



# POWER UP

## How to Thrive in 2024



Gray, Gray & Gray's  
YEAR END PLANNING SEMINAR  
Tuesday, December 5, 2023



# Welcome



**Jim DeLeo, MBA, CPA/MST**  
*Leading Partner*  
Gray, Gray & Gray

# Today's Agenda

- Keynote: Economic Outlook
- Tax Update
- Client Panel on Strategic Business Planning
- Trends in M&A and the Equity Markets



# Keynote: Economic Outlook

# Speaker



**Eric Mason**  
*Chief Financial Officer*  
City of Quincy

# Introduction

- Economic background
  - BS & MS in applied economics from West Virginia University
  - Primary research credits in labor, energy, and public economics
  - Adjunct Instructor in economics at West Virginia University
  - Executive Advisory Board Member for the University of Tulsa's Center for Energy Studies
- Professional background
  - Chief Financial Officer for the city of Quincy, Massachusetts
  - Formerly Chief Economist/Analyst for the city of Quincy

# My Biases

Every economic outlook is biased by the economist who is presenting it

- Austrian school perspective
  - “Man of the spot” focus
- Heavily reliant on econometrics and data
- Focus on core fundamental economic data

# Setting the Tone

- Focusing on important fundamentals often ignored in the popular media discussion
- Econometrics over emotions
- Framing realistic challenges, and challengers, to the US economy
- Removing sensationalized tilts to economic forecasting



# Labor Outlook

- Largest number of open jobs ever seen in a post-recession period
  - Employment opportunities not only signal strong future economic growth, but they also express corporate confidence in the economy
  - Job openings also support “switching effect” which drives up wages
  - Higher wages result in both short-term and long-term benefits
    - Short-term: increase consumption for goods and services
    - Long-term: marginal increases in wages lead to more saving and thus more funds available for investment or in bank loans

