U P D A T E

Margaret McDeed, Editor — Fall Issue 2018

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IRS WARNS SMALL BUSINESSES ABOUT TAX RETURN IDENTITY THEFT

Dave Bove

The IRS is warning employers and small businesses to beware of growing attempts by cybercriminals to target businesses to obtain the business and employees' information. This stolen information is used to open credit card accounts and file fraudulent tax returns for "bogus refunds."

The IRS has noted, in the past two years, an increase in fraudulent Forms 1120, *U.S. Corporation Income Tax Return*, 1120S, *U.S. Income tax Return for an S Corporation*, and 1041, *U.S. Income Tax Return for Estates and Trusts*, as well as Schedules K-1 being filed by cybercriminals. This includes fraudulent filings for partnerships.

According to the IRS, identity thieves have long used stolen employer identification numbers (EINs) to create fake Forms W-2, Wage and Tax Statement, that they then file with fraudulent individual tax returns, as well as to open new lines of credit or obtain credit cards. They are now using company names and EINs to file fraudulent business returns.

The IRS has noted that, just as with individual income tax returns, this group of business, partnership, and trust and estate return filers should be aware of the following signs that their identity may have been stolen:

1. The IRS rejects an extension to file request because a return with the EIN or Social Security number (SSN) is already on file.
2. The IRS rejects an e-filed return because there is a return with a duplicate EIN or SSN already on file.
3. The taxpayer receives a Letter 5263C or 6042C, which notifies the taxpayer that it may be an identity theft victim.
4. The taxpayer unexpectedly receives a tax transcript or IRS notice that does not correspond to anything the taxpayer submitted.
5. The taxpayer fails to receive expected and routine correspondence from the IRS because the identity thief has changed the taxpayer's address with the IRS.

The IRS is asking taxpayers to provide additional information to verify that a return is legitimate. Those steps are "know your customer" questions, including who signed the return (name and SSN), the company's tax payment and/or filing history, the company's parent company, and additional information about the claimed deductions. Sole proprietorships that file Schedule C, *Profit or Loss From Business*, and partnerships may be asked to provide driver's license information.

The IRS also suggested that business taxpayers protect against identity theft by adopting the recommendations for cybersecurity from the National Institute of Standards and Technology, which are available at tinyurl.com/ycyrfu95.

Do You Have a Financial Interest In a Foreign Country?

Dawn Lopez

Million-dollar FBAR penalty. The Supreme Court declined to review a Ninth Circuit decision (U.S. v. Bussell), which, on finding that a taxpayer willfully failed to file a Report of Foreign Bank and Foreign Accounts (FBAR), regarding her foreign account, let stand a million-dollar FBAR penalty.

Each U.S. person who has a financial interest in or signature or other authority over any foreign financial accounts, including bank, securities, or other types of financial accounts in a foreign country, if the aggregate value of these financial accounts exceeds $10,000 at any time during the calendar year, must report that relationship for that calendar year by filing an FBAR with the Department of the Treasury. Those who willfully fail to file their FBARs on a timely basis can be assessed a penalty of up to the greater of $100,000 (as adjusted for inflation) or 50% of the balance in the unreported bank account for each year they fail to file a required FBAR.

The Ninth Circuit rejected a variety of the taxpayer's arguments, including that the imposition of the penalty violated the U.S. Constitution because the fine was excessive under the Eighth Amendment. The taxpayer argued that the penalty was a punitive forfeiture, grossly disproportional to the gravity of the offense, but the Court held that the assessment was proper because the taxpayer defrauded the government and reduced public revenues. Please contact us with questions and assistance in complying to avoid hefty penalties should foreign interest reporting be applicable to you.

PLAN YOUR QUALIFIED CHARITABLE DISTRIBUTION NOW!

Rick Vernal

For taxpayers that normally contribute to their favorite charities, the qualified charitable distribution (QCD) is one of those tax strategies that taxpayers only think about when it's too late to take advantage of, at the time they are filing their tax return in the following year.

Because of the new tax law, more taxpayers will be taking the increased standard deduction, as opposed to itemizing deductions; therefore, essentially losing the deduction for their charitable gifts. But the QCD gives taxpayers a double advantage, they can take the increased standard deduction and effectively add a charitable deduction on top of that, as charitable contributions made through QCDs are excluded from income. Instead of the old way of writing a check and taking a tax deduction, taxpayers who qualify should make their gifts via QCDs, where the gift is made as a direct transfer from an IRA to the charity.

The only negative of the QCD is that it's not available to more taxpayers. It only applies to pre-tax funds in IRAs, not company plans, and clients must be at least age 70½ at the time of the QCD to qualify. A QCD may be as large as $100,000 per person (not per IRA) and can be used to satisfy a client's RMD requirements. QCD rules prohibit using donor-advised funds or private foundations.

