

# MAIN STREET **PRACTITIONER**

The Magazine for Tax and Accounting Professionals

**36% of Self-Employed Workers Admit  
They Don't Pay Taxes**

**Tax Code Updates to Watch**

**Managing Cash Flow When Money is Tight**

**PRESIDENT'S MESSAGE**



**A PLANNING INTRODUCTION TO THE 2017 TAX ACT - THE 20% OF BUSINESS INCOME DEDUCTION - PART 1**



**36% OF SELF-EMPLOYED WORKERS ADMIT THEY DON'T PAY TAXES**



# Main Street Practitioner

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Main Street Practitioner is published  
by the National Society of Accountants,  
1330 Braddock Place, Suite 540,  
Alexandria, VA 22314.

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of Accountants. Provided online at: [www.mainstreetpractitioner.org](http://www.mainstreetpractitioner.org)

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Brian L. Thompson, CPA,  
ABA, ATA, ARA  
NSA President, 2017-2018

### *Time Flies*

The saying goes, time flies when you're having fun and it's hard for me to believe that my year as President has already passed. This year, while it's been an enormously busy time, it's been very exciting as a result of the changes in tax law, changes in accounting with advances in artificial intelligence, and bringing on board some fantastic new member benefits.

Tax reform by Congress last October ultimately resulted in the passage of a massive new tax reform law, the Tax Cuts and Jobs Act, just before last Christmas. While most of the new law would impact 2018 tax returns, we knew you were going to face many questions from clients so NSA quickly offered a number of webinars on the changes so you could be informed going into the tax filing season. Of course, there are many changes coming and the IRS is continuing to develop important regulations for the new tax law. NSA has participated in meetings with the IRS during this process throughout this year, and as the significant regulations are released, we will communicate those to you.

It's been a privilege to attend other national meetings and conferences for the purpose of learning and ensuring that small practitioners like you and I are not adversely affected by changes to tax and accounting rules or regulations. In my travels, NSA is the only national organization that represents small practitioners on both accounting and tax issues, for those that are either licensed or unlicensed. While there are other national accounting organizations, their focus is on much larger firms than yours and mine. While there are other national tax organizations, they don't have the accounting resources and support of NSA. The combination of tax and accounting support for small practitioners is truly what makes NSA unique and special compared with other national organizations.

NSA is the premier organization for tax and accounting professionals. Much of the work is done by our hardworking NSA staff and member volunteers that have graciously offered to serve on our committees. I have been blessed to be able to work with this amazing team and want to express my thanks to our tremendous staff, our Board and all of the remarkable volunteers for their outstanding work this year. I truly appreciate your dedication to NSA and willingness to make a difference.

It has been an honor and a privilege to serve and I wish you the best for continued success.

A handwritten signature in black ink that reads "Brian L. Thompson". The signature is written in a cursive, flowing style.

Brian L. Thompson

President

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# Tax Code Updates to Watch

Bradford L. Hall

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Ellie, an accountant in the Dallas area, serves a client base consisting mostly of small business and 1040 clients. She is a The recently signed Tax Cuts and Jobs Act brought about the most comprehensive reform to the tax code in quite some time. From tax bracket changes to deduction eliminations, there are many provisions that will impact businesses in 2018. Some of the more significant implications for clients include depreciation expenses, qualified business income and changes to itemized deduction standards.

## Depreciation Expenses

One of the most prominent tax code changes was made to Section 168(k) regarding depreciation expenses. The legislation holds depreciation expenses at the current level until the end of 2022 after which it phases down by 20 percent each year, starting 2023 through 2026, until the deduction reaches zero in 2027. Notably, the enhanced depreciation benefits are retroactive to Sept. 27, 2017 and open to both new and used property for the first time.

The legislation also increased the maximum Section 179 deduction, almost doubling it in some instances. Property placed into service after Dec. 31, 2017 is now eligible for deductions up to \$1 million. The phase-out threshold has been increased to \$2.5 million for property placed into service after 2017. The phase-out occurs when total Section 179 property placed into service during a tax year exceeds the threshold amount. At this point, the deduction is reduced dollar-for-dollar by the excess amount. Both the deduction and phase-out limits will be increased for inflation beginning in 2019.

Deduction caps for passenger automobiles increased substantially by the updated law with trucks and vans having slightly higher caps. Table 1, below, compares deduction limits for vehicles placed into service after Dec. 31, 2017, in the tax year ending on that same date versus the deduction rates prior to the new tax code.

Table 1

| <i>Years vehicle has spent in service</i> | <i>Tax Cuts and Jobs Act deduction limits</i> | <i>2017 deduction limits</i> |
|---|---|------------------------------|
| 1   | \$18,000                                      | \$11,160                     |
| 2   | \$16,000                                      | \$5,100                      |
| 3   | \$9,600                                       | \$3,050                      |
| 4+  | \$5,760                                       | \$1,875                      |

*Continued on the following page*

The amounts in Table 1 assume 100 percent business use and, as such, would require adjustment to the actual rate of business use. The change represents an impressive 225 percent increase in total allowable depreciation expense during the first three years of in-service use. It is worth noting that these limitations do not apply to SUVs heavier than 6,000 pounds, which are subject to the pre-legislation limits. The only change that will impact larger vehicles in Section 179 has to do with expensing, which will be indexed to inflation for tax years beginning in 2018.

Prior to the new legislation, businesses could expense assets up to \$510,000, using a reduced dollar-for-dollar structure as assets placed into service exceeded \$2 million. However, the update structure allows businesses to expense up to \$1 million in assets in 2018 with the phase-out increasing to \$2.5 million.

### Pass-through Entities

The new legislation will have substantial impact on businesses that use pass-through entities. The net income of commonly used pass-through entities such as partnerships, S corporations, limited liability companies and sole proprietors will be taxed at 29.6 percent, much lower than the previous 37 percent.

The law also creates a 20 percent deduction on income for pass-through entities, subject to certain limitations. Notably, the deduction only applies to “qualified business income” and cannot be claimed by taxpayers in service businesses (excluding architecture and engineering).

### Change in Itemized Deductions

As far as changes in itemized deductions, the loss of the state income tax deduction is one of the most noteworthy changes. The new deduction limit on all state taxes is \$10,000; however, such a low threshold effectively eliminates the deduction for many people, especially those in high tax states. The change will significantly impact taxpayers who are paying high rates in these locations:

- California - 13.3%
- Oregon - 9.9%
- Minnesota - 9.85%
- Iowa - 8.98%
- New Jersey - 8.97%
- Vermont - 8.95%
- District of Columbia - 8.95%
- New York - 8.82%
- Hawaii - 8.25%
- Wisconsin - 7.65%

The reduction of the alternative minimum tax also will impact taxpayers in those high tax states with the result being a reduction of tax benefits related to state income tax deductions.

The home mortgage interest deduction cap has been reduced, from \$1 million to a maximum now of \$750,000 for mortgages incurred after Dec. 15, 2017. The legislation also eliminates deductions for home equity loan interest; however, deductions can still be taken on home equity loans used to make home improvements. Interestingly, the \$10,000 cap on state and local taxes does not apply to property taxes paid or incurred in trade or business activity (described in section 212).

Additionally, the so-called “Pease” limitation on itemized deductions has been suspended, which will impact high-income taxpayers who itemize their deductions.

*Continued on the following page*

The charitable contributions limit also saw an increase, to 60 percent of adjusted gross income versus the previous 50 percent. This will likely impact only the select few who give more than 50 percent of their annual income to charity, allowing them to effectively shelter that income in 2018.

Finally, a variety of miscellaneous itemized deductions that are frequently used have been eliminated by the new legislation. Non-reimbursed employee expenses have been eliminated, impacting a large swath of employees and businesses, alike. Both will need to evaluate expense structures, and businesses will need to evaluate what costs to pass on to employees who could potentially write them off personally. Employer-reimbursed expenses are not impacted by this deduction elimination.

The many changes brought about by the Tax Cuts and Jobs Act can be difficult to navigate, which is why as accountants, tax preparers, and CPAs, it is our duty to ensure clients understand what changes will impact them. Many business owners will want to set up meetings to discuss what next steps should be taken. By consulting with other fellow tax pros and sharing our cumulative wealth of knowledge, we can work effectively to minimize disruptions brought on by tax code changes.



#### About the Author

**Bradford L. Hall, CPA.** As the Managing Director of the Hall and Company CPAs, Brad is actively involved in all aspects of taxation, auditing, and business planning. He has over thirty years of experience in public accounting. Brad's core strengths as an Irvine CPA are in the areas of strategic tax planning for high net worth individuals, including corporate owners and executives, closely held corporations, partnerships, LLCs, and trusts.

He has significant experience negotiating corporate sales/merger, acquisitions, and divisional spin-offs. As an Irvine CPA, Brad spends a great deal of time consulting in the area of business management, business succession planning, estate planning, and preparation of comprehensive personal financial plans. He represents clients before the IRS, FTB, and other taxing authorities. Brad started his career in 1977 with Mckeehan Hallstein & Co. in Los Angeles and later became Tax Manager of Haskell & White (formerly known as Swenson & Clark CPAs) upon moving to Orange County. He subsequently took a position as Tax Partner at Wright Ford Young & Hall where he oversaw an extensive tax and accounting practice. He left to form Hall & Company with a vision - to significantly build business value for owners and executives of companies in various industries through the use of sophisticated financial analysis.



## 36% of Self-Employed Workers Admit They Don't Pay Taxes

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Intuit

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A new survey released by [QuickBooks Self-Employed](#) reveals 32 percent of self-employed workers admit to not reporting all their income.

The data further reveals that 36 percent don't do taxes at all. Of those who don't pay taxes, 9 percent admit to not having a reason (they "just didn't" pay taxes), 17 percent say they didn't make enough to owe taxes, and another 10 percent say they had losses that exceeded their profits so they didn't owe any tax.

One-third of self-employed workers have gotten behind on paying their taxes in the past, are currently behind on their taxes, or expect to be in the future. Fourteen percent of self-employed workers are currently behind on paying their taxes and another 10 percent expect to be.

More than 1 in 3 of self-employed workers have been audited by the IRS and nearly a third of those audited had errors on their taxes.