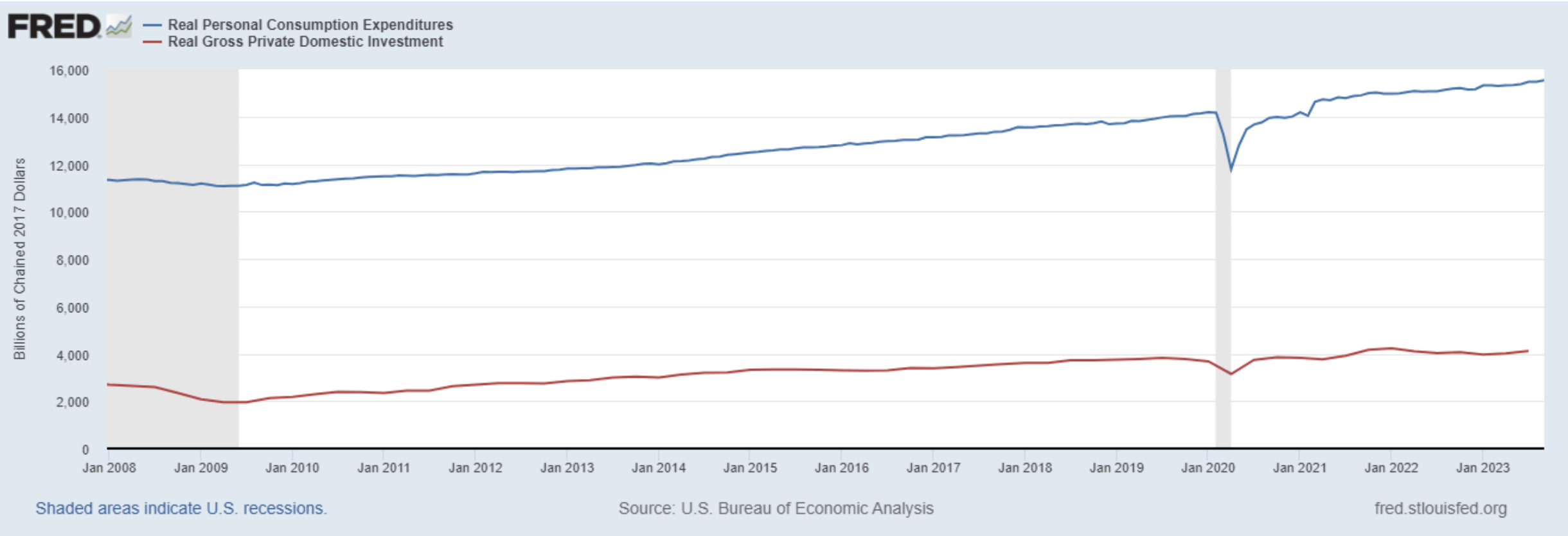
# Labor Outlook



# Labor Outlook

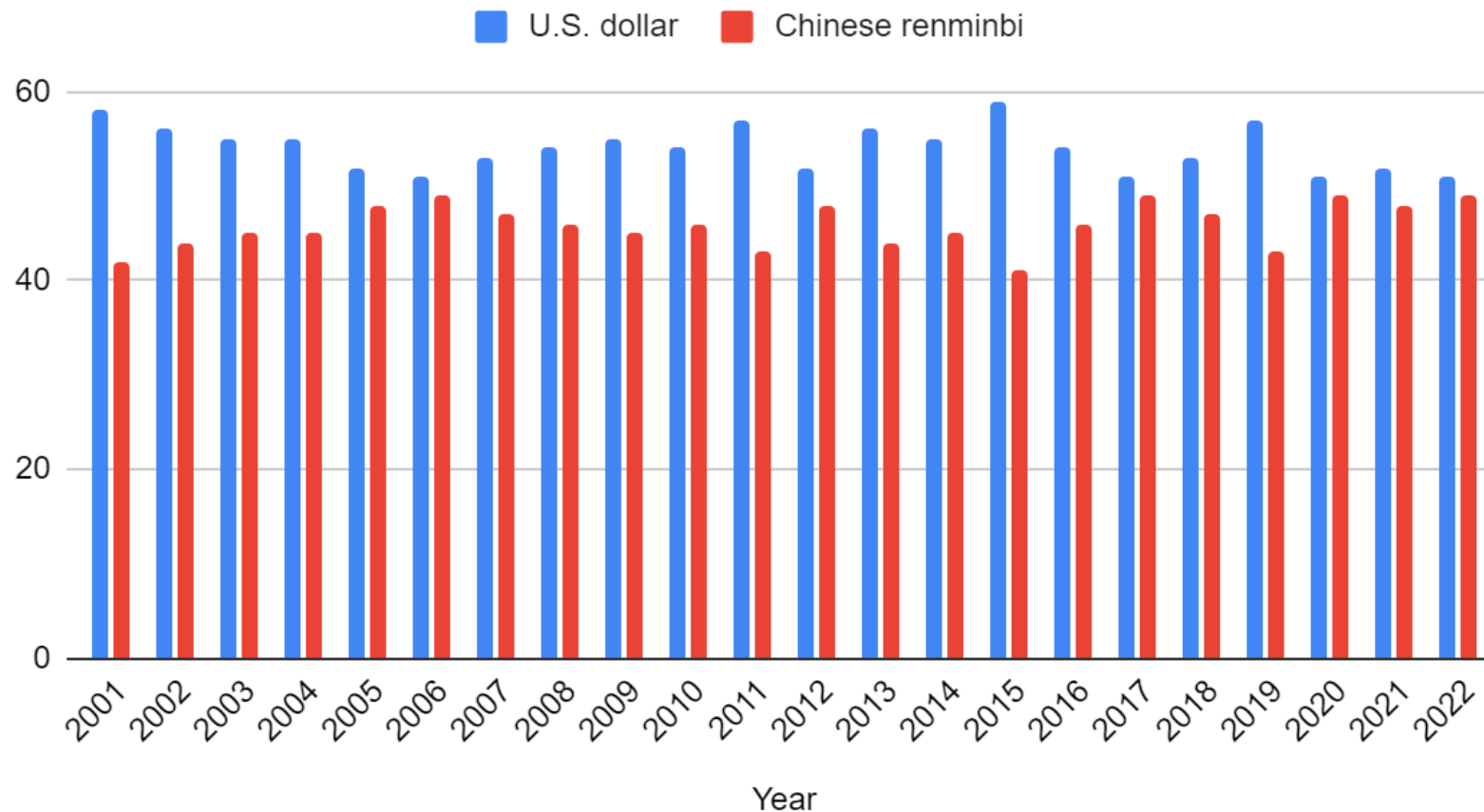


# Labor Outlook



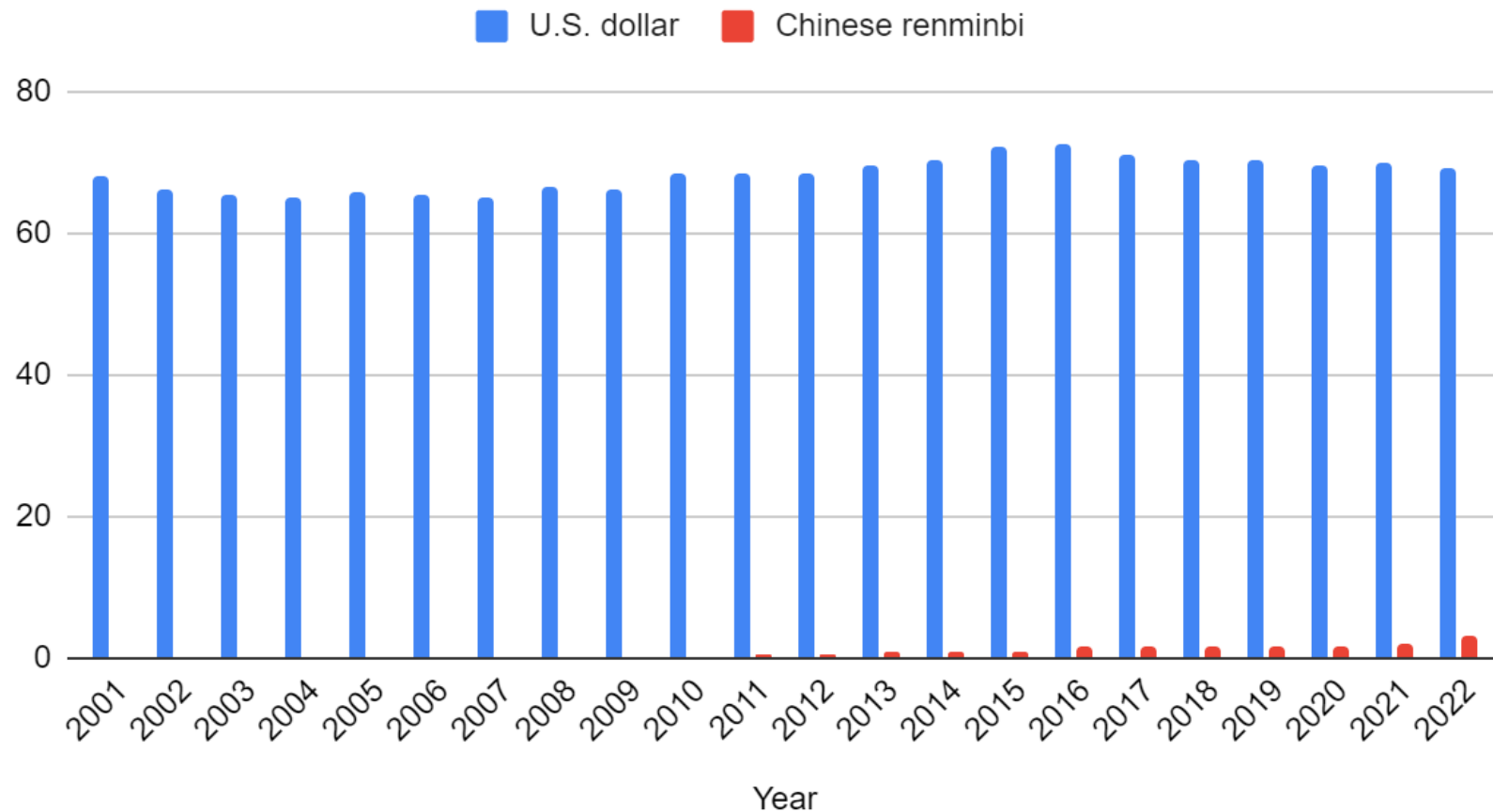
# The US Dollar Outlook

U.S. dollar and Chinese renminbi, as a percent of global usage



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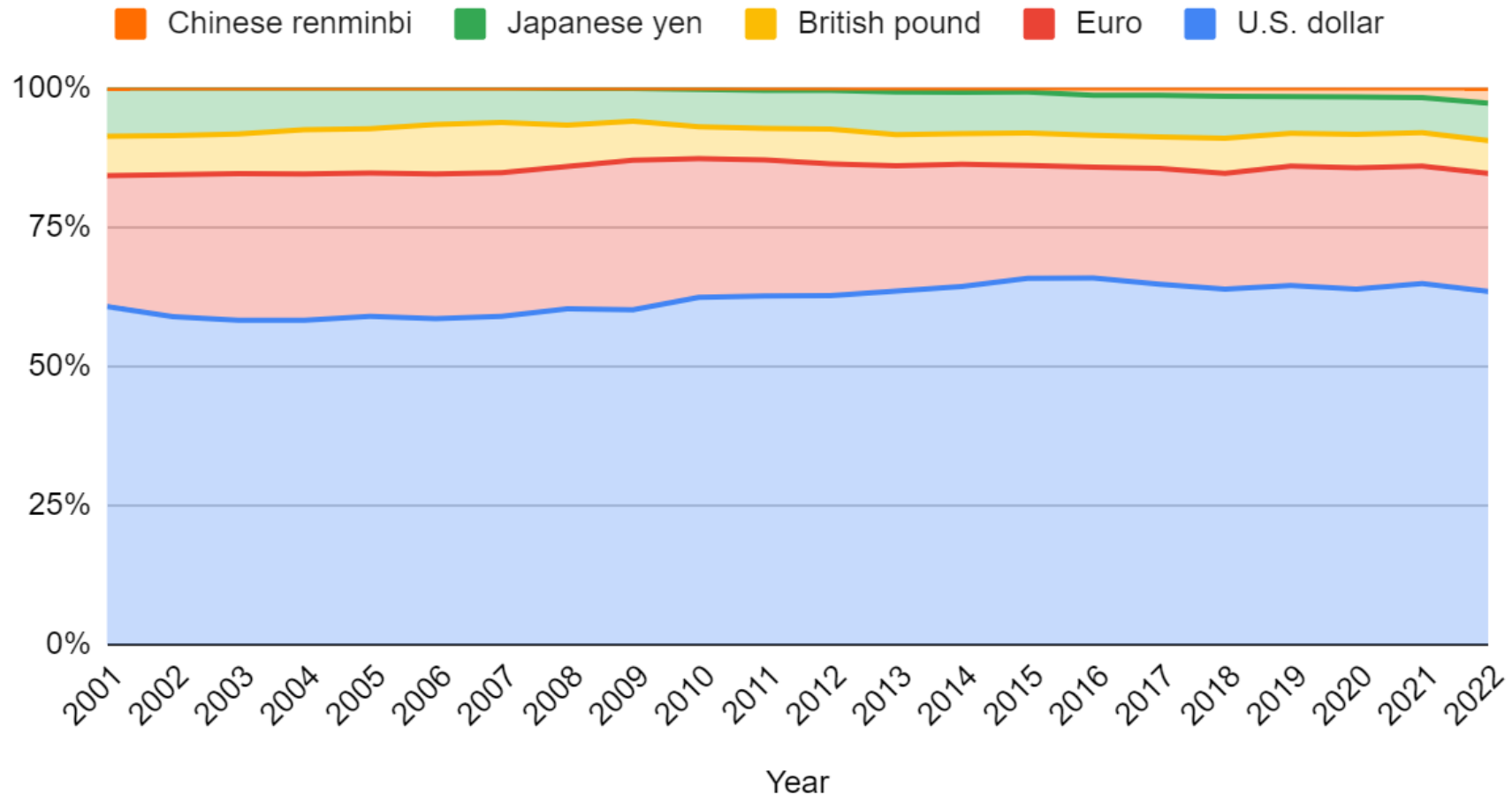


# The US Dollar Outlook

- A nation's currency is an immensely robust predictor of their economic future
- Currency failures lead to lack of confidence in nation
  - Manipulation
  - Seigniorage