Additionally, because a QCD is not included in income as a distribution, it offers other tax related benefits as opposed to taking a taxable IRA distribution and trying to offset it with a charitable contribution deduction. The QCD does not increase adjusted gross income as a taxable IRA distribution does. And a higher AGI can be costly in several ways, such as increasing income tax on Social Security benefits, increasing Medicare premiums, higher marginal tax rate, and phasing out some deductions and credits.

In Memoriam (William W. Dennison)

FEBRUARY 5, 1947 - JUNE 25, 2018

The partners and staff of Dwight Darby & Company (DD&Co) are saddened to announce the passing of William (Bill) W. Dennison, 71 on June 25, 2018. He had been struggling with heart issues this past year.

Bill graduated from the University of South Florida in 1970 and joined DD&Co in February 2004 and a recently semi-retired accountant. During his 14 years with the firm Bill served our auto dealership clients from day-to-day needs to the sale of dealerships and valuations. Many of his close clients indicated their trust and reliance on his dealership business acumen, which is a highly specialized industry. In his free time, he enjoyed spending time on the water with friends boating, fishing, diving, and coming up with tall tales of the experience. He will be remembered for his quiet wit and selfless support of those dear to him. Above all, Bill loved the Lord God and his family. Bill was preceded in death by his parents, William & Gertha (Darty) Dennison. He is survived by his sisters, Naomi (Michael) Kouns and Lee (Don) Collier; nieces and nephew; great nieces and great nephews; many cousins, and a host of good friends. Bill will be missed; may he rest in peace.

BECOME A LIKEABLE LEADER

Kathy Tushaus

Research shows that most everyone wants to work with leaders who are not only competent, but also likeable. The most successful leaders also have high emotional intelligence. This is defined as the capacity to be aware of, control, and express one's emotions, and to handle interpersonal relationships judiciously and empathetically. Depending on your age, you may have had bosses or managers that ruled with an iron fist. We now know that this strategy does not work in the long term, at least with the current job force. Which leader are you? Here are some strategies to help you become a likeable leader:

- The #1 attribute is to give of your time – we are all busy with our own workload, but likeable leaders spend time interacting with the team to form a personal connection. They want their team to succeed, so be generous with your time as well as your resources and connections.
- Listen – take the time (there is that word again) to listen when you interact with your team. Focus on what they need, not just what you want from them.
- Integrity – commit to a code of values and show your integrity, don't just talk about it.
- Be humble – recognize the strengths of those on your team for contributing to your success.
- Be positive – be grateful and enthusiastic for every opportunity. Your team will catch that vibe.
- Be focused – dedicate your attention to the task at hand, including putting that phone down!
- Be honest – yes, honesty is the best policy. Most people want constructive criticism even if the conversation is difficult for either of you.
- Know your mistakes – when you acknowledge your mistakes it makes you less "super human" and more approachable to your team.

Last, but not least, have fun – remember the saying…all work and no play, etc.? If you can laugh, have fun and maintain a good balance between work and life, you will be a much more likeable leader.

History of the U.S. Income Tax

Bill McVicar

There was a lot of debate over the recent Tax Cuts & Jobs Act regarding federal income taxes for both corporations and individuals. While we can all agree that we would like to see lower tax rates, a brief history lesson will enable us to better understand how changes in income tax rates affects our economy as a whole.

The US government has been taxing its citizens for most of its history. Whether it was a property tax during the American Revolution, higher excise taxes to fund the War of 1812, or a temporary income tax to help pay for the Civil War, these individual taxes were primarily put into effect only during wartime. In 1894, Congress enacted the Wilson-Gorman Tariff Act which included a 2% flat tax on incomes over $4,000 (the equivalent of $111,111 in 2015) and which affected fewer than 10% of households and was the first income tax levied during peacetime.

In 1913, the 16th Amendment brought us into the modern tax era with a new income tax which still applied primarily to higher wage earners. An individual earning up to $20,000 in 1913 would have been in the 1.0% marginal tax bracket.

For perspective, $20,000 in 1913 would have been equivalent to $480,697 in 2015 dollars. A few years later, the top marginal bracket was raised to 77% because funds were needed to finance WWI. The war ended in 1918.

Interestingly, the phrase "lawful income" was later changed to simply "income" in 1916, thus giving prospectors a way to convict organized crime figures such as Al Capone when all other revenues were exhausted.

From 1934 until 1943, individual income and corporate income taxes provided a similar percentage of total federal government revenue. Beginning in 1943, the percentage collected via the corporate income tax began to decline and eventually bottomed out in 1947. By 1945, 43 million Americans paid tax and the annual receipts were in excess of $45 billion, up from $9 billion in 1941.

The IRS announced that in 1985 more than 400,000 Americans had reached the millionaire rank thanks to the high-level tax cuts under Reaganomics.

From 1952 to 1983, the corporate income tax began a long and steady decline. Since then, the corporate income tax has ranged from 6% to 15% of total federal receipts while the individual income tax has consistently provided 40% to 50% of total federal revenue. Today, the individual income tax is the largest income item in the federal budget.