Younger workers are much more likely to have been audited by the IRS. Forty-six percent of 18- to 24-year-olds surveyed say they have been audited, compared to only 11 percent of those 55 and older.

More than a quarter of self-employed workers think they will pay more in taxes as a result of the recent tax reform, and almost 10 percent of self-employed workers didn't know about the recent tax reform at all.

More than two-thirds of self-employed workers aren't using software to file their taxes. Thirty-one percent still file on paper and nearly a third use an accountant.

Forty-two percent of self-employed workers age 55 and older file their taxes using software, making them the most likely to use tax software. Only a third of 18- to 24-year-olds use tax software.

The most common tax-related challenges facing self-employed workers are filing forms correctly and keeping track of their paperwork.

The survey of 501 employees — conducted for QuickBooks by Pollfish in March 2018 — also looks at the correlations

between the answers given to reveal more about their tax habits. A more in-depth breakdown of the data is given below.

**The top 5 challenges facing self-employed workers:**

- Getting paid on time (31 percent)
- Motivating themselves (30 percent)
- Finding work (26 percent)
- Doing taxes (20 percent)
- Finding time for marketing (20 percent)

**The top 5 tax-related challenges facing self-employed workers:**

- Filing forms correctly (30 percent)
- Keeping track of paperwork (30 percent)
- Estimating how much tax to pay (23 percent)
- Saving enough money for taxes (20 percent)
- Finding deductions (17 percent)

**Self-employed workers aged 18-34 years struggle more with filling out tax forms correctly, while self-employed workers age 35 and older struggle to keep track of paperwork.**

- 35 percent of 18- to 34-year-olds say they struggle with filing tax forms correctly, while only 25 percent of workers age 35 and older say they do.
- Only 25 percent of 18- to 34-year-olds say they struggle to keep track of tax forms, while 35 percent of workers age 35 and older say they do.

**The digital breakthrough has yet to come.**

- Over two-thirds of self-employed workers are not filing taxes using software.
- 31 percent still file using paper.
- 32 percent file using an accountant.

**The most common reason people hire an accountant is because they don't want to do their own taxes.**

- 35 percent of those who use an accountant have never done their taxes and don't want to.
- 18 percent of those who use an accountant don't want to waste time doing taxes themselves.
- 17 percent of those who use an accountant tried and failed to do their own taxes.

**Older self-employed workers see accountants differently.**

- 50 percent of those who use an accountant and are 55 years or older view their accountant as an essential business advisor.

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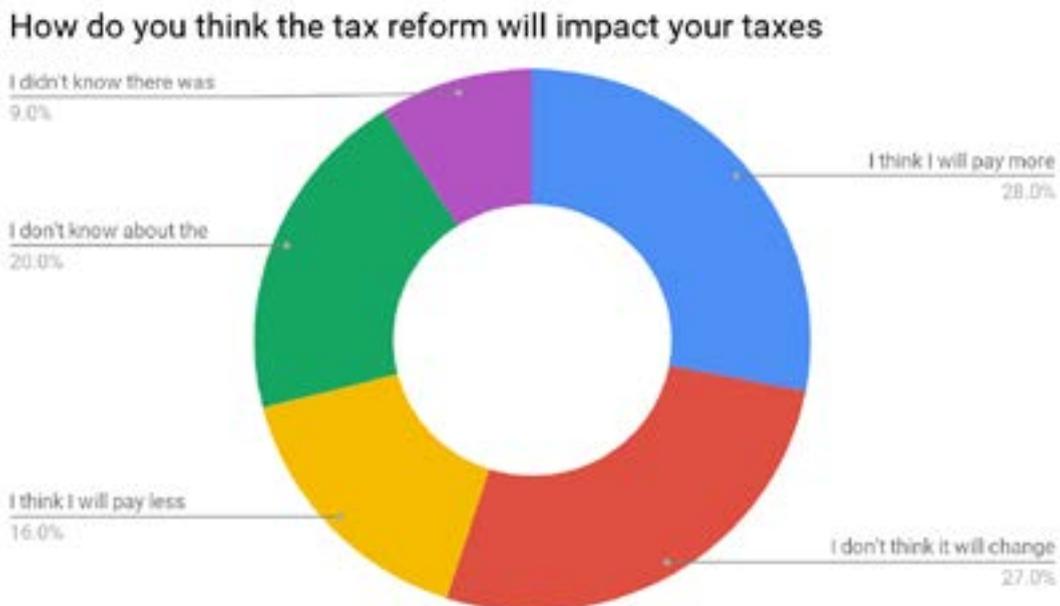
- Only 27 percent of those under 55 years old view their accountant as an essential business advisor.
- Those under 55 who use an accountant tend to use one because they have never done their own taxes and don't want to (37 percent admit to this).

**Older self-employed workers are the most tech savvy.**

- Workers 55 years and older are the most likely to use tax software to file their taxes, with 42 percent using tax software.
  - 32 percent file on paper.
  - 21 percent use an accountant.
  - 5 percent say other.
- Exactly a third (33 percent) of 18- to 24-year-old self-employed workers file their taxes on paper.
  - This is higher than the average self-employed worker (31 percent).
  - 33 percent use software.
  - 28 percent use an accountant.
  - 7 percent say other.

**Nearly 1 in 10 self-employed workers didn't know there was any tax reform.**

- 28 percent think they will pay more in taxes because of the recent tax reform.
- 27 percent don't think it will impact how much they pay in taxes.
- 16 percent think they will pay less in taxes.
- 20 percent don't know how it will impact their taxes.
- 9 percent didn't know there was any tax reform.



### **Being audited by the IRS is common for self-employed workers.**

- 36 percent have been audited by the IRS.
- Almost 1 in 3 (32 percent) of those who were audited had errors on their taxes.
  - This number is higher for part-time/occasional self-employed workers. 50 percent of those audited had errors.
  - 19 percent of those with errors had major errors.

### **Younger self-employed workers are audited more.**

- Only 11 percent of workers over age 54 have been audited.
- 46 percent of workers aged 18-24 years have been audited.

### **It's easy to get behind on your taxes when you're self-employed.**

- One-third (33 percent) of self-employed workers say they have previously gotten behind, are currently behind, or will be behind on paying their taxes.
  - 14 percent are currently behind on paying their taxes.
  - Nearly 1 in 5 (19 percent) have previously been behind on paying their taxes.
  - 10 percent expect to be behind on paying their taxes in the future.

### **The top 5 reasons self-employed workers get behind on paying taxes:**

- Underestimating how much tax they needed to pay (42 percent)
- Unable to afford to pay taxes (30 percent)
- Didn't know they needed to pay taxes (16 percent)
- Forgot to pay taxes (16 percent)
- Didn't know how to pay taxes (10 percent)

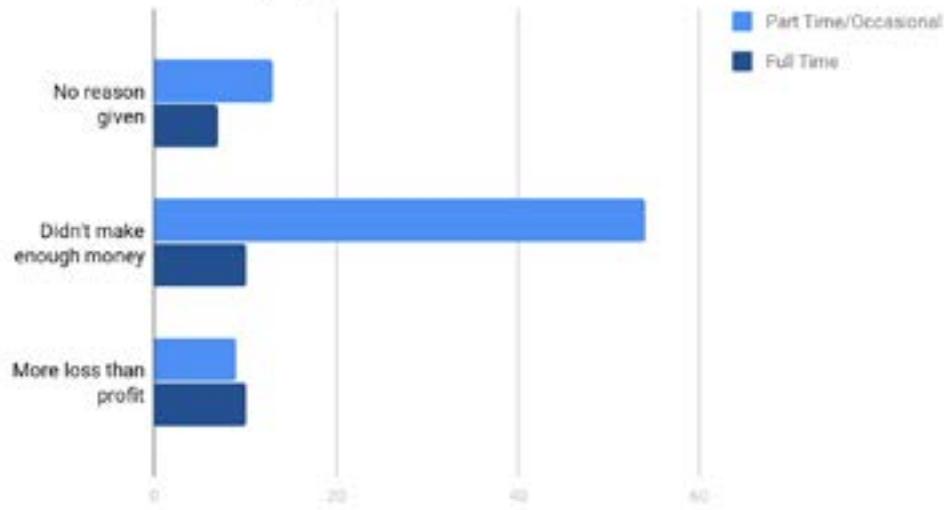
### **36 percent of self-employed workers say they don't pay any taxes.**

- 9 percent just didn't pay taxes.
- 17 percent say they didn't make enough money to pay taxes.
- 10 percent say they had losses exceeding their profits so they didn't owe taxes.

### **Part-time/occasional self-employed workers are less likely to pay taxes, but mostly because of how much they make.**

- Over half (54 percent) of part-time self-employed workers don't pay taxes compared to only 27 percent of full-time self-employed workers.
- 31 percent of those part-time/occasional self-employed workers say they don't make enough to pay taxes, compared to 10 percent of full-time self-employed workers who didn't make enough to pay taxes.

### Reasons for Not Paying Taxes



#### Self-employed workers don't report all their income.

- 6 percent of self-employed workers don't report any of their income.
- 13 percent report half of their income or less on their taxes.
- Only 68 percent report all of their income on their taxes.

#### Workers who are most likely to report none of their income are 45 years or older.

- 10 percent of workers 45 years or older reported none of their income in taxes.
- 7 percent of workers aged 18-24 years old reported none of their income in taxes.

#### Part-time/occasional self-employed workers are twice as likely to underreport their income compared to full-time self-employed workers.

- 1 in 10 full-time self-employed workers reported 50 percent or less of their income.
  - 3 percent of full-time self-employed workers didn't report any of their income for taxes.
- Nearly 1 in 5 (18 percent) part-time self-employed workers reported 50 percent or less of their income.
  - 10 percent of part-time/occasional self-employed workers didn't report any of their income for taxes.

#### Part-time/occasional and full-time self-employed workers differ when it comes to their biggest challenge.

- Full-time self-employed workers struggle most with getting paid on time (32 percent).
- Part-time self-employed workers struggle most with motivating themselves (41 percent).

**Workers aged 18-24 are the least likely to be self-employed full-time and are the most likely to be self-employed part-time/occasionally.**

- 59 percent of 18- to 24-year-olds in the sample say they are self-employed full-time, compared to 79 percent of workers age 55 and older.
- 48 percent of 18- to 24-year-olds in the sample say they are self-employed part-time/occasionally, compared to 21 percent of workers age 55 and older.