  - Fix exchange
- These issues simply do not exist with the US dollar
- The US dollar is growing stronger

# The US Dollar Outlook

Index of international currency usage



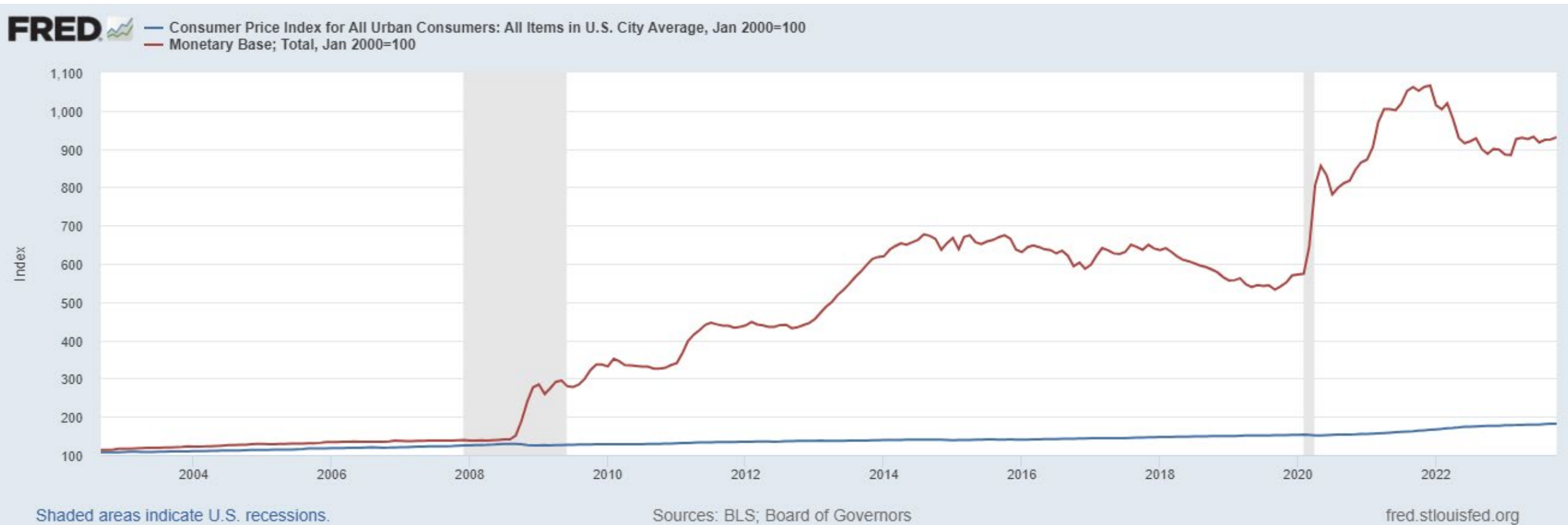


# Inflation and Monetary Policy Outlook

- Measuring inflation
  - Printing money
  - Quality increases
  - Function of National Debt
- Inflation vs the FED
- Inflation in perspective
- Effects on US industries with strong reliance on exports
- Inflation outlook

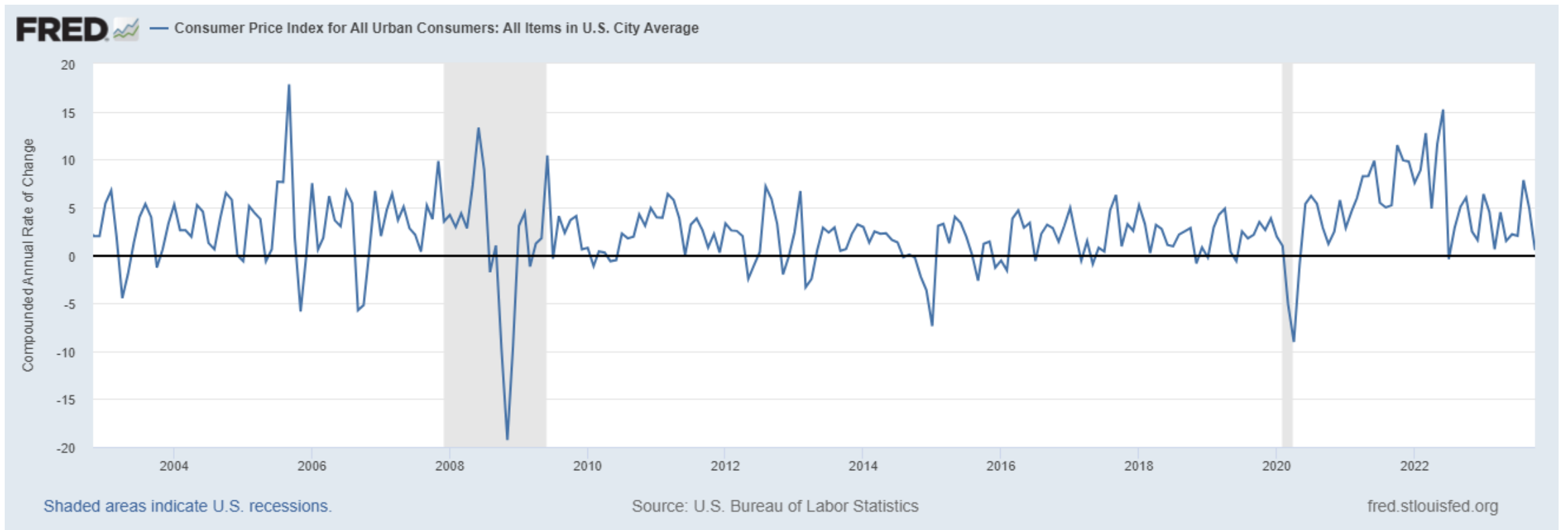
# Inflation and Monetary Policy Outlook <sup>3</sup>

