites many accountants.

"I truly believe this, along with making it easier and cheaper for corporations to repatriate money, will create more capital, which will lead to more jobs for a long time," Milner said.

Even if the eventual rate is 25%, this could be a significant reduction, said Victor K. Hausmaninger, founding partner of HBLA CPAs Inc. of Irvine. "Clearly, that is a significant advantage of putting more money in



Graves: maximum tax rate limit would bring expansion

people's pockets, and that can be reinvested," he said. "There's some good stuff out there."

### Immediate Expensing

*Would allow businesses to immediately write off the cost of new investments in depreciable assets other than structures made after Sept. 27, 2017, for at least five years.*

Both the rate reduction and the immediate expensing "are likely to significantly improve the environment for business investment across the board, but especially for small businesses that can take advantage of the new reduced rate for pass-through entities," said Mark Brown, managing director for tax at CBIZ MHM.

### Territorial System

*Would transform our existing "offshoring" model to an American model ... level the playing field between U.S.-headquartered parent companies and foreign-headquartered parent companies.*

"The proposed territorial system could substantially simplify U.S. taxation for U.S.-based multinational companies, and may reduce the incentives to locate operations outside the United States," Burns said.

### Repatriation

*Would end the perverse incentive to keep foreign profits offshore by exempting them when they are repatriated to the U.S.*

"What could really stimulate and bring more money to the table is the whole idea of one-time small repatriation tax," Silvio said. "People should be looking at that and get ready to have the funds offshore to bring back. We definitely have customers looking at it closely."

The final rule might also force companies to repatriate, even if they don't want to, said Mark Clemens, the KPMG LLP partner who oversees the firm's Orange County office.

"If a company has significant international holdings, we are also encouraging them to scrub their earnings and profits calculations in anticipation of a very real possibility of Congress enacting a rule requiring mandatory repatriation of those earnings."

### Eliminating Deductions, AMT

*Would eliminate most itemized deductions but retain tax incentives for home mortgage interest and charitable contributions ... Would substantially simplify the tax code by repealing the existing individual AMT, which requires taxpayers to do their taxes twice.*

"That is a huge deduction for taxpayers in California," Silvio said. "Elimination will ultimately push people into the higher rates. That deduction is significant for my clients."

Could this proposal be a negotiating tactic? "Why put it in there if you can pass [tax re-

form] with 51 votes?" Silvio noted.

In practice, many high-income people can't use itemized deductions because of the alternative minimum tax, Hausmaninger said.

"From a realistic viewpoint, the AMT is already killing those deductions," he said.

Overall, accountants praised the proposed AMT elimination because it's caught far more taxpayers than originally planned.

### Death of Death Tax?

*Would repeal the death tax*

"From a micro point of view, I would be very excited about the elimination of the estate tax," Milner said. "It is horribly unfair for a person or a couple to save and invest all their lives, pay taxes on the money they invest and then pay another 40% when they die."

"The estate tax does not raise much money, but it created a whole cottage industry of insurance companies and tax professionals that work to reduce the tax."

### A Simpler Tax?

*Aims to consolidate the current seven tax brackets into three brackets of 12%, 25% and 35%.*

"A lot of the exotic planning becomes less valuable if the rates collapse," Graves said.

In Gregson's view, "I don't see tax law becoming less complicated but actually the exact opposite; it will be more complex."

### Carried Interest

Elimination of carried interest wasn't included in the initial proposal, even though Trump has sought it.

Graves is hopeful it will remain as it is because it's important for developers and real estate fund managers.

### Modeling

"We are encouraging our clients to model how different outcomes might affect their organizations, and, where appropriate, engage with their legislators to better understand the issues and share their insights," KPMG's Clemens said.

Business executives should remember that changes will affect financial reporting and business planning departments, so they should be providing their perspectives, in addition to the tax department's, he said.

### When?

Some accountants see the tax package passing this year because it went through a budget reconciliation process that requires a simple majority in the Senate. However, that means the issue would be revisited in 10 years, Graves noted.