**The top 4 tax areas self-employed workers want to know more about:**

- Anything and everything tax-related
- Deductions, write-offs, and tax breaks
- Why they pay so much in taxes
- Industry-specific tax information

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**More Info:** For any questions about the data from QuickBooks for your own analysis, please email [patrick\\_adcock@intuit.com](mailto:patrick_adcock@intuit.com).

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**Methodology:** QuickBooks commissioned Pollfish to survey 501 self-employed workers in the U.S., aged 18 years and older, between March 29 and March 30, 2018.





# Show Me the Money: How Accounting and Tax Practices are Sold

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Sherif Bactor, CPA and Jake Hodgkin

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Sellers and buyers always want to know value. But even before one speaks of value it is helpful to know something about terms-how accounting and tax practices are sold. When a house goes on the market the assumption is always that the seller will receive all cash at closing. Anything different from that requires early clarification. In the sale of Dollar Bills CPA or EA firms the situation has been almost the opposite! Practices have historically sold with a seller financing arrangement which usually included some type of guarantee of client retention on the part of the seller. So, unlike houses, the assumption was, and still is quite wide-spread, that firms only sell one way. But the fact is that practices do sell today in different ways and on different terms. Sellers and buyers need to understand the reality of today's marketplace and they need to be on the same page in their discussions with each other. There are four basic ways firms are sold.

## WITH SELLER GUARANTEES:

### **1** Collection Pricing

When the seller receives payments based on collections or billings over a period of time, this is referred to as a "percentage of collections" or "percentage of billings". The down payment, percentages, and payout terms vary widely. Traditionally, however, the buyer would pay a down payment of 20% of the estimated price and then pay 20% of collections each year for the first 4 years. This particular scenario is so common that many accountants think it is the only way practices can be sold! Understandably, buyers like these terms because payments are manageable and almost all the risk of client retention is transferred to the seller. Buyers will explain there is an "up-side" to the seller if the gross revenue increases year after year. However, most sellers are not comfortable assuming retention risk while they have little control over the clients' experience with the new owner. Sellers also dislike the accounting and due diligence involved in calculating the collections year after year. If such a method is used, both the buyer and seller need to be sure everything is spelled out clearly from the beginning, addressing such issues as whether new clients or referrals will be included in the collections, and how "collections" will be applied and accounted for.

### **2** Look-back Pricing

In this type of sale, the buyer "looks back" after a period of time and determines collections or billings; the sales price is then adjusted accordingly. There are many variations to this method. Although dollar for dollar adjustments are common, there can be alternative price adjustments such as allotting 50 cents for each dollar increased or decreased; or perhaps adjustments may be applied only after a 10% decrease or increase in actual collections; upward and downward caps may be placed on the adjustment, and so on. As you can see, there is room for creativity. This structure is similar to the first method

in that the seller guarantees the revenue, but the seller's risk is limited to a shorter period of time. The look-back method does not require seller financing. The seller could receive all cash at close, but then be obligated to refund a portion of the sales price if there is a negative adjustment at the end of the look-back period. In a twelve month look-back, the seller guarantees each client will show up at least once. In the collections scenario, the seller must rely on the buyer's ability to keep the clients coming year after year. The look-back approach is a step closer to a fixed price since the seller has more control; however, the variations can be complicated, making it necessary for each party to be especially certain they understand the implication of each arrangement.

## WITHOUT SELLER GUARANTEES

### **3 Cash Pricing**

This is when the seller receives 100% of the sales price in cash at closing. The buyer may be obtaining cash from personal funds or, more likely, from a third party lender. Third party financing can actually be more attractive to many buyers, as the payout terms are often extended over ten years rather than the 3-5 years we see when sellers finance the sale; and since most sellers prefer cash at close, this option is a win-win. The cash method has become more and more common in situations where healthy firms in desirable geo- graphic locations change hands. An increase in institutional money available for accounting practice acquisitions, and a marketplace flush with buyers due to broker marketing, have both contributed to the increase in cash sales.

### **4 Fixed Seller Financed Pricing**

In this final method, the sales price is determined prior to close with the seller carrying a portion of the sales price and the price remaining static throughout the life of the loan. When a buyer verbally communicates their intent to make this type of an offer, it is important to make sure the buyer is actually considering a fixed price. In view of the fact that traditional deals involve seller financing and an adjustable price based on collections (as described above), a seller may offer to finance a portion of the sales price and the buyer may interpret that to mean they are willing to be paid based on collections. Seller financing is appealing to buyers because 1) it is much easier than the bank application and underwriting process, 2) it keeps the seller "in the game" and motivates them to put forth more effort in the transition process (or so the buyer believes), and 3) it often comes with more favorable interest rates. Sellers are more attracted to fixed financing than to guarantee options, but they will still be concerned about collecting full payment. Sufficient down payments, good credit, excellent experience, and proper credentials will be required of the buyer.

In summary, sellers need to present their practice in a way which attracts the largest number of quality buyers. Since the number of buyers affects the type of deal structure, using an experienced broker with a large pool of qualified buyers will achieve the best price and terms!



#### About the Authors

The paper was co-authored by **Sherif Boctor, CPA** and **Jake Hodgkin**. For more information, contact Sherif at [sherif@aps.net](mailto:sherif@aps.net), or Jake at [jake@aps.net](mailto:jake@aps.net).



# A Planning Introduction to The 2017 Tax Act - The 20% Of Business Income Deduction - Part 1

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Bob Rojas, J. Michael Pusey

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See “A Planning Introduction to the 2017 Tax Act – The Overview” which briefly discusses this topic and helps put it in an overall perspective within many of the major tax changes enacted in December.

We indicated in that introduction that the new legislation tends to make tax planning more and more mathematical, and while that remark emphasizes alternatives and myriad tax rules, it is particularly true of the new Section 199A that we discuss here. This new law, this new concept, is effective after 2017. ((The final bill basically followed the Senate approach, with some rather significant modifications. See generally, Tax Cuts and Jobs Act, Conference Report to Accompany H.R. 1, 115th Cong., 1st Sess., House Report 115-466, December 15, 2017, which includes the text of the Act, the legislative histories of the House, Senate and Conference. Hereinafter, the Conf. Rep. For pagination cites see PDF version: <https://www.congress.gov/congressional-report/115th-congress/house-report/466/1?overview=closed>.)

This new tax deduction is scheduled to expire in tax years beginning after 2025.

This major new business deduction provision, which is tantamount to a significant tax rate reduction in some circumstances, is not available to corporations. The decision to incorporate and access the 21% tax rate available to C corporations after 2017, a rate reduction which is not scheduled to expire, means forgoing this new deduction which basically reaches business income of sole proprietors, partners, and shareholders of S corporations.

## THE BASICS

The details of this new provision can be complicated and there are questions of its interpretation. However, the basic idea is fairly straightforward: non-corporate taxpayers get a deduction measured by 20% of their business income beginning after December 31, 2017 and before January 1, 2026. ((See generally Conf. Rep., p. 10-18 for text of new Sec. 199A, and p. 205-224 for the legislative history.))

There are some scenarios where a taxpayer needs wages or wages and capital expenditures to qualify for a deduction unless the taxpayer has lower levels of taxable income, but there are circumstance where the taxpayer may qualify for a very worthwhile deduction without significant wages or capital expenditures.

The deduction can apparently be a million or more in some circumstances.

Certain types of service provider income won't qualify when the business (or professional) income is significant. The level of taxable income affects the rules concerning certain types of service providers.

We will at times distinguish the moderate-income taxpayer (whose income isn't all that small or moderate), the middle-income taxpayer, and the larger-income taxpayer. The distinctions focus on adjusted taxable income, not gross sales or even business income. This terminology isn't found in the law or its legislative history.

The "if less rule" says the deduction cannot exceed 20% of taxable income (before this deduction) as reduced by the sum of net long-term capital gains as reduced by net short-term capital losses and as further reduced by qualified dividends. ((See 2017 instructions to the Form 1040, p. 23 discussing "qualified dividends."))

The odd admixture of rules is such that higher levels of taxable income can help or lower levels of taxable income can help.

Itemized deductions, such as charitable donations, as well as business expenses may materially impact the deduction under the "if less rule." For example, charitable donations can reduce the 20% of business income deduction by reducing taxable income and increasing the impact of the "if less rule." There are certain situations where the rules limit the 20% of business income deduction unless there are levels of wages or wages and capital but those limitations can be mitigated by reduced taxable income. In those scenarios, by removing or lessening the wage or wage and capital requirements, charitable donations, for example, may be deductible under the normal rules while also increasing the 20% of business income deduction. ((Appraisal fees related to charitable donations are mentioned in the legislative history of the repeal of miscellaneous itemized deductions as being not deductible in 2018 to 2025. Conf. Rep., p. 274. But generally, the upper annual limit on charitable donations was increased from 50% of adjusted gross income to 60%.))

There are portions of the calculations within these rules where increased taxable income helps, and other portions of the calculations where reduced taxable income helps. The level of taxable income can impact whether certain types of service providers are even included in the benefits of the new 20% of business income concept.

Nonbusiness income may even enhance the 20% of business income deduction by reducing the impact of the "if less rule" but the results may vary depending on whether such income is interest or dividends.

The rules can be quite complex and math here can sometimes be downright surprising.

### **What Qualifies as Business Income for Purposes of the 20% Credit?**

The focus is on an active business, not the activity level of the one with the income.

The key definition pertains to "qualified business income" which can arise from a sole proprietorship, partnership or S corporation. Multi-tiered partnerships or multi-tier LLCs should work in that the definition of qualifiers is other than a corporation. ((Sec. 199A(a); See "New Code Section 199A, Pass-through Qualified Business Income Deduction," Leon C. LaBrecque, Michigan Association of Certified Public Accountants, [MICPA.org](http://micpa.org), p. 1; <http://micpa.org/docs/site/e-news/is-section-199a-of-the-code-a-windfall-for-cpa-firms.pdf?sfvrsn=6>.)