- Printing money does not cause inflation
  - Spending printed money, without borrowing, causes inflation



# Inflation and Monetary Policy Outlook <sup>3</sup>

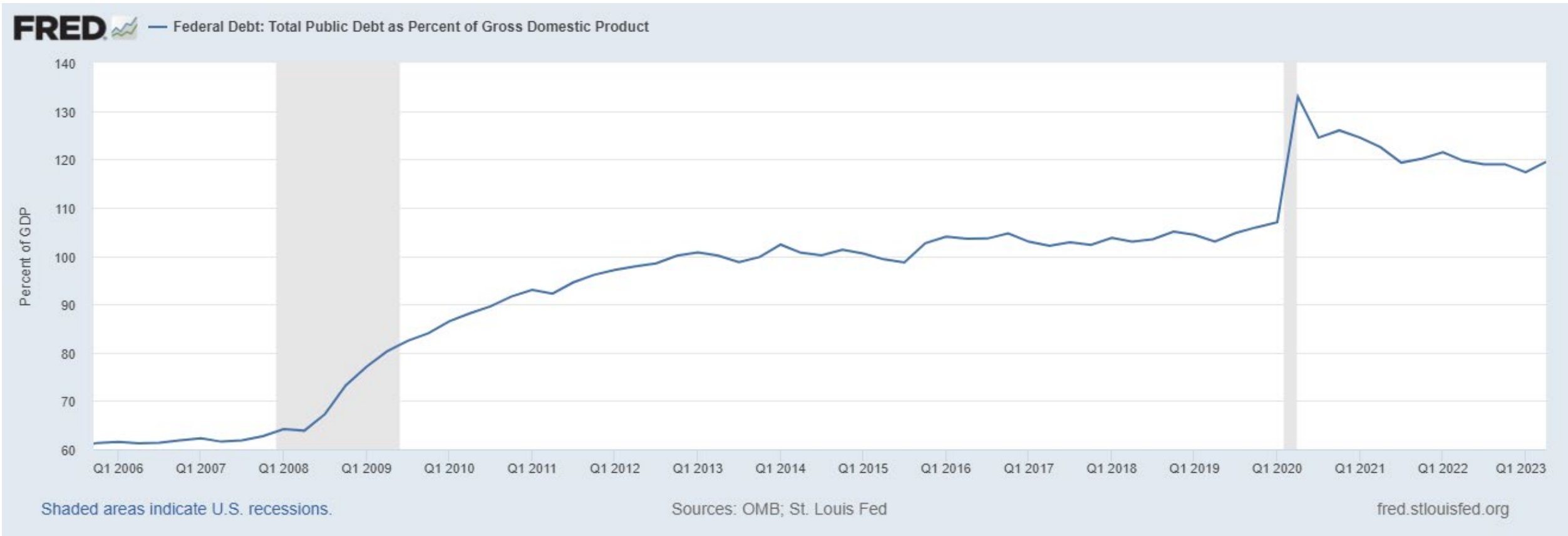
- The Federal Reserve long-run forecast
  - Target of 2%
- Inflation is quickly slowing down



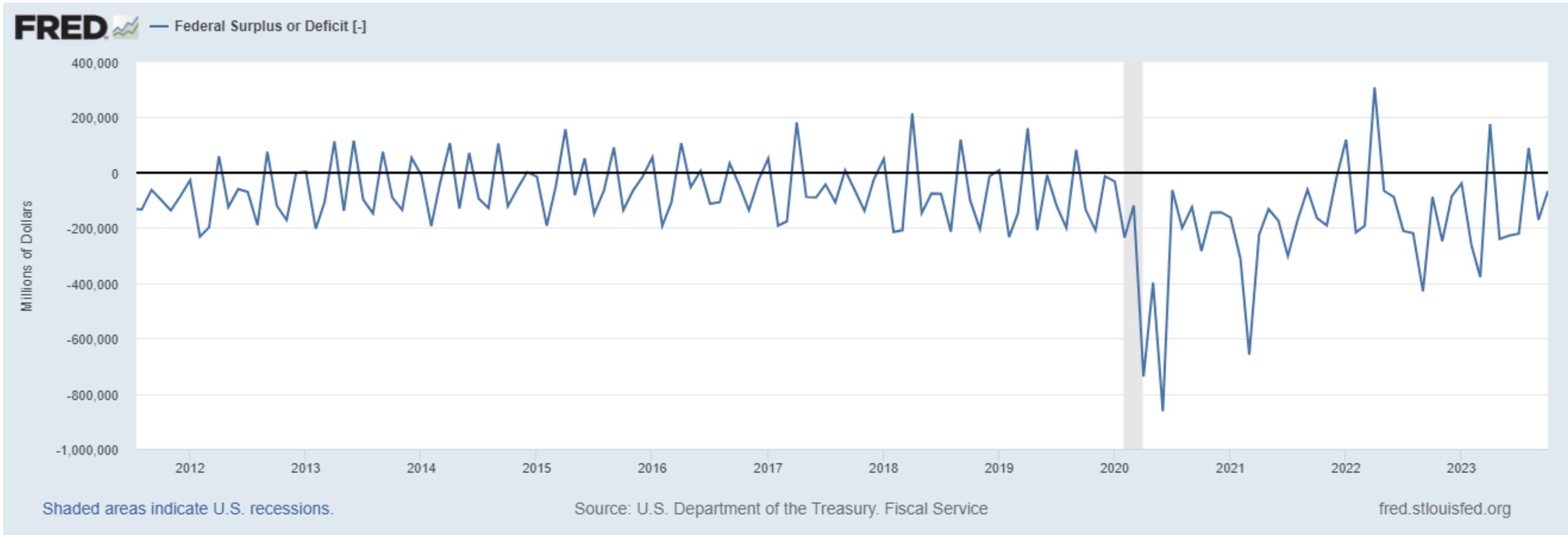
# National Debt & Taxation Outlook

- National Debt and Taxation are tied together
  - This is more pronounced in regard to future taxation
- GDP Growth and National Debt
- The National Debt is structural
  - There is sufficient taxing capacity in the US to address the deficit
- Types of National Debt
  - Not all national debt is created equally
- Lessons from Romer & Romer
  - Value of tax strategy