Facts About the IRS

- The beginning of the IRS goes back to the Civil War when President Abraham Lincoln and Congress, in 1862, created the position of Commissioner of Internal Revenue and enacted an income tax to pay for war expenses. Ten years later the income tax was repealed. In 1894 Congress revived the income tax, but the Supreme Court ruled it unconstitutional the next year.
- In 1913 the 16th Amendment was ratified, which allowed Congress the authority to enact an income tax. That year, after Congress levied a 1% tax on net personal incomes above $3,000 with a surtax on incomes above $500,000, the first Form 1040 appeared.
- When the IRS 1040 tax form was first introduced in 1914, it had only 3 pages including the instructions. Today, the 1040 has 101 pages of instructions alone.
- The Bureau of Internal Revenue's name was changed to the Internal Revenue Service in the 1950s after the agency was reorganized and professional employees replaced a patronage system.

Provided by Ann Orand

Some crazy attempted deductions!

- Inviting clients to your daughter's wedding is not a business entertainment expense
- Your dog is not a dependent
- Getting a new tattoo is not a medical expense, it is an elective procedure

Meals and Entertainment Deductions After the Tax Cuts and Jobs Act of 2017

Pam Mattox

Suppose you take your best client out to dinner to celebrate your business relationship. If you own a business, are self-employed or run a side business, can you deduct any of the cost?

With the passage of the Tax Cuts and Jobs Act the answer is not so clear. Here are some tips to stay on the right side of the new rules:

1. Before the tax reform law was passed, small businesses could deduct 50 percent of the costs of *both* business meals and entertainment with clients. Now, the meal deduction remains but entertainment costs are no longer deductible.
2. The problem is that separating a business meal from client entertainment is not clear-cut. If you treat your best clients every year to dinner and tickets to a baseball game, now the tickets are not deductible, but the meal *may* be.
3. If you use the meal to discuss business, you should be safe to take the deduction. But if it's just a social event and business is not discussed the deduction is now harder to justify. You will need to document it was a valid business meal.
4. The easiest way to do this is to keep a business log for your meal expenses that includes a field labeled *business purpose*. In addition to recording the time, date, place and cost of the meal, list each attendee, their company affiliation and professional title. Then add a short description of a specific business purpose, such as: "Discussed new products and competitive price structure."

5. For the strongest defense of your deduction, try to define the purpose of the meeting as something that could have an impact on your bottom line. Simply chatting about trends in your industry may not pass muster if you are audited under the new rules.
6. Deductions for extravagant expenses on meals and entertainment have always been disallowed and that hasn't changed. So, if you are having a serious business discussion over dinner, make sure it's not at a luxury restaurant that will give you a huge dinner bill.

Due to complaints about the new tax code not drawing a clear line between meals and entertainment, the IRS is expected to provide more guidance in this area. But it could be several months or longer before that comes. In the meantime, create proper documentation to stay on the right side of the new rules.

Deadline Approaching For Revenue Recognition Implementation

Sharon Sibilia

The Financial Accounting Standards Board issued, in May 2014, an accounting standard update on Revenue from Contracts with Customers (Topic 606). After many technical corrections and improvements, public companies are now required to use the new accounting standards. For non-public companies, the standard is effective within annual periods beginning after December 15, 2018. That means, come January 1st, your company should be ready to implement this new standard.

The standards apply to most contracts with customers. The standard details out a five-step process, summarized as follows:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognize revenue when or as the entity satisfies performance obligation.

If your company hasn't already, you should do the following to get prepared for the change:

Spend some time testing existing recognition policies against the five-step process and determine if there are any revenues for which new information systems need to be designed to implement the standards.

1) Compile a list of revenues: Contracts, fees, retail sales, dues, contributions, grants, etc.
2) Complete the five steps for each of the revenues.
3) Determine if a change is required. Document and discuss with your auditors. If a change is necessary calculate the impact and discuss with your board.

We will be happy to help your company implement this new revenue recognition standard.

Closing Entries

ANNIVERSARIES

The following Dwight Darby & Company employment anniversaries will be occurring this fall:

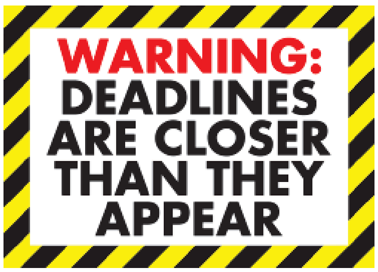
Karen Sellars – 17 years in September

Margaret McDeed – 12 years in September

Rick Vernal – 2 years in October

Sharon Sibilia – 2 years in October

Extension deadlines for calendar year tax returns approaching!



September 17, 2018 - S-Corporations (Form 1120-S) and Partnerships (Form 1065)

October 1, 2018 - Trust and Estates (Form 1041)

October 15, 2018 - C-Corporations (Form 1120) Homeowners Associations (Form 1120-H) and Individuals (Form 1040)

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