Note that characterization can normally change with an S corporation; i.e., the flow-through might be actively earned at the entity level in an S corporation yet flow through as a dividend, assuming no salaries are paid to the shareholder by the corporation. This is the regular income tax rule. An area of possible dispute with the IRS in an S corporation context is whether payments classified as dividends are in fact compensatory and thus subject to payroll tax. A partnership is distinguishable; i.e., a partner's flow-through of income from the entity may well be subject to self-employment tax at the active partner level.

But we note for this purpose, the legislative history treats both partnership and S corporation income as flowing through as business income, if business income by nature, for purposes of this special deduction. The purpose here is economic stimulus and some outreach to business taxpayers other than C corporations given the major reduction in the corporate tax rate. ((The corporate tax rate actually increased in so far as the lowest 2017 bracket.))

So business income for purposes of this new provision basically flows through as such regardless of whether the owner of S corporation stock or a partnership interest is personally active in the business. ((The concept is distinct from that applying, for example, in the self-employment tax area. See Regs. 1.1402(a)-2(b).))

While an S corporation is generally within the sphere of the new 20% of business income deduction, we note that an S corporation can also incur a built-in gains tax. We don't expect the new 20% deduction to grant any relief to that corporate level tax. An S corporation that was formerly a C corporation, or arose from a taxfree Section 351 transfer of assets of a

C corporation, can also incur a corporate-level built-in gains tax for a certain period of years following termination of C corporation status. ((Sec. 1374.)) The basic idea of the built-in gains tax is to avoid the S election solving the double taxation problem normally inherent with being a C corporation. The tax may be illustrated by assuming an S corporation sells appreciated realty for a gain of \$200,000 and \$100,000 of such gain arose during the C corporation period. The S corporation could incur such tax on the \$100,000, even though the shareholders would pay tax on the \$200,000. The tax is imposed on “such corporation.” ((Sec. 1374(a).)) The Section 199A deduction applies to a “taxpayer other than a corporation...” ((Sec. 199A(a). See also Section 199A(f).))

In general, the 20% of business income deduction is based on combined income, and it seems clear that business losses of the year offset business income. The Conference report indicates it generally follows the Senate version. The Senate version discusses offsetting business losses against business income before computing the 20% of business income deduction, and if in a year there is a net loss, such loss carries over to potentially reduce any Section 199A deduction in a later year. ((Conf. Rep. p. 214; see also p. 233 referring to “combined” qualified business income. See also p. 211 discussing passive losses.)) We discuss later that there can be business-by-business aspects of the computations focused on wages or wage and capital that may limit the deduction.

What is the relationship of the passive activity rules to these new rules? The passive activity loss rules can defer when items affect taxable income, and it would appear that the Section 199A rules turn on items at the time they enter into “taxable income.” ((Sec. 199A(c)(3)(A)(ii). See Conf. Rep., p. 214, which here is the Senate report which with modifications was followed in conference.))

The passive activity rules continue to have their place. Even though the new Section 199A deduction focuses on business income even if it is by nature not the results of the efforts of a particular partner or S shareholder, the more liberal concept of benefitting the passive participant in an active business doesn’t accelerate the recognition of such items that continue to be subject to the passive activity rules in so far as when they affect taxable income. These look to be the rules.

But there may well be questions of interpretation and application with respect to the passive loss rules. For example, we discuss below that middle-income and higher-income taxpayers (our terminology) may be denied access to the 20% of business income deduction unless they can show certain wages or wages and qualified property, and how does one apply such current year limitation concepts in a passive activity context where the income recognized in one year may relate to a multitude of years, and does it matter whether those losses pre-date enactment of this new statute? The unique information required by this new statute focused on wages and asset additions would obviously never be available, for example, if the passive loss related to an unrelated partnership and the passive loss carries from a year that pre-dated Section 199A. The likely answer is that, for example, the wages figure in these computations looks only to the wages of the year of computation. ((See Sec. 199A(b)(4)(A).)) But there could be issues of interpretation and fairness and special circumstances; e.g., what if the activity was winding down and the wages in such year were not representative or it was a short taxable year? The new statute tells the IRS to provide rules considering short years and major acquisition, major sell-off situations. ((Sec. 199A(b)(5) whose language includes a focus on what is a “major portion of a trade or business or the major portion of a separate unit of a trade or business...” See Conf. Rep. p. 223.))

Whether there may be unforeseen complexities or issues of interpretation under Section 199A with respect to passive activities remains to be seen. ((There is some discussion of the passive activity rules in the Sec. 199A legislative history in the House version. See Conf. Rep., e.g., p. 211 of the legislative history from the House. Conference followed the Senate version.))

The focus of the statute is on items that affect taxable income, so the authors consider it unlikely that the IRS will interpret Section 199A to remove from the computations passive losses that arise in pre-enactment years and enter into taxable income after 2017.

The potential effect of Section 199A in the various scenarios inclusive of Section 1231 gains and/or losses on the sale of business assets is important and discussed in more detail below in “A Closer Look at What Qualifies as Business Income.”

The topic of disallowed business expenses is beyond our scope, but as an example of such disallowance, we note the following in the legislative history of the 2017 Act. “Taxpayers may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel.)” ((Conf. Rep., p. 407.)) In the language of the new Section 199A, we note that in its definition of “qualified business income,” it basically refers to the net figure considering “income, gain, deduction and loss...” ((Sec. 199A(c)(1).)) But query whether the IRS will require disallowed business expenses to be subtracted in computing business income subject to the new 20% deduction?

Also included in “qualified business income” are REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income. Note that a Subchapter S corporation is by definition one with a limited number of shareholders,

so in this list we note only publicly traded partnership income.

Toward the goal of some simplification in our discussion of these very complex rules, we won't include the particulars of REITs and cooperatives, which are basically flow-through entities.

## Wage Income

The basic definition of a "trade or business" is "any trade or business" with two exceptions: wages of an employee and in certain cases "specified service trade or business." ((Sec. 199A(d).))

An employee is considered to be in business, but wage income is expressly excluded from qualifying business income for this purpose. ((Sec. 199A(c')(4).))

"Qualified business income does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer." ((Conf. Rep., p. 215.))

Planning point: Earnings as an independent contractor may qualify, so this is one more area of the Code where employee vs. contractor distinctions are important, possibly even placing new strategic emphasis on minimizing employee characterization.

An independent contractor gets some deduction related to the self-employment tax but pays the entire tax versus paying half the payroll tax as an employee, and bearing the incremental self-employment tax in order to access the new credit is not a persuasive strategy, with the possible exception of high compensation levels that exceed the maximums subject to FICA/FUTA. So when the employee vs. contractor classification is debatable, borderline, we wouldn't generally expect employees to be initiating requests to be reclassified as contractors.

Planning point: Subchapter S flow-through of business income generally qualifies as being eligible for the 20% of business income deduction but the new context suggests possible disputes with the IRS over whether payouts from the S corporation are nondeductible dividends or wages that should reduce the level of Subchapter S flow-through of business income. Wage classification is normally a negative because wages don't qualify as business income, but wages can help in scenarios where a level of wages or wages and capital are necessary to avoid limitations on the 20% deduction. These limitation rules are discussed below. Whether payouts from S corporations are dividends or wages triggering payroll taxes and withholding is a traditional area of dispute between the IRS and owners of S corporations, and this issue is still with us. ((See Rev. Rul. 59-221, 1959-1 C.B. 225, Rev. Rul. 74-44, 1974-1 C.B. 287, Ding, 200 F. 3d 587 (1999), CA-9, <http://caselaw.findlaw.com/us-9th-circuit/1435681.html>, PLR 20030026, 3/31/03.))

Following is an excerpt from an IRS site discussing wages in an S corporation context:

"S corporations must pay reasonable compensation to a shareholder-employee in return for services that the employee provides to the corporation before non-wage distributions may be made to the shareholder-employee. The amount of reasonable compensation will never exceed the amount received by the shareholder either directly or indirectly.

The instructions to the Form 1120S, U.S. Income Tax Return for an S Corporation, state "Distributions and other payments by an S corporation to a corporate officer must be treated as wages to the extent the amounts are reasonable compensation for services rendered to the corporation."

Several court cases support the authority of the IRS to reclassify other forms of payments to a shareholder-employee as a wage expense which are subject to employment taxes." ("S Corporation Compensation and Medical Insurance Issues," "Reasonable Compensation," <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-compensation-and-medical-insurance-issues>.)

As above, to the extent there is just flow-through income and no payouts to the shareholder-employee, the flow through is a dividend and not wages.

In an S corporation context, to summarize, here are the "wages" issues we see with respect to closely-held shareholders.

To the extent there are payouts in the context of shareholder services and such payments are characterized as dividends, the IRS has traditionally argued, and will continue to argue, that the "reasonable compensation" element of such payments are really wages subject to payroll tax.

To the extent there are payouts in the context of shareholder services and such payments are characterized as dividends, the IRS will also argue that such payments reduce the business income otherwise eligible for the 20% of business income deduction because such payments are really wages. The IRS now has a second major incentive to classify S corporation payments to owners as wages.

When there are no payouts of wages and no payouts of dividends which could be challenged as disguised wages, will the IRS argue that for purposes of the new Section 199A, it is entitled to nevertheless characterize the flow-through income as wages to the degree of the value of the shareholder services? This concept is missing from the legislative history, is contrary to current IRS practice, and we would be very much surprised if the IRS takes such a position.

When there are payouts of wages to shareholder-employees, the taxpayer is conceding (a) payroll taxes; even above the annual FICA/FUTA limits, there is some incremental tax; (b) the wages are not subject to the 20% of business income tax; and (c) the wages reduce the S corporation's business income flowing through to the shareholder-employee, as well as other shareholders if any. The taxpayer may gain wages classification when a level of wages or wages and capital is necessary to avoid limitations on the 20% business deduction. But it is difficult to envision it being a net advantage to the IRS to reclassify wages as a dividend. The more likely scenario is upon exam, the math indicates the wage limitation is already satisfied with other wages or not a factor because of the income level of the taxpayer, and the taxpayer's representative uncovers arguments as to why wages were overstated; e.g., the taxpayer was ill, getting older and working fewer hours, etc.

Planning point: Keep in mind that reducing the historic level of wages to shareholder-employees of an S corporation may be justified in some circumstances (age, health, other responsibilities, etc.) and may be particularly advantageous under the new 20% of business income rules.