# National Debt & Taxation Outlook



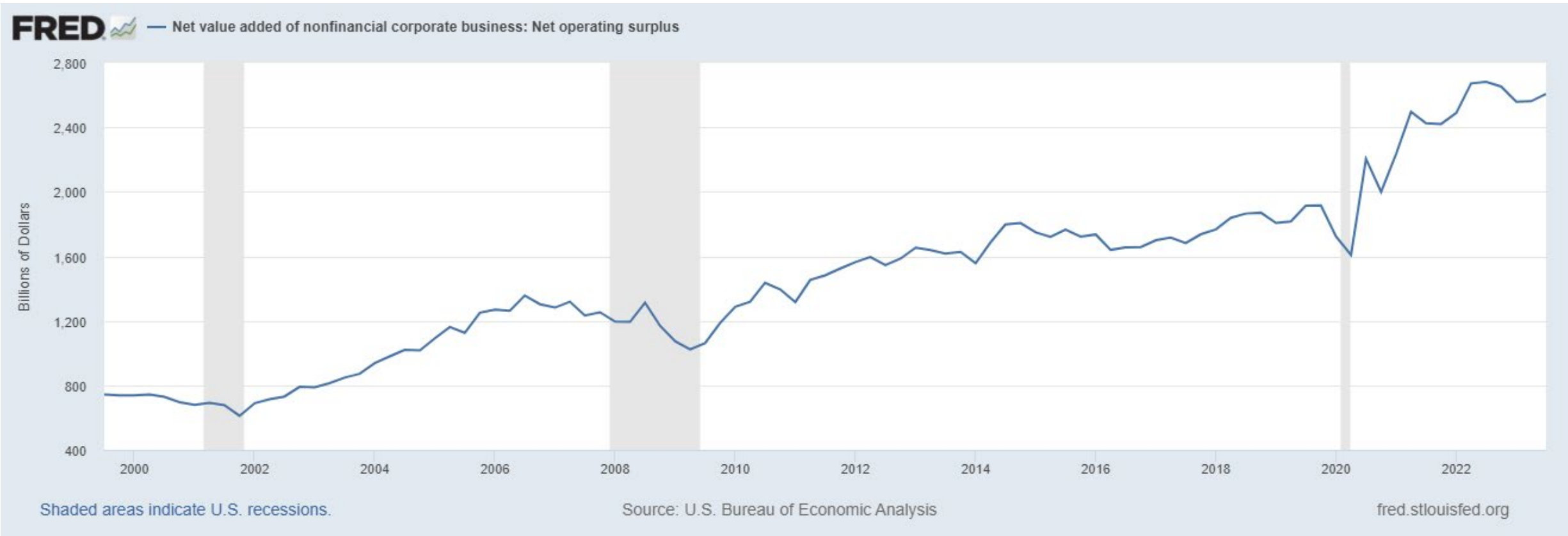
# National Debt & Taxation Outlook



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# National Debt & Taxation Outlook

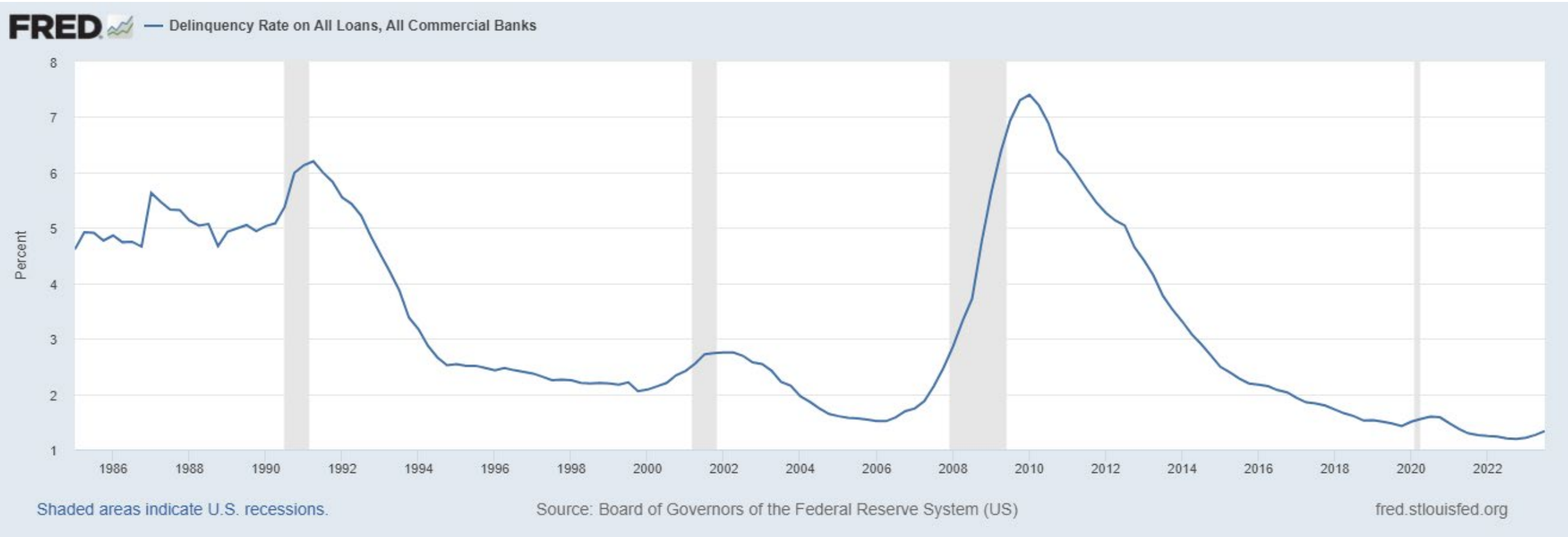




# Bank Health Outlook

- Despite media attention regarding regional banks, banks are extraordinarily stable
  - Arguably the most stable they have been in US economic history
- Defaults/Delinquencies are near an all-time low
- Depository Reserves are near an all-time high
- Banks are exceptionally reserved in their budgeting of losses
- Banks are healthy

