

Q&A WITH ALAN FRIEDMAN AND DANIEL JOBE

A Year of Monumental Change in Tax Laws

MUSIC INC.: This has been a year of change in various tax laws that seem to have a ton of relevance to all music retailers and possibly other music industry businesses. Can you start by giving our readers a brief overview of the major tax law changes that came into effect in 2018?



“Make no mistake — virtually all businesses and individuals are affected”

better service our music industry clients. Make no mistake, virtually all businesses and individuals are affected, in one way or another, by one, two or all three of these new laws.

MUSIC INC.: Let’s start with our president’s new tax act.

DANIEL JOBE: So, like Alan said, the start of 2018 began with the implementation of wide-sweeping changes to our federal tax laws, now known as the “Tax Cuts and Jobs Act” or TCJA. For businesses, these changes range from the lowering of corporate tax rates to the implementation of a new federal business deduction equal to 20 percent of the net income from pass-through entities like S corporations, LLCs and sole-proprietorships. For individuals, although tax rates have also come down, there’s also been the elimination of long-standing deductions like personal exemptions, unreimbursed employee business expenses and limitations on both income/property taxes and home mortgage interest.

FRIEDMAN: So when clients ask us if the new tax law is ultimately good or bad, there’s truly only one definitive answer: “It depends.” It depends on what kind of business you operate, whether you pay

wages, how much you make, where you live, whether you have kids and what are their ages, how high is your mortgage debt, how much you pay in income and property tax, and a slew of other swaying factors. Honestly, there’s no way to really know off the top of your head how this will affect any taxpayer; you simply need to know the law and run the numbers.

MUSIC INC.: And while you guys were studying this new law and crunching numbers for your clients, the California Supreme Court came out with a far-reaching labor law ruling, clarifying what kind of worker can be classified as an independent contractor or must be classified as an employee.

JOBE: This brings us back to one of the “hot topics” we have been speaking about in the music industry for years on how you classify your workers, either as employees or independent contractors. Now, some readers are probably thinking “Well, I live in Texas, so what does this new California labor ruling have to do with me?” People need to bear in mind the California Supreme Court is one of the most powerful state law-making bodies and typically paves the way for other states to follow. With the implementation of their new “ABC” test for worker classification, many employers will now be forced by this new law to treat workers as employees, with all associated costs, instead of as independent contractors as they may have done in the past.

FRIEDMAN: As Daniel alluded to, California has adopted a three-prong “ABC” test to determine if a worker is indeed an employee even though that worker may wrongly be classified and treated as an independent contractor. The three criteria have to do with who has control over the worker, whether the work performed is outside the usual course of the business in question, and whether the worker has established their own trade or business. When we think about our music store clients with music teachers, repair technicians, piano movers and tuners, we get concerned about the second criteria because these kinds of workers are arguably not performing work outside the usual course of business of the store in question.

JOBE: Let me add that these labor laws have, over time, become much more stringent, both at the federal and state level.

MUSIC INC.: Do these new labor laws apply to most businesses — not just retailers?

FRIEDMAN: Yes, these labor laws not only affect retailers, they affect every kind of business — manufacturers, distributors, service businesses, music educators, musicians, bands, recording studios, and every other kind of business you can think of.

MUSIC INC.: There’s one other change that’s been shaking up all retailing industries: the new Supreme Court sales tax ruling on internet sales.

FRIEDMAN: In June 2018, the federal Supreme Court came down with a long-awaited ruling called the “South Dakota vs. Wayfair Inc.” decision. In short, the Court gave each state the right to collect sales tax on sales from out-of-state retailers to residents of their state. While many retailers view this as leveling the proverbial playing field between brick-and-mortar and online retailers, other retailers are totally freaked out about how to comply with these states’ new right to collect sales tax on sales into their states. Take it away, Daniel.

JOBE: Most retailers never had to worry about collecting sales tax in another state, unless they had a physical presence in that state, which is referred to as “physical nexus.” But with this new court ruling now in place, retailers are now worried about a new term called “economic nexus” and the administrative burden of tracking, collecting

and remitting sales tax on out-of-state sales to potentially 45 other states, as five states do not levy a statewide sales tax. There is some good news, though, as most states have a sales volume threshold that an out-of-state retailer must exceed for them to be obligated to collect and remit that state’s sales tax. But like any new far-reaching tax law change, there are myriad of factors that need to be considered and issues addressed to comply with these new laws. Like, what if a retailer is selling through Amazon and using their fulfillment services?

MUSIC INC.: What if they are indeed selling through Amazon and have inventory hanging out at an Amazon warehouse? What then?

FRIEDMAN: Well, I guess you’ll have to come to The 2019 NAMM Show Tax Update program at the Anaheim Hilton on Friday, Jan. 25 at 10:00 a.m. **MI**

A partner and co-founder of Friedman, Kannenberg, & Co., Alan Friedman has more than 30 years of accounting, tax and consulting experience in the music industry. Daniel Jobe serves as an accounting and tax services professional at FKCO.

“When selecting an instrument, everyone has a choice to make: price-point vs quality. However, when you choose John Packer, you can have both.”

Rick Thacker - Plum Grove Music IN

At John Packer we design great instruments that are affordable and excellent quality, so it's hardly surprising we're winning awards.

Our Brass and Woodwind instruments are sold worldwide via a global distribution network.

Visit our website or Booth 9333 at NAMM to learn about dealership opportunities.

The
NAMM
Show



John Packer Musical Instruments

www.jpmmusicalinstruments.com



THE MUSIC COMPANY
FOR INSTRUMENTS,
REPRODUCTION, TRADE