### Guaranteed Payments to a Partner

A partner receiving guaranteed payments from the partnership is not receiving qualifying business income for this purpose. ((Sec. 199A(c')(4).))

Planning point: Reviewing the level of guaranteed payments, which do affect the actual economics in a partnership context, is important because it reduces the flow-through partnership income that may otherwise qualify for the 20% of business income deduction.

The new environment of Section 199A may cause the IRS to argue that payments to partners characterized as distributions are really disguised guaranteed payments. Such an argument may be even more likely in a family partnership context.

“Qualified business income does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer. Similarly, qualified business income does not include any guaranteed payment for services rendered with respect to the trade or business, and to the extent provided in regulations, does not include any amount paid or incurred by a partnership to a partner who is acting other than in his or her capacity as a partner for services.” ((Conf. Rep., p. 215, footnotes omitted..))

There are higher-income areas of the 20% of business income rules that introduce limits that require wages or wages and capital, and we wouldn't expect the IRS to interpret guaranteed payments of a partnership to qualify as wages for this purpose.

#### Foreign Income

Qualifying business income must be effectively connected with the conduct of a trade or business within the United States. ((Sec. 199A(c')(3)(A).)) Foreign earned income doesn't qualify for the deduction. The long-standing but limited exclusion for foreign earned income was not repealed in the new law.

#### Investment Income

In general, such items as dividends and interest income don't qualify, albeit it is possible in some circumstances to have interest income qualify if it relates to a business. ((Sec. 199A(c')(3)(B).)) Stock market gains, typical capital gains and losses in an investment rather than business context, do not qualify. ((Conf. Rep., p. 215.))

### REAL ESTATE INCOME

One doesn't find “rent” or “rental” in the new Section 199A which is titled “Qualified Business Income.” It was the Senate version that prevailed, but we note the following comment from the legislative history of the House.

“Unlike a C corporation, partnership, or S corporation, a business conducted as a sole proprietorship is not treated as an entity distinct from its owner for Federal income tax purposes. Rather, the business owner is taxed directly on business income, and files Schedule C (sole proprietorships generally), Schedule E (rental real estate and royalties), or Schedule F (farms) with his or her individual tax return.” ((Conf. Rep. 208 of the House provisions, footnote omitted. There is also a reference to “rental activities” on p. 211 of the House provisions in the context of passive losses.)) It may be debatable whether these references to rentals were meant to include the activities in business income, although this does seem to say among the filings of the

“business owner” is Schedule E with its rental real estate.

There are endless fact patterns but the authors suggest that most tax practitioners wouldn’t consider, say, a “rental house” to be a business activity. The self-employment tax applies generally to a trade or business but real estate rentals are generally excluded. They are excluded if the realty is held for investment. ((Sec. 1402(a)(1); Regs. 1.1402(a)-4. See also Regs. 1.1411-1, 1.1411-5.))

Almost certainly, one would expect, e.g., a housing contractor or hotel/motel operator to be in a trade or business. ((The following says Section 199A was “clearly intended to apply to commercial real estate,” opines that the rule about 2.5% of basis for qualified property was intended to allow the deduction for rental entities without employees, and queries whether the definition of a trade or business will emphasize Section 162 or Section 1411. See “New Code Section 199A, Pass-through Qualified Business Income Deduction,” Leon C. LaBrecque, Michigan Association of Certified Public Accountants, [MICPA.org](http://micpa.org), p. 1; <http://micpa.org/docs/site/e-news/is-section-199a-of-the-code-a-windfall-for-cpa-firms.pdf?sfvrsn=6>. See also “Planning for UBTI Changes,” Dennis Walsh, Planned Giving Design Center, 1/16/18; <http://www.pgdc.com/pgdc/planning-ubti-changes>.)

Note these comments from an IRS site discussing post-construction realty rentals in a self-employment tax context:

“Rents received from the use of or occupancy of hotels, boarding houses, or apartment houses are included in self-employment income IF you provide services to the occupants. Services considered provided to the occupants are services primarily provided for the convenience of the occupants and not normally provided with the rental of rooms or space for occupancy only. Maid service, for example, is a service provided for the convenience of occupants, while heat and light, cleaning of stairways, and the collection of trash are not.. (“Rents,” <https://www.irs.gov/individuals/tax-trails-self-employment-income-6>.)

Let’s initially consider a real estate rental fact pattern where it at least may have the appearance of a trade or business.

One might find an office with employees and an integrated operation of real estate operations focused on real estate rentals, occasional projects that involve major improvements or even new construction, owned by two associates or a married couple. The details of rent collections, calling the plumber, etc., may be with this company, or related company possibly owned by a family member, or such company may be unrelated. One may argue the real estate rental income is still not subject to self-employment tax, which normally applies to a “trade or business.” One might argue the realty is held for investment despite a certain recurring level of activities inherent in owning multiple properties. But does such a position necessarily remove it from being a trade or business for purposes of the 20% of business income deduction? It is quite possible that the IRS will not consider real estate rentals as subject to Section 199A unless the activities are also subject to self-employment tax.

At the other end of the spectrum is the busy employee or business owner with one real estate rental property, perhaps a former residence, and whether this rises to the level of a trade or business for purposes of the 20% of business income deduction is another question.

It was the Senate version that prevailed albeit with significant modifications in conference. The legislative history of the Senate and conference discusses qualified business income without mentioning real estate rentals, and investment income without mentioning real estate rentals. ((Conf. Rep., p. 214, 215.))

Had it been the intent to include real estate rentals carte blanche in the definition of a trade or business for purposes of the new Section 199A, one would expect that such intent would have been made patently clear in the statute, or at least the legislative history.

At the other end of the spectrum are real estate “dealers” who are typically considered as being in a trade or business. ((Regs. 1.1402(a)-4.)) There are many cases focusing on whether the facts indicate realty sales produce ordinary income because the taxpayer was acting as a “dealer,” and the sale of realty, which often involves some level of construction or improvement, was akin to the grocer selling canned goods. ((Taxpayers sometimes unsuccessfully argue dealer status on a realty sale to avoid the annual limit on capital losses arising from the sale of investment realty. Conner, T. C. Memo 2018-6.))

Another question in this context is whether or when real estate activities, including rentals, constitute a single trade or business. Some of the details in the computations look to the income and expense of “each” trade or business. See the discussion of “Multiple Businesses.”

The real estate industry generally will have considerable focus on the development of the regulations concerning the scope of Section 199A. ((Section 199, the domestic production activities deduction, was repealed with the enactment of Sec. 199A, and there were aspects of the real estate industry that benefitted in the past from the repealed provision. Section 199 was generally repealed for taxable years beginning after 2017. For corporate taxpayers, it was repealed for taxable years beginning after 2018. Conf. Rep., p. 400. See “Domestic Production Activities Deduction – Planning and Practicality,” J. Michael Pusey,

Main Street Practitioner, <http://mainstreetpractitioner.org/feature/domestic-production-activities-deduction-planning-and-practicality/>.)

In general, we are beginning to hear some suggestions that real estate rentals are per se subject to the new 20% of business income deduction, and we have reservations. For example, if you're a busy executive planning to buy a rent house and include this 20% of business income in the projections, we would suggest caution.

Hopefully, the IRS will prioritize real estate industry issues in their analysis of this important new legislation.

## ENTITY ISSUES

Basically, a sole proprietorship, partnership or Subchapter S corporation can generate income that qualifies for the 20% of business income deduction.

An LLC with a single owner may be a disregarded entity, or it may elect to be taxed as a corporation in which case the income would not qualify unless electing S corporation status. ((See, e.g., Conf. Rep. p. 206.))

A publicly traded partnership is generally treated as a corporation for tax purposes but there are exceptions. ((See Conf. Rep. p. 206; Sec. 7704(a)(2).))

A sole proprietorship is generally not considered an entity apart from the owner, except for employment tax purposes. A sole proprietorship, whether just the individual or an LLC not considered an entity apart from its owner, qualifies under the 20% of business income rules if the income is of a nature to qualify. ((Conf. Rep. 208 reporting the House Report, see Regs. 301.7701-2(c)(2)(iv).))

“While sole proprietorships generally may have no more than one owner, a married couple that files a joint return and jointly owns and operates a business may elect to have that business treated as a sole proprietorship under section 761(f).” ((Conf. Rep., 208 reporting the House Report.))

In general, a husband and wife in a community property state may disregard their LLC for tax purposes and report results directly on the joint return. ((See Rev. Proc. 2002-69, 2002 CB 831.))

Whether a partnership or S corporation, the computations focus on the individual taxpayer; i.e., there aren't computations that begin and end at the partnership or S corporation level for purposes of this new concept.

## SOME GENERAL RULES AND ISSUES

This deduction is available in arriving at taxable income but not adjusted gross income. This deduction, for example, won't affect such areas as medical expense deductions which arise above a percentage of adjusted gross income. This new deduction is available whether or not the taxpayer itemizes. ((Conf. Report, p. 224.))

The deduction is available to trusts and estates with provision for apportioning of the deduction between the entity and beneficiaries. ((Conf. Rep. p. 224.))

This particular deduction doesn't increase the taxpayer's net operating loss, so if there is an incremental deduction under the rules of the new Section 199A, the rules seemingly restrict its use to current year's tax return. There is no provision to carry over the Section 199A deduction itself.

There is some possibility of carryover within the Section 199A rules for unused business losses. ((Conf. Rep. p. 214. “If the net amount of qualified business income from all qualified trades or businesses during the taxable year is a loss, it is carried forward as a loss from a qualified trade or business in the next year.”)) This carryover is only a negative; i.e., can only lessen future deductions measured by a percentage of future business income. Presumably this carryover goes away at the death of the taxpayer.

This deduction isn't available in computing the self-employment tax. ((Conf. Rep. p. 220 reporting the Senate Report.))

While the corporate alternative minimum tax was repealed, the individual alternative minimum tax is still with us. The beginning point in computing such tax is taxable income, and apparently the new 20% of business income deduction is a deduction for AMT purposes. Seemingly this would be the deduction after applying the 20% and considering the “if less” computation which looks to 20% of taxable income as reduced by the sum of net long-term capital gain in excess of short-term capital loss and qualified dividends, as well as the myriad detailed rules and limitations, such as wage or wage and capital limitations. The basis for such statement is the absence of anything to the contrary in the new statute and its legislative history and the absence of any amendments in this regard in the AMT statute.

