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Prepare now for impacts of new tax bill on middle-market businesses

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While many hope the new tax bill will stimulate the economy and bring faster GDP growth, we must consider whether it will indeed benefit us to speed growth from where we are today, or to experience a longer period of extended slower growth. Will the stimulus cause the economy to overheat and therefore bring us closer to the next recession? Are we better off as the tortoise or the hare? Fact is, middle-market business owners would be wise to prepare for both scenarios.

Since we are not currently in a recession and we have had steady, slow growth for almost 10 years, it is not clear that we need the stimulus this bill is supposed to bring. If we overheat, the Federal Reserve will likely pull back by raising interest rates faster to slow the economy. Rapid growth could cause inflation, because of a shortage of labor in today's already tight employment market, among other things. Would that mean the Fed needs to raise rates faster (many already predict three quarter point interest hikes in 2018) and push us closer to the next recession, or are we better off with slow, sustained growth? Slow, sustained growth over the long term may be more beneficial to individuals and middle-market businesses.

Based on our experience working with middle-market business owners in all types of economic cycles, here is some general guidance to help your business decisions this year:

Hiring. You should be very cautious and not be overly exuberant when hiring because adding too many full-time employees too fast could put you at risk of having to fire those people just as fast when things slow down or your projections are not met. In the last recession, employers who hired in 2006 had to fire fast in 2008. Those who didn't react quickly enough may not have survived. The key is to remain quick and nimble, and always hire people for the right reasons at the right times. You may want to start by hiring temporary help or part-time employees with the idea of converting them to full-time if growth continues.

Capital expenditures and real estate. When it comes to your capital expenditures, you must be careful to not overexpand. With real estate, you must be flexible. Consider solutions like WeWork or Regus shared office spaces to avoid long-term real estate commitments, which have proved to destroy many companies. Beginning in late 2000, large real estate commitments doomed companies when the internet bubble burst.

Expenses. You must continuously monitor your expenses and evaluate your medium- and long-term commitments to ensure you have flexibility. You want to continue to keep a strong balance sheet, being cautious with your commitments for borrowing. Particularly during the next year or two with the continuation of the growth of 2017, there is an expectation that interest rates will continue to rise, increasing borrowing costs.

Taxes. While some will get an increase in their taxes, the bulk of the tax relief will go to the wealthiest individuals and businesses, and thus will, in all likelihood, be saved rather than spent. In the case of companies, it will probably be used for dividends or stock buybacks, with limited increases to employee compensation where required to retain talent. Some of the benefits from this tax cut could be very short-lived, and as the bill exists today, individual tax benefits are not permanent.

It will be interesting to see what happens to economic growth with the new tax law over an extended time, because depending on which economist you listen to, forecasts vary from short-term blips in growth to long-term, extended growth. Some of the benefit will be offset by the misguided immigration policy which, as we deport workers, reduces the pool of potential employees. At the same time, in today's economy that is near full employment, our immigration policy also reduces the pool of consumers who are spending money and in many cases paying taxes, decreasing GDP growth.

Without a doubt, exercising caution and preparing for both outcomes can help protect your best interest in any of these scenarios.

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