"Many hard choices still lie ahead," KPMG's Clemens said. "Among them, which items to make permanent and which will be temporary, whether to add additional tax brackets for high earners and how to solve the math problems created by rules that govern effects on the budget deficit. KPMG sees the framework as a small step on a long, uncertain journey that doesn't necessarily finish in 2017." ■

# Accountants Strategize On Tax Overhaul



## Customers Seek Advice, Even as Congress Debates

Accelerate deductions, and hold back on the income.

That's the advice Mike Silvio, tax director at Irvinebased Hall & Co., is giving clients as Congress debates a new tax package.

"It looks like rates are coming down, so push income off as much as we can," Silvio said in an interview.

On the other hand, the proposal calls for elimination of certain deductions, so "take advantage of those deductions as much as you can now."

Business executives throughout Orange County are calling their tax accountants to discuss the proposed changes and what they should do now to prepare for this year and next. Accounting firms are trying their best to read the somewhat murky tea leaves of Congress and President Donald Trump, who introduced the proposals in late September.

"There will be winners and losers," said Steve Milner, managing partner at Newport Beach-based Squar Milner LLP.

"That is true, even for a singular business owner. For example, he may have a benefit if he owns a pass-through business, but he will likely be losing some of his itemized deductions on his personal tax return. One may not necessarily know how it benefits him or her until a year after passage."

There are plenty of doubts about its passage, or what will pass, with some citing the tight deadline, the complexities, the budget rules and pure ugly politics.

"The Republican establishment is not behind the president, and I believe they want him out as soon as possible," said Larry Gregson,

managing partner at Irvine's KSJG LLP. "A tax change will give the economy a jolt, which will also give the Trump presidency a positive boost and will help his popularity, which both the Democrats and Republican establishment don't want to see."

Ironically, the failure to repeal the Affordable Care Act may be an impetus because it "put the Republicans in a do-or-die situation," Milner said.

"It may not look exactly like the one proposed, but a tax bill should be very probable."

The president's proposals are in italics below, followed by comments of leading accountants in Orange County.

#### The 25% Rate

Would limit the maximum tax rate applied to business income of small and family-owned businesses conducted as sole proprietorships, partnerships and S corporations to 25%.

Middle-market companies are most excited about the 25% rate, said Brad Graves, partner in charge of the tax services group at Irvine-based Haskell & White LLP of Irvine.

"If they get this rate, there will be a lot of expansion," Graves said. "They've been getting hit with the 39.6% rate that, when combined with a state tax, can get up to 53%. That is pretty onerous."

He said it would be difficult for taxing authorities to control abuses, as high-wage earners will try to devise ways their taxes can go through a smallbusiness entity.

#### Services Exemption?

Contemplates that congressional committees will adopt measures to prevent the switch of personal income to business income to prevent wealthy individuals from avoiding the top personal tax rate ... Would modernize the tax treatment of certain industries and sectors ... to ensure that such rules provide little opportunity for tax avoidance.

Accountants said this portion suggests some services might be exempt from the 25% rate, which could create further headaches.

"How do you define a service company?" Hall & Co.'s Silvio said. "There are a number of things to be ironed out. Some things will cause land mines. People will want to take less compensation so more of their income gets taxed at a lower rate. However, they must take a reasonable compensation."



Milner said, "I am a little leery that some earnings from pass-through businesses will be taxed at a lower rate depending on what that business does. I hate when government picks winners and losers. Services businesses, which would probably not receive such a benefit, also provide a lot of jobs."

Paul Burns, director of international tax services at the Irvine office of CBIZ MHM LLC, predicted that the services exception would create many problems.

"Unless there is a safe harbor in the final legislation, there will be lots of uncertainty and lots of disputes between taxpayers and the IRS that will consume time and resources on both sides," he said.

#### 20% Corporate Rate

Would reduce the corporate tax rate to 20%, below the 22.5% average of the industrialized world. In addition, it aims to eliminate the corporate AMT... also may consider methods to reduce the double taxation of corporate earnings. This proposal excites many accountants. "I truly believe this, along with making it easier and cheaper for corporations to repatriate money, will create more capital, which will lead to more jobs for a long time," Milner said.