There is a “side note” statutory provision in the new 199A that apparently amends the minimum tax rules in prescribing how this new provision relates to those rules. It is headed “Coordination with Minimum Tax” and provides, “For purposes of determining alternative minimum taxable income under section 55, qualified business income shall be determined without regard to any adjustments under sections 56 through section 59.” ((Sec. 199A(f)(2); Conf. Rep., p. 17. Sections 56 through 59 are within the minimum tax rules.)) The legislative history says, “Qualified business income is determined without regard to any adjustments prescribed under the rules of the alternative minimum tax.” ((Senate report at Conf. Rep. p. 220.)) The trail here is short and terse but remembering the multitude of items entering into “qualified business income,” the implication seems to be to re-compute the Sec. 199A deduction separately for AMT purposes but when it comes to measuring “qualified business income,” don’t re-compute its elements when the measure for AMT purposes is different than for regular income tax purposes. We gather the new Sec. 199A deduction is a potential benefit in so far as the AMT but there may be a regular tax vs. AMT tax difference in measuring the deduction.

The legislative history has some broadly-worded anti-abuse language:

“In the case of property that is sold, for example, the property is no longer available for use in the trade or business and is not taken into account in determining the limitation. The Secretary is required to provide rules for applying the limitation in cases of a short taxable year where the taxpayer acquires, or disposes of, the major portion of a trade or business or the major portion of a separate unit of a trade or business during the year. The Secretary is required to provide guidance applying rules similar to the rules of section 179(d)(2) to address acquisitions of property from a related party, as well as in a sale-leaseback or other transaction as needed to carry out the purposes of the provision and to provide anti-abuse rules, including under the limitation based on W-2 wages and capital. Similarly, the Secretary shall provide guidance prescribing rules for determining the unadjusted basis immediately after acquisition of qualified property acquired in like-kind exchanges or involuntary conversions as needed to carry out the purposes of the provision and to provide anti-abuse rules, including under the limitation based on W-2 wages and capital.” ((Conf. Rep. p. 223. See also Sec. 199A(b)(5).))

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This article will be continued in upcoming issues of *Main Street Practitioner*.

#### About the Author:



**Bob Rojas**, owner of the firm, has a direct hand in practically everything – accounting, auditing, tax and administration. As a smaller regional firm with a tendency to hire and retain more heavily experienced professionals, it is common for the staff to also have a broader range of skills and in-depth insights into both accounting, auditing and tax matters. At work, Bob does everything but wash the dishes. He’s been known to mention that he does wash the dishes at home with his wife. At the office and in the professional community, if not in the kitchen, Bob’s known as an excellent negotiator. He has run a regional CPA firm, audit and tax, for some thirty years. Prior to that, he was an audit manager at a highly respected national firm, and a tax manager at an international CPA firm. During this time Bob earned his MS in taxation. It is rare to rise to the manager level in the big national firms in both audit and tax, but it was an excellent background for running his own regional firm.



**J. Michael Pusey**, CPA, MSA, is a National Tax Director with Rojas and Associates, CPAs, Los Angeles. He has over forty years experience in tax and finance. Mr. Pusey has written or contributed to four tax books, including an AICPA Tax Study, and a finance book. Mr. Pusey began his career with KPMG before working nine years in “national tax” for Laventhol & Horwath and Grant Thornton. He was V.P., Assistant Tax Director, Manager of Research and Planning for a NYSE financial institution prior to beginning his practice, then joining Rojas and Associates.

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- The new default partnership audit regime and the impact on partners
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09/19/2018 at 2:00 pm - 4:00 pm Eastern Time

Most tax professionals have clients that span 20 to 30 years - have you noticed your clients getting older?

Senior clients are becoming the practice of many tax professionals. The webinar will concentrate on issues of aging and how the tax return preparer can best accommodate the needs of their Senior client when they know the health issues and the issues of aging that the taxpayer is experiencing. The question of when can the Senior no longer participate in the preparation of their tax return and who do you go to for assistance will be answered. The issue of client confidentiality and in protecting the preparer will be addressed. How to market to Seniors, communicate with Seniors and how to be proactive for Senior clients will be addressed.

IRS CE: 2 Hours/Federal Tax Law

NASBA CE: 2 Hours/Taxes

Presented by Beanna J. Whitlock, EA CSA

**REGISTER**

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## IRC 469 – Passive Losses Made Easy

09/20/2018 at 2:00 PM - 4:00 PM(EDT)

IRC 469 is one of the most confusing sections in the IRC. In this presentation, we will take an in-depth dive into IRC 469 going into the complexities of the section. We will discuss items such as self-rentals, grouping elections, and other miscellaneous issues. We will also look at different tax planning strategies with passive losses that can help clients out.

IRS CE: 2 Hours/Federal Tax Law

NASBA CE: 2 Hours/Taxes

Presented by Nicholas Preusch, CPA

**REGISTER**

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## Client Strategies after the Tax Cuts and Jobs Act of 2017

09/25/2018 at 2:00 pm - 4:00 pm Eastern Time

The Tax Cuts and Jobs Act greatly affects the business world and individual taxpayers. There are now significant planning opportunities in using the new qualified business income deduction. There are also important business tax changes in regards to depreciation, business deductions, like-kind exchanges, and AMT. Individual taxpayers are affected by changes to tax rates, exemptions, deductions and tax credits. The new law also impacts individuals who are homeowners in high-tax states, are divorced, have dependents, have IRAs, and for those subject to AMT. This webinar will describe the major changes due to the new law and provide strategies for taking advantage of the changes.

IRS CE: 2 Hours/Federal Tax Law

NASBA CE: 2 Hours/Taxes

*Presented by Eric A. Smith, CFP, CLU, ChFC, CRPC, ATP*

**REGISTER**



**PASS the Enrolled Agent Exam THE FIRST TIME**

Register for NSA's Enrolled Agent Exam Review Course

August 20-22, 2018 - Minneapolis



NSA  
National Society of Accountants

## PROCTORED ACAT EXAMS IN MINNEAPOLIS

*ACAT credentials are prestigious certifications, that demonstrate your commitment to continuing education, ethics, and knowledge, to your clients.*

The Accreditation Council for Accountancy and Taxation® (ACAT) will be offering proctored exams for the Accredited Business Accountant/Advisor (ABA), Accredited Retirement Advisor (ARA), and the Accredited Tax Preparer (ATP) credentials prior to the NSA's Annual Convention in Minneapolis. ACAT is also offering a live review for the ATP in conjunction with the NSA's Enrolled Agent review course on August 20th. ACAT credentials are prestigious certifications, exhibiting commitment to continuing education, ethics, and knowledge.

### More about ACAT Credentials

After developing a new and improved exam, this credential is once again available for certification. The ARA credential recognizes professionals who have a thorough knowledge of topics relevant to retirement planning and special issues of senior citizens including tax planning and tax preparation for decedents, estates, and trusts; and applying your knowledge and skills in real-life situations when serving aging clients.



The ABA is a high-level credential that tests the technical proficiency of accounting and tax professionals in financial accounting, financial reporting, financial statement preparation, taxation, business consulting services, business law and ethics. Emphasis is on a practical approach to public accounting. To become an ABA, candidates must pass the Comprehensive Examination for Accreditation in Accountancy and have three years of related work experience, up to two of which may be satisfied through college credit. In Iowa and Minnesota achieving the ABA designation meets state regulatory requirements to practice public accountancy.

The exam is divided into two parts: Practice 1 and Practice 2. Practice 1 covers financial accounting and financial statement preparation, presentation and reporting. Practice 2 covers the taxation, business law, business accounting and ethics.

The ABA is accredited by the National Commission for Certifying Agencies (NCCA), an independent resource recognized as the authority on accreditation standards for professional certification organizations and programs.



The ATP is a leading national credential for tax practitioners who have a thorough knowledge of the existing tax code and the preparation of individual tax returns with an expertise in comprehensive 1040 issues including supporting schedules, self-employed returns, and ethics. To become an Accredited Tax Preparer, candidates must pass the 100-question ATP exam.

*Accredited Tax Preparers (ATP) and Accredited Business Accountant/Advisors (ABA) are exempt from taking the Annual Federal Tax Refresher (AFTR) course and exam that is part of the Internal Revenue Service (IRS) voluntary Annual Filing Season Program (AFSP) and automatically qualify for the IRS Annual Filing Season Program Record of Completion.*

ATPs and ABAs who are Annual Filing Season Program (AFSP) Record of Completion Holders are included in the IRS public directory of tax return preparers and have limited representation rights, meaning they can represent clients whose returns they prepared and signed, but only before revenue agents, customer service representatives, and similar IRS employees, including the Taxpayer Advocate Service.

## ACAT Proctored Exams in August: **Register Today**

**NEW!!** NSA is offering proctored ACAT exams in Minneapolis in August. Register now to sit for the ABA, ATP or ARA exams!

- Accredited Business Accountant/Advisor (ABA)  
August 20, 9:00 a.m.-12:00 p.m.; 1 p.m.-4:00 p.m.
- Accredited Tax Preparer (ATP)  
August 21 or August 23, 9 a.m.-12:00 p.m.
- Accredited Retirement Advisor (ARA)  
August 21 or August 23, 9 a.m.-12:00 p.m.

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## 2018 PROXY VOTING PROCEDURES

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Proxy Voting is now open.

*Voting Members may submit proxy voting forms between July 15 – August 6, 2017*

### How to submit a proxy vote

NSA strongly urges all members who are either an Active or Life member on July 15, 2018 (“Voting Members”) to exercise their right to vote in this year’s annual elections. This date is called the “Record Date.” This voting right may be exercised either in person at the Convention in Minneapolis, MN, or by a proxy vote. A “proxy” is a “signed statement authorizing a person to vote in the stead of the signer in the signer’s absence at a meeting”.

There are two types of proxies authorized by the NSA Board of Governors: General and Limited.

- **General Proxy:** give your right to vote to a member attending the annual meeting. They will then be authorized to cast your vote for you as the proxy holder sees fit for any issue or matter requiring a vote, including any proposed amendments to the NSA Bylaws.
- **Limited Proxy:** the NSA Immediate Past President is directed to cast your vote for the specific candidates you indicate on the Limited Proxy form.