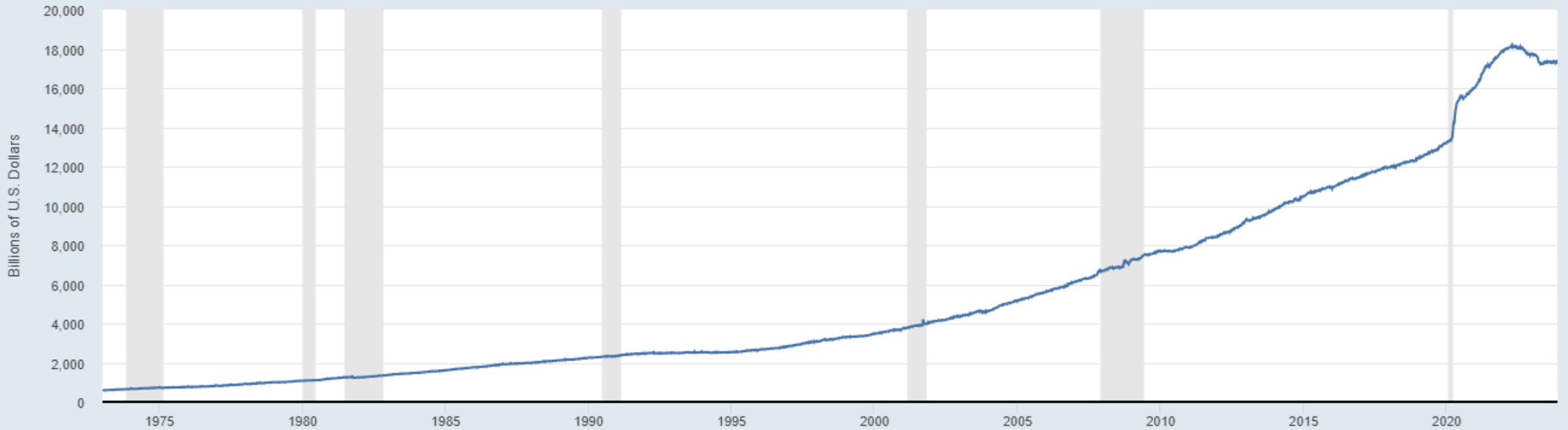
# Bank Health Outlook



# Bank Health Outlook



FRED — Deposits, All Commercial Banks

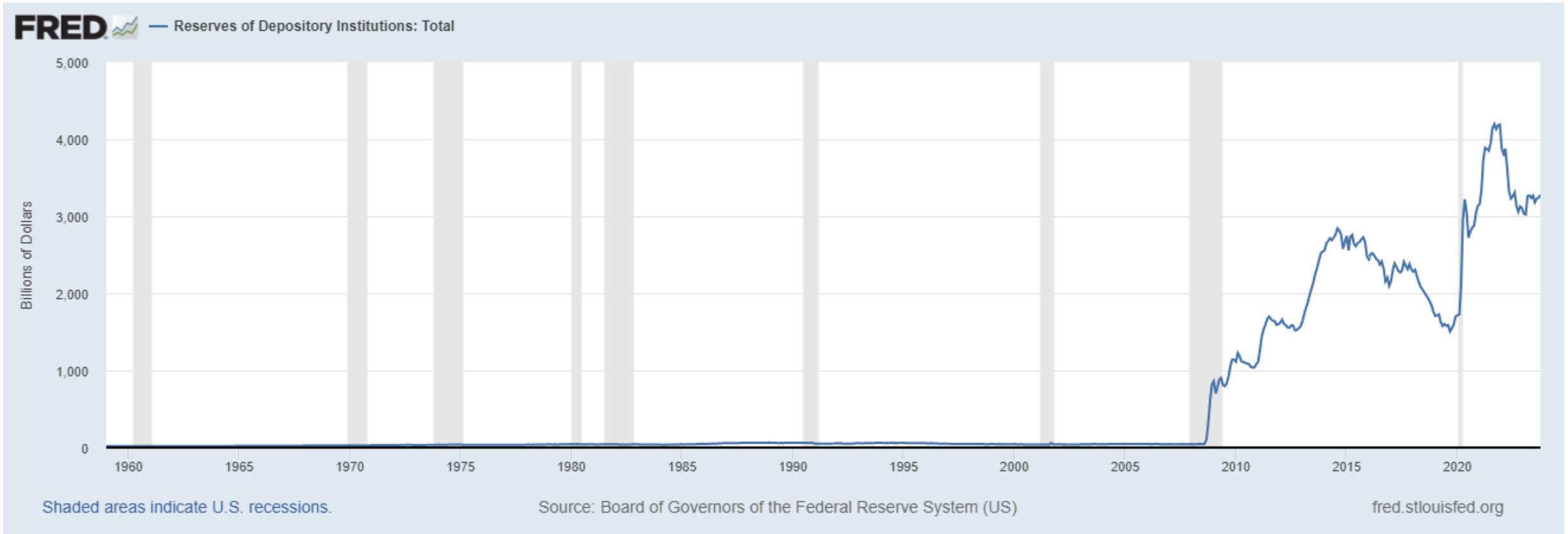


Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

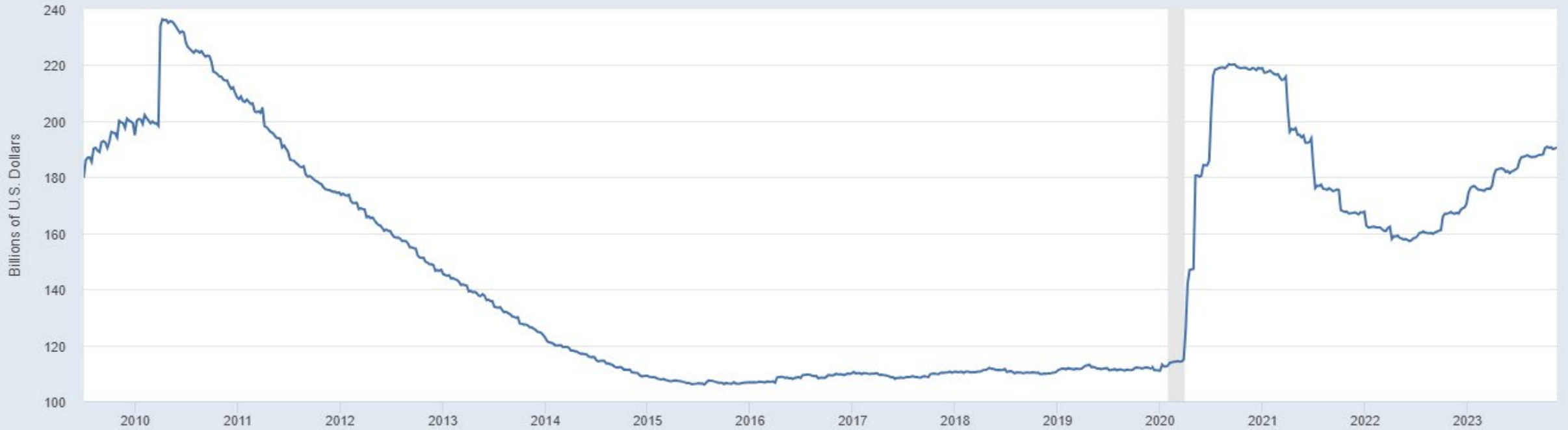
# Bank Health Outlook



# Bank Health Outlook



**FRED** — LESS: Allowance for Loan and Lease Losses, All Commercial Banks



Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

# Mergers and Acquisitions Outlook

- The US economy is approaching peak conditions for mergers and acquisitions
- Consolidation is likely, given market conditions
- Strong M&A environments can pose economic threat
  - Poorly analyzed M&A can lead to loss of economic efficiency
    - Example: Dot Com bubble & AOL
- Tremendous economic upside when M&A is executed well