Even if the eventual rate is 25%, this could be a significant reduction, said Victor K. Hausmaninger, founding partner of HBLA CPAs Inc. of Irvine. "Clearly, that is a significant advantage of putting more money in people's pockets, and that can be reinvested," he said. "There's some good stuff out there."

#### Immediate Expensing

Would allow businesses to immediately write off the cost of new investments in depreciable assets other than structures made after Sept. 27, 2017, for at least five years.

Both the rate reduction and the immediate expensing "are likely to significantly improve the environment for business investment across the board, but especially for small businesses that can take advantage of the new reduced rate for pass-through entities," said Mark Brown, managing director for tax at CBIZ MHM.

#### Territorial System

Would transform our existing "offshoring" model to an American model ... level the playing field between U.S.-headquartered parent companies and foreign-headquartered parent companies.

"The proposed territorial system could substantially simplify U.S. taxation for U.S.-based multinational companies, and may reduce the incentives to locate operations outside the United States," Burns said.

## Repatriation

Would end the perverse incentive to keep foreign profits offshore by exempting them when they are repatriated to the U.S.

"What could really stimulate and bring more money to the table is the whole idea of one-time small repatriation tax," Silvio said. "People should be looking at that and get ready to have the funds offshore to bring back. We definitely have customers looking at it closely." The final rule might also force companies to repatriate, even if they don't want to, said Mark Clemens, the KPMG LLP partner who oversees the firm's Orange County office.

"If a company has significant international holdings, we are also encouraging them to scrub their earnings and profits calculations in anticipation of a very real possibility of Congress enacting a rule requiring mandatory repatriation of those earnings."

## Eliminating Deductions, AMT

Would eliminate most itemized deductions but retain tax incentives for home mortgage interest and charitable contributions ... Would substantially simplify the tax code by repealing the existing individual AMT, which requires taxpayers to do their taxes twice.

"That is a huge deduction for taxpayers in California," Silvio said. "Elimination will ultimately push people into the higher rates. That deduction is significant for my clients." Could this proposal be a negotiating tactic? "Why put it in there if you can pass [tax reform] with 51 votes?" Silvio noted.

In practice, many high-income people can't use itemized deductions because of the alternative minimum tax, Hausmaninger said.

"From a realistic viewpoint, the AMT is already killing those deductions," he said.

Overall, accountants praised the proposed AMT elimination because it's caught far more taxpayers than originally planned.

## Death of Death Tax?

Would repeal the death tax "From a micro point of view, I would be very excited about the elimination of the estate tax," Milner said. "It is horribly unfair for a person or a couple to save and invest all their lives, pay taxes on the money they invest and then pay another 40% when they die.

"The estate tax does not raise much money, but it created a whole cottage industry of insurance companies and tax professionals that work to reduce the tax."

### A Simpler Tax?

Aims to consolidate the current seven tax brackets into three brackets of 12%, 25% and 35%.

"A lot of the exotic planning becomes less valuable if the rates collapse," Graves said.

In Gregson's view, "I don't see tax law becoming less complicated but actually the exact opposite; it will be more complex."

### Carried Interest

Elimination of carried interest wasn't included in the initial proposal, even though Trump has sought it.

Graves is hopeful it will remain as it is because it's important for developers and real estate fund managers.

### Modeling

"We are encouraging our clients to model how different outcomes might affect their organizations, and, where appropriate, engage with their legislators to better understand the issues and share their insights," KPMG's Clemens said.

Business executives should remember that changes will affect financial reporting and business planning departments, so they should be providing their perspectives, in addition to the tax department's, he said.

### When?

Some accountants see the tax package passing this year because it went through a budget reconciliation process that requires a simple majority in the Senate. However, that means the issue would be revisited in 10 years, Graves noted.

"Many hard choices still lie ahead," KPMG's Clemens said. "Among them, which items to make permanent and which will be temporary, whether to add additional tax brackets for high earners and how to solve the math problems created by rules that govern effects on the budget deficit. KPMG sees the framework as a small step on a long, uncertain journey that doesn't necessarily finish in 2017."