A Voting Member may give another individual either a limited proxy or a general proxy, but not both.

General Proxy holders are allowed to vote on Bylaw changes but Limited proxy holders are not because it is unknown whether there will be a vote on a specific proposal at the Convention.

In addition, the NSA Bylaws allow nominations for

candidates for office to be made at the Convention, so if you are unable to attend the Convention, NSA urges you to vote either by Limited or General proxy to ensure that your vote for a candidate for office is counted. We want to make sure you exercise your right to vote!

Active and Life Members of NSA may submit limited and general proxy forms to NSA between July 15 – August 7, 2018. The easiest way to submit a proxy is online.

New or amended proxy forms must be received in the NSA office no later than 5 PM EDT on Tuesday, August 7, 2018 to be valid. Proxy forms may be revoked if such revocation is received by the NSA office no later than 5 PM Pacific on Monday, August 20, 2018.

Please contact [members@nsacct.org](mailto:members@nsacct.org) or 800-966-6679 as soon as possible if you have questions. Do not wait until after August 7th when proxy voting concludes to contact NSA.

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### Quick Links

[Meet the Candidates](#)

[Proxy Forms and Instructions](#)

[Proposed NSA Bylaw Amendments](#)

[Register for the Annual Meeting in Minneapolis](#)

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## NEW BENEFITS SPOTLIGHT: VERIFYLE

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Data breaches and theft are becoming more common, and much more dangerous. In late June, nearly 340 million identity files were exposed by intrusion at [Exactis](#). That’s virtually every adult in the USA! This is why the National Society of Accountants has partnered with [VeriFyle](#) to provide VeriFyle Pro™ service to our members for **FREE-a \$108 value!**

VeriFyle is a powerful tool for our members, who are at risk due to the sensitive nature of sharing documents with their clients. Secure file transfer and communication is more necessary than ever, and VeriFyle provides a platform to interact, and share information, with their clients and colleagues.

Client messaging and documents are stored in the cloud, locked down by 6 encryption keys for every object that is stored or shared. VeriFyle’s Cellucrypt technology uses password-derived keys on top of a public-key system to individually encrypt data objects, adding several additional layers of protection for their users. With the additional option to disable password reset, VeriFyle becomes the most secure cloud-sharing platform available, while remaining extremely simple to use.

To get your free VeriFyle Pro™ account, visit <https://verifyle.com/login/?inst=5b33ed2602554328&gotoregstep=yes> and sign up. You’ll be upgraded to Pro at no charge.

This partnership is another example of how NSA is constantly working to support it’s members and support their success in a constantly changing world.

**Sign up today!**

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## PREPARE FOR THE EA AND ATP EXAMS IN MINNEAPOLIS

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*EA Exam Review Course & ATP Review Course/Exam August 20th – 22nd*

NSA's Enrolled Agent Exam Review Course will be held at the Downtown Marriot in Minneapolis, MN, prior to the National Society of Accountants' Annual Convention. This review is a comprehensive and intensive—and we mean intensive—course geared toward a single purpose: to help you master tax basics and pass the EA exam.

Detailed study notes will be provided for each topic, including figures and charts that prove the old adage that “...a picture is worth a thousand words.” Hundreds of past exam questions from the open-exam era and many more potential questions on newer topics are incorporated and each is reviewed in class so the real exam itself will look like an old friend. Study tips, tricks and shortcuts are a staple of this course.

### **Included with Your Registration:**

- The 3-Volume NSA Enrolled Agent Review Course in online and PDF formats—a \$200+ Value! Preview Course Materials
- Detailed handouts, notes, examples, illustrations to follow the course step-by-step. Preview Sample Slides
- 18 (6 per part) detailed study lessons and review questions to help you master each section of the materials.
- Proven exam taking tips, tricks and strategy guides with tips for passing each part of the exam.
- Top 150 questions per part—essential questions on topics that you will absolutely need to master.
- Interactive online review and practice questions with explanations and analysis.
- Final Review Cards super summaries for each part of the exam—the perfect last-minute memory-jogger to review immediately before the exam.
- Weekly study guides with detailed assignments and time allocations.
- Comprehensive study aids that summarize the tax law related to a particular subject. These aids should prove valuable in last-minute reviews prior to the exam.
- Access to an online EA study community to post your questions and comments, respond to other commenters, and interact with the presenters. Added Bonus! Get access to even more sample questions and study tips.
- A complete sample EA exam to help you gauge your progress prior to taking the exam.

### **The ATP course package also includes:**

- Extra hour on day 1
- The Accredited Tax Preparer digital course materials
- The proctored ATP exam on Tuesday or Wednesday morning (additional fee)

Both the Live Enrolled Agent Exam Review Course and the ATP Exam Review Course will be taught by two leading experts:

**John O. Everett, CPA, Ph.D.**, is Professor Emeritus of Accounting at VCU in Richmond, VA. John's teaching specialty is federal taxation. He has authored or co-authored over 90 articles in academic and professional journals including the NSA EA Exam Review Course and 1040 101 Course, and is the coauthor of several textbooks, including CCH Practical Guide to Schedule M-3 Compliance, The HBJ Federal Tax Course, Income Tax Fundamentals, and Tax Planning With the Computer.

**William A Duncan CPA, Ph.D.**, is an Associate Professor of Accounting at Arizona State University. Dr. Duncan was formerly a Director with Ernst & Young where he guided tax education for the firm. He is the author or co-author of three textbooks and has published a number of articles on a variety of tax topics in publications ranging from Taxes and The CPA Journal to the Journal of the American Taxation Association. He has taught in the AICPA National Tax Education program for over 20 years.

Requests for refunds must be received in writing and will be subject to a \$75 cancellation fee. For more information regarding refund, complaint and/or program cancellation policies, please contact our offices at (800) 966-6679.

## Earn the Accredited Tax Preparer (ATP) Credential

The Accredited Tax Preparer (ATP) designation, offered by the Accreditation Council for Accountancy and Taxation (ACAT), is also a leading national credential for tax practitioners who have a thorough knowledge of the existing tax code and the preparation of individual tax returns with an expertise in comprehensive 1040 issues including supporting schedules, self-employed returns, and ethics.

Earning the ATP credential exempts practitioners from taking and passing an Annual Federal Tax Refresher course and exam each year for the the Internal Revenue Service (IRS) Annual Filing Season Program (AFSP).



*NSA is approved by NASBA, the IRS, ACAT, and CTEC as a provider of continuing professional education.*

*The National Society of Accountants is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: [www.learningmarket.org](http://www.learningmarket.org).*

### Registration

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*Choose Any 1 Part or All 3!*

#### **Complete Course (all three parts)**

NSA Member: \$699 – Nonmember: \$775

#### **EA Part 1/ATP Course:**

NSA Member: \$275 – Nonmember: \$325

#### **ATP Exam Fee: \$100**

#### **EA Part 2:**

NSA Member: \$375 – Nonmember: \$425

#### **EA Part 3:**

NSA Member: \$200 – Nonmember: \$250

**[REGISTER](#)**

**[Download a Registration Form](#)**

**[For more information](#)**

### Schedule

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#### **Monday, August 20**

EA Part 1: Individuals & Accredited Tax Preparer (ATP)  
Exam Review 8:00am - 5:00pm

*ATP course ends at 6:00pm*

CPE: 2 Hours/Federal Tax Law Update; 2 Hours/Federal Tax Law; 4 Hours/SEE Exam Preparation

#### **Tuesday, August 21**

EA Part 2: Businesses 8:00am - 5:00pm

ATP Exam 9:00am - 12:00pm

#### **Wednesday, August 22**

EA Part 2: Businesses, continued 8:00am - 12:00pm

Total CPE Part 2: 3 Hours/Federal Tax Law Update; 3 Hours/Federal Tax Law; 6 Hours/SEE Exam Preparation

EA Part 3: Representation, Practices & Procedures  
1:00pm - 5:00pm

CPE: 2 Hours/Ethics/Regulatory Ethics

#### **Thursday, August 23**

ATP Exam 9:00am - 12:00pm



**PASS the  
Enrolled Agent Exam  
THE FIRST TIME**

Register for NSA's Enrolled  
Agent Exam Review Course  
August 20 - 22, 2018 - Minneapolis



## NSA Live EA Exam Review Course/Accredited Tax Preparer Course & Exam

Pass the IRS Special Enrollment Exam the first time with NSA's Enrolled Agent Exam Review Course

**Want to earn the Accredited Tax Preparer (ATP) credential and be exempt from the Annual IRS Filing Season Program Tax Refresher Course each year? Take Part 1 of the EA course and the ATP exam onsite!**

NSA's Enrolled Agent Exam Review Course is a comprehensive and intensive—and we mean intensive—review geared toward a single purpose: to help you master tax basics and pass the EA exam.