# Mergers and Acquisitions Outlook



# Energy Sector Outlook

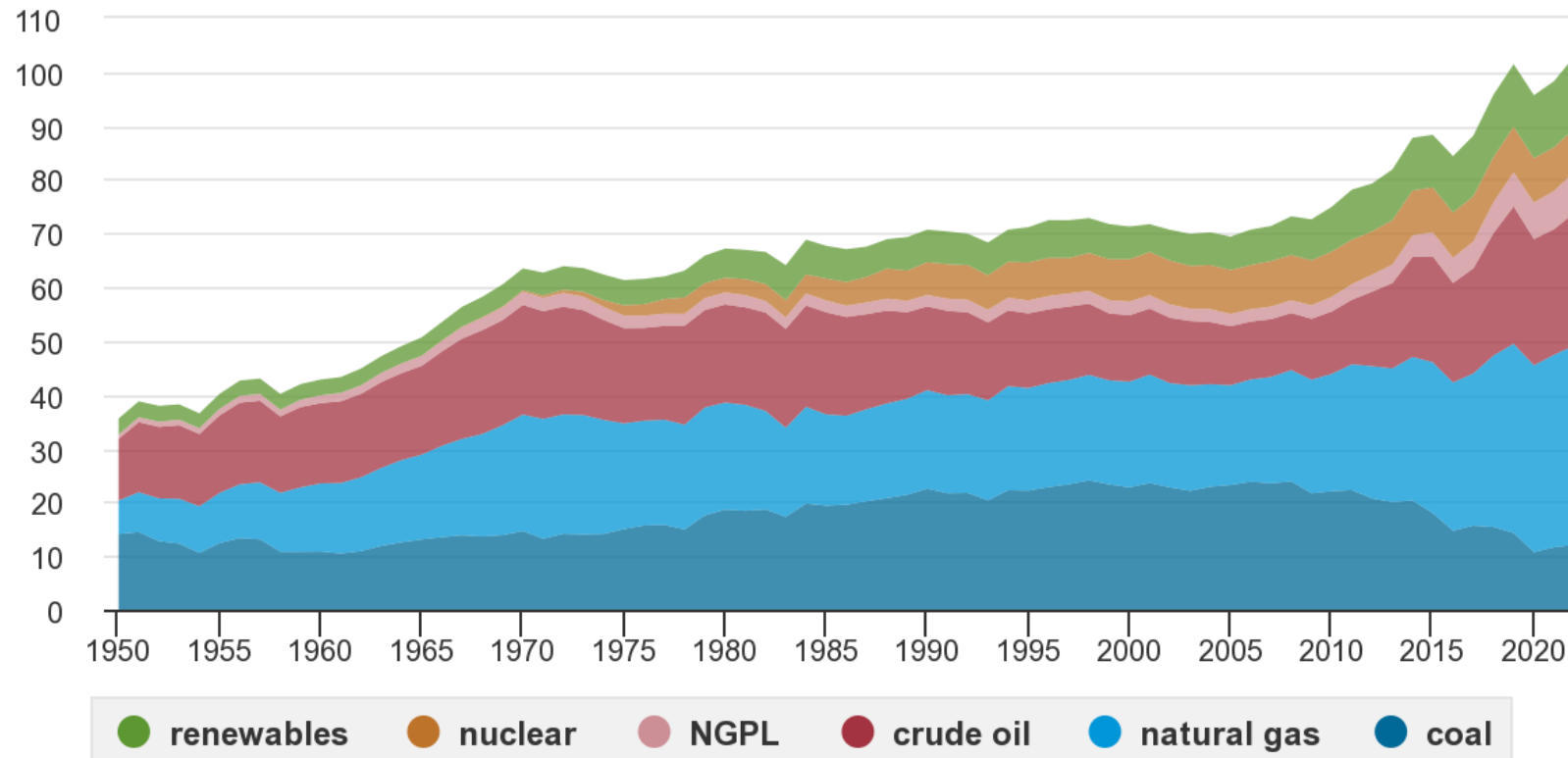
- Recent gains in renewables
  - Passive management allays rising costs
- Basal vs. Peak demand cycle
  - Limitations of batteries
  - Alternative storage: pumped hydro
- Nuclear is the future
  - Economics of fusion and fission
- Technology will push renewables and low carbon emission systems' price down
- OPEC and the US



# Energy Sector Outlook

**U.S. primary energy production by major sources, 1950-2022**

quadrillion British thermal units



Data source: U.S. Energy Information Administration, *Monthly Energy Review*, Table 1.2, April 2023, preliminary data for 2022



Note: NGPL is natural gas plant liquids.

# Macroeconomic Trends of Note

- Onshoring to Mexico
- Rare Earths
- BRICS
- Immigration in Major Global Economies
- Global Instability and the Threat it Poses to the US Economy

# Q&A



# Tax Update

# Speakers



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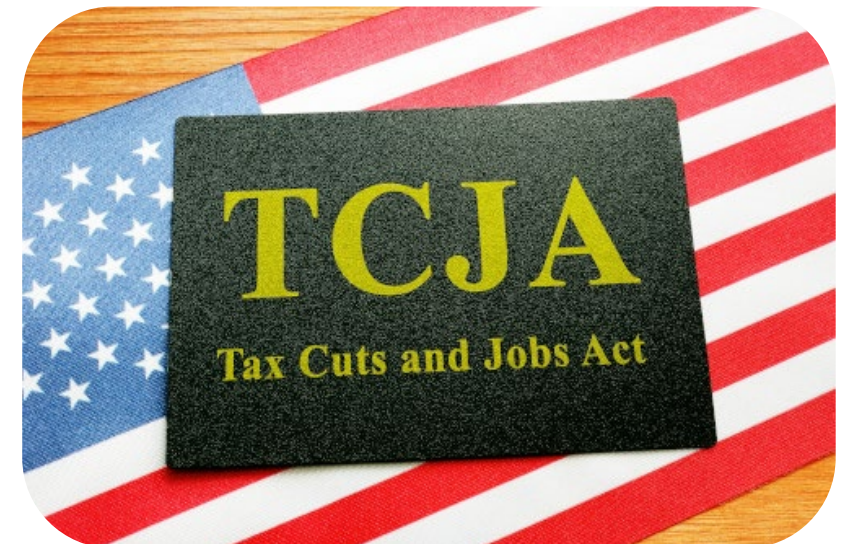
# Topics to Be Covered:

- ✓ Anticipating the sunset of the Tax Cuts and Jobs Act Provisions
- ✓ Changes in the Massachusetts tax landscape
- ✓ Tax law changes being discussed as part of upcoming presidential election

# Possible sunset of the Tax Cuts and Jobs Act of 2017 (TCJA)



- The Tax Cuts and Jobs Act (TCJA) was passed back in December of 2017
- In total, there are 23 provisions from the TCJA related to individual taxes that are set to expire on December 31, 2025, unless extended or supplanted via legislation



# Tax Brackets/Standard Deductions

- Prior to the TCJA, the federal marginal tax brackets were:  
*10%/15%/25%/28%/33%/35%/39.6%*
- **Under TCJA these brackets were reduced to:**  
*10%/12%/22%/24%/32%/35%/37%*
- These tax brackets will be reverting to the pre-TCJA brackets after 2025 without new legislation
- TCJA doubled what the standard deduction was at the time of its passing
- Starting in 2026 the standard deduction will revert to half of the current amount





# Limitation to State and Local Tax deduction (Possible sunset of TCJA in 2026)

- The TCJA put a \$10,000 limit on the state & local tax deduction and was not eligible to be indexed for inflation
- This limited many taxpayers to the standard deduction since this was a significant itemization previously
- After 2025 this limitation will be removed, and taxpayers would once again be able to fully deduct SALT taxes on their tax returns if they itemize their deductions



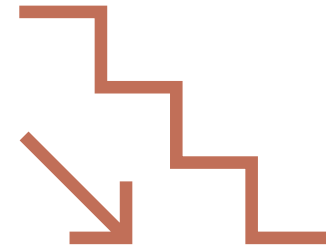
# Qualified Business Income Deduction (QBI) (Possible sunset of TCJA in 2026)



- Allowed taxpayers to deduct up to 20% of business income from flow-through entities, such as Schedule C businesses, S-Corps, and Partnerships, on their Form 1040
- This deduction was originally intended to allow other business structures to compete with the new 21% tax rate of C-Corporations
- Under the current regulations this deduction will be completely removed after 2025



# Bonus Depreciation



- Between 2018 and 2022 businesses were allowed to take 100% bonus depreciation in the year the qualified property was acquired
- Bonus depreciation sunsets over multiple years. In 2023 bonus depreciation of 80% is allowed, 60% in 2024, 40% in 2025, 20% in 2026, and is fully expired in 2027
- While taxpayers are still allowed to take accelerated depreciation on certain qualified property under Section 179, it would be wise for taxpayers to take advantage of bonus depreciation before it is fully phased out in 2027

# Estate and Gift Tax (Possible sunset of TCJA in 2026)



- For 2023, the federal estate and gift tax exemption is \$12.92 million per individual, and \$25.84 million for married couples
- Unless the next congress acts to change the current law, the estate and gift tax exemption will revert to pre-TCJA levels in 2026 and is expected to be in the ballpark of \$7 million per individual, or close to \$14 million for a married couple

# Other Potentially Expiring Provisions of the TCJA



- Miscellaneous itemized deductions subject to a 2% AGI floor will return (unreimbursed employment expenses, investment expenses such as management fees and trustee fees, and tax preparation fees)
- Itemized deduction limitations will return
- Personal exemptions will return
- After 2025, employees that are forced to move for work will not have to pay taxes on reimbursed expenses from their employer and will be able to take a tax deduction for unreimbursed expenses
- AMT may apply to more taxpayers due to increased exemption amount and phase out range



# Massachusetts Estate Tax



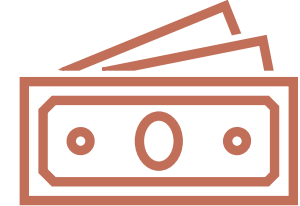
- Under prior law, if the value of a decedent's estate did not exceed \$1 million, no tax was owed
- However, if the value of the decedent's estate exceeded \$1 million, the entire value of the estate was subject to tax
- The \$1 million limit was really a filing threshold and not an exclusion
- The Act increases the exclusion amount from \$1 million to \$2 million and treats the new amount as a true exclusion
- Estates exceeding \$2 million will be subject to tax on the excess at a rate starting at 7.2% and increasing with the size of the estate, up to 16%. For a married couple, trust planning is still required to maximize the use of the exclusion for each spouse

# Massachusetts Capital Gains Tax

- Short-term capital gains rate is reduced from 12% to 8.5%, effective Jan. 1, 2023
- Long-term capital gains rate is 5% (*equal to the Massachusetts ordinary income tax rate*)
- Short-term capital gains rates result in a 3.5% surcharge on that income



# Massachusetts Millionaires Tax



- Additional 4% income tax on income over \$1 million
- Generally (ignoring short-term capital gains rates), the first \$1 million of income is taxed at a 5% rate and any income above that is taxed at a 9% rate
- Planning had been contemplated electing to file MA returns and jointly at the federal level, which could afford favorable tax treatment at both levels
- However, the Act now requires married couples to elect the same status with MA as with federal
- Married couples will have to weigh any MA benefits against lost benefits at the federal level
- This requirement also poses challenges for couples who wish to claim a different domicile for tax purposes



# Q&A



Break

# Strategic Business Planning Panel

# Moderator

# Panelists



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**Catherine Erasmus**  
*President*  
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**David Model**  
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**Enzo Scalora**  
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# Trends in M&A and the Equity Markets

# Speakers



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# What We'll Cover

- ✓ Current Trends in Both M&A and the Equity Markets in 2023
- ✓ Preparing Your Business for Sale
- ✓ Understanding Valuation
- ✓ Importance of Assembling a Team of Advisors
- ✓ Quality of Earnings Reviews – What are they and why are they important
- ✓ Importance of Financial Planning Prior to Sale
- ✓ What to Do With the Sale Proceeds

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# Preparing Your Business for Sale

- Start this process a minimum of two years *prior* to going to market
- Clean up any personal expenses that may be running through the business as well as any uncertain tax positions
- Understand key areas of the business that can adversely affect the valuation and address them:
  - Revenue recognition
  - Customer concentrations
  - Vendor concentrations
  - Unusual accounting practices
  - Federal or state tax examinations
  - Industry-specific areas
  - Cluttered/over-levered balance sheet
  - Accuracy of monthly reporting





# Preparing Your Business for Sale (continued)



- Identify your exit strategy
  - Sale of stock or assets and the related tax implications
  - Know what the net proceeds will be from the transaction
  - Assemble a seasoned team of advisors (Investment Bank, CPA, Attorney)
- Confirm that the business is in good standing with federal and state taxing authorities, as well as with the Secretary of State
- Incentivize Management to increase valuation for a potential transaction
- Understand the difficulty associated with running the business and selling it simultaneously
- Know the strengths and weaknesses of the business better than anyone else – and prevent surprises during due diligence
- Consider making the investment in having externally prepared financial statements completed by a reputable CPA firm
- Make sure all shareholders are aligned prior to embarking on any transaction to sell the business

# Valuation

- Understand the concept of Earnings Before Interest, taxes, depreciation and amortization (EBITDA)
  - What is it?
  - How is it calculated?
  - Identify any add-backs to EBITDA
  - What is the impact on valuation?
- Understand the concept of working capital
  - Why is it important?
  - How is it calculated?



# What is a Quality of Earnings Review? <sup>3</sup>

- Used by a buyer to evaluate valuation and assist with obtaining financing for the transaction
- Used by a seller to support valuation and the cash flows of the business
- Added scrutiny of the numbers
- Can help facilitate a transaction
- Another means of adding credibility to the seller's financial information

# Q&A



# Contact Us



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THE POWER OF MORE

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