Detailed study notes will be provided for each topic, including figures and charts and more. Hundreds of practice exam questions are incorporated and each is reviewed in class so the real exam itself will look like an old friend. Study tips, tricks and shortcuts are a staple of this course. *Earn up to 22 Hours CPE!*

Presented by William A. Duncan, CPA, Ph.D & John O. Everett, CPA, Ph.D

**BONUS!** Get the NSA Enrolled Agent & ATP Review Courses (online & PDF)—a \$300+ Value!

“ I have taken and passed all three parts and filed form 23! Thank you John and Bill for teaching an outstanding EA Exam Course. I couldn't have done it without you! ”

Name \_\_\_\_\_ NSA/ACAT ID# \_\_\_\_\_

Company \_\_\_\_\_ Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone \_\_\_\_\_ Email \_\_\_\_\_

| <i>Choose Any 1 Part or All 3!</i>   | NSA Member | Nonmember |
|--|------------|-----------|
| <b>Complete Course (Parts 1, 2 &amp; 3)</b><br>August 20-22; 8:00am – 5:00pm each day                              | ___\$699   | ___\$775  |
| <b>Part 1: Individuals/ATP Combo</b><br>Monday, August 20; 8:00am - 5:00pm<br><i>ATP class concludes at 6:00pm</i> | ___\$275   | ___\$325  |
| <b>Part 2: Businesses</b><br>Monday, August 20; 8:00am - 5:00pm<br>Tuesday, August 21; 8:00am - 12:00pm            | ___\$375   | ___\$425  |
| <b>Part 3: Representation, Practices &amp; Procedures</b><br>Wednesday, August 22; 1:00pm - 5:00pm                 | ___\$200   | ___\$250  |
| <b>ATP Exam:</b> 9:00am - noon Select your testing date:<br>___ Tuesday, August 21 ___ Thursday, August 23         | ___\$100   |           |
| <b>Total \$ _____</b>  |            |           |

### Hotel Information

Minneapolis Marriott City Center  
30 South 7<sup>th</sup> Street  
Minneapolis, MN 55402  
Group rate: \$159  
[Reserve Online](#)  
877-303-0104  
*Ask for the National Society of Accountants room block.*

*Reserve by July 30, 2018 to receive the group rate.*



Accreditation Council  
for Accountancy and Taxation

### Payment Information

Credit card:  Discover  MasterCard  Visa  American Express  Check made payable to NSA

Card Number \_\_\_\_\_ Exp. Date \_\_\_\_\_

Cardholder Signature \_\_\_\_\_

**Return to:** NSA 1330 Braddock Place, Suite 540 Alexandria, VA 22310; Fax: 703-549-2984; [members@nsacct.org](mailto:members@nsacct.org)  
**Questions?** For more details including CPE information, go to <http://www.nsaacct.org/eacourse> or call NSA at 800-966-6679




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## NSA'S ANNUAL CONVENTION IS COMING TO MINNEAPOLIS THIS MONTH

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[NSA's 73rd Annual Convention is coming to Minneapolis on August 22 through August 25, 2018!](#)

There is still time to register for the 73rd Annual Convention in Minneapolis this month. Like every exciting NSA event, attendees can expect social and networking opportunities as well as the excellent education offerings. We kick off the programs with the popular NSA EA Exam Review Course from Monday, August 20 - Wednesday, August 22 before convention events begin.

This year's Leadership, Networking Conference & Legislative Strategy Meeting will be held from Wednesday, August 22 to Friday, August 24, in conjunction with Annual Convention programming.

Thursday, Friday, and Saturday will be dedicated time for continuing education focusing on topics including the Federal Tax Cuts and Jobs Act, identity theft, cyber security and how to protect your practice, plus estates, gifts, trusts and more. Earn up to 16 hours CPE and get the well-rounded education you don't have access to anywhere else.

Business sessions and elections for will also be held for over the course of the convention. Members who have completed one year of membership by July 15th, are encouraged to cast their ballots in person, or by proxy.

New for this year: sign up for a financial statement critique on Thursday. See registration forms for more details

We invite all members and practitioners to attend, vote, and take advantage of all the programming.

### REGISTRATION PACKAGES

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**Early Bird Discount**  
Postmarked By: After July 15

**Full Conference**  
NSA Member: \$725  
Nonmember: \$850  
*Includes a full year NSA membership*

**2- Day Package**  
NSA Member: \$499  
Nonmember: \$550

**Leadership Networking/Legislative Strategy Package Registration**  
8/22 & 8/23: \$380

**CPE Only:** \$400

**Spouse/Guest:** \$375

**Youth Registration:** \$99

**[REGISTER ONLINE](#)**

## Registration Package Details

Your Full Registration Package is All-Inclusive! You Get:

- Earn up 16 Hours of CPE
- LNC Sessions
- Fabulous 50's Welcome Reception
- Awards Luncheon
- Three Continental Breakfasts
- Wine & Cheese Reception
- Dessert Reception
- Installation Reception and Banquet

### 2-Day Package

2-Day Package includes programs offered on the days selected:

#### Thursday, August 23

- Continental Breakfast
- Awards Luncheon
- Business Session
- Cyber Security CPE Sessions (4 hours)
- LNC Sessions
- Wine & Cheese Reception

#### Friday, August 24

- Continental Breakfast
- Tax Cuts and Jobs Act CPE (4 hours)
- Dessert Reception

#### Saturday, August 25

- Continental Breakfast
- 8 Hours CPE: The Long and Winding Road - How Accountants can Assist their Clients Achieve Tax Heaven
- Installation Reception and Banquet

### Leadership Networking/Legislative Strategy Package

The Leadership Networking/Legislative Strategy Conference (LNC) Package includes:

#### Wednesday, August 22

- LNC Sessions
- Fabulous 50's Welcome Reception

#### Thursday, August 23

- Continental Breakfast
- Awards Luncheon
- LNC Sessions
- Wine & Cheese Reception

### CPE Package

The CPE Only Package includes continuing education sessions on Thursday, Friday and Saturday. Earn up to 16 hours of CPE

- Cyber Security Thursday: 4 hours
- Tax Cuts and Jobs Act of 2017: 4 hours
- The Long and Winding Road will Come to an End: How Accountants can Assist their Clients Achieve Tax Heaven (8 hours)

### Spouse/Guest Package

The Spouse/Guest Registration Package includes:

- Continental Breakfasts
- Fabulous 50's Welcome Reception
- Wine & Cheese Reception
- Dessert Reception
- Awards Luncheon
- Installation Reception and Banquet

The Spouse/Guest Package is intended for guests of NSA members and is not available to NSA members.

### Youth

- Includes all meal functions



## Schedule

### AUGUST 20 • MONDAY

8:00am – EA Exam Review Course Part 1: Individuals

### AUGUST 21 • TUESDAY

8:00am – EA Exam Review Course Part 2: Businesses

### AUGUST 22 • WEDNESDAY

8:00am - EA Exam Review Course Part 2: Businesses

9:00am - NSA Board of Governors Meeting

1:00pm - EA Exam Review Course Part 3: Representation, Practices and Procedures

1:00pm - LNC Programming

6:30pm - Fabulous 50's Party

### AUGUST 23 • THURSDAY

7:00am - Continental Breakfast

8:00am - NSA Business Session

11:45am - Awards Luncheon

12:00pm - Voting Opens

1:30pm - Cybersecurity for Tax Professionals: Karen Brehmer (2 hours CPE)

1:30pm - LNC Programming

3:20pm - IT Security Protections EVERY Business Must Have in Place: Chris Benson (2 hours CPE)

5:00pm - Wine & Cheese Dine Around Reception

### AUGUST 24 • FRIDAY

6:45am - Scholarship Walk

7:00am - Continental Breakfast

7:30am - District Networking Sessions

8:45am - Voting Closes

9:15am - NSA Business Session

1:15pm - Tax Cuts and Jobs Act: Who are the Winners and Losers?: Timothy Sundstrom, CPA, CFP (4 hours CPE)

8:00pm - Dessert Reception Honoring Incoming President Christine Freeland

### AUGUST 25 • SATURDAY

7:00am - Continental Breakfast

8:00am - The Long and Winding Road Will Come to an End-How Accountants Can Assist Their Clients to Achieve Tax Heaven: Beanna J. Whitlock, EA, CSA (8 hours CPE)

6:00pm - Closing Night Reception

7:00pm - Installation Banquet

### HOTEL INFORMATION

#### Marriott Hotel City Center

30 South 7th Street  
Minneapolis, MN 55402

Room Rate: \$159

[Reserve Online](#)

866-315-9403

Ask for the National Society of Accountants Room Rate.

Reserve your room by July 30, 2018 to receive the discounted group rate.

#### NSA Super Shuttle Discount

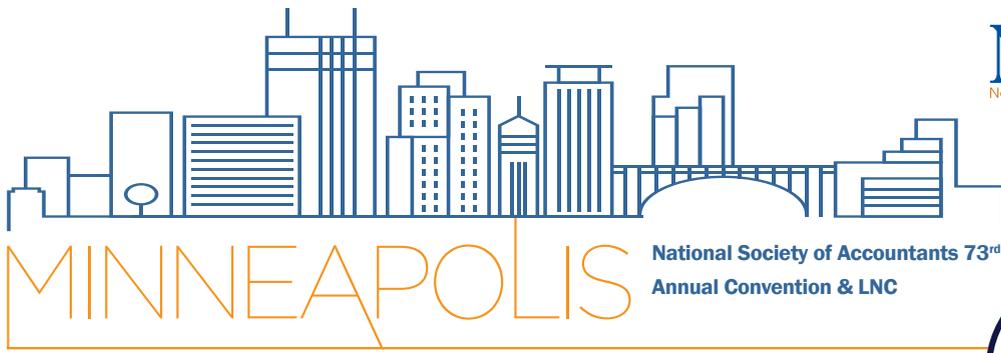
Van Service: save \$2.00 off one-way / \$4.00 off round trip

EXECUCAR: Save \$5.00 off one-way / \$10.00 off round trip

[Reserve Online](#)

Or go directly to [www.supershuttle.com](http://www.supershuttle.com) and enter the code  
4RTW2





National Society of Accountants 73<sup>rd</sup>  
Annual Convention & LNC



## REGISTRATION FORM

Please print legibly to avoid errors and delays on-site

Name \_\_\_\_\_  
 Title \_\_\_\_\_  
 Name to Appear on Badge \_\_\_\_\_  
 Company \_\_\_\_\_  
 Street Address \_\_\_\_\_  
 City \_\_\_\_\_  
 State \_\_\_\_\_ Zip \_\_\_\_\_  
 Phone \_\_\_\_\_ Fax \_\_\_\_\_  
 Email \_\_\_\_\_  
 NSA Member ID# \_\_\_\_\_  
 CTEC Member ID# \_\_\_\_\_  
 PTIN# \_\_\_\_\_

- This is my first NSA Annual Convention
- I am an ACAT credential holder
- Special meal request: \_\_\_\_\_
- I have special needs and would like to be contacted by an NSA Representative
- NEW!** Please contact me about setting up a financial statement critique on Thursday, August 23rd

### 4 EASY WAYS TO REGISTER

- ONLINE** [www.nsaminneapolis2018.org](http://www.nsaminneapolis2018.org)
- MAIL** this form with a check or credit card payment to:  
NSA, 1330 Braddock Place, Suite 540, Alexandria, VA 22314
- FAX** form with credit card payment to: 703-549-2984
- CALL** 800-966-6679

### METHOD OF PAYMENT

Check  Discover  MasterCard  Visa  American Express

Credit Card # \_\_\_\_\_  
 Exp. Date \_\_\_\_\_  
 Signature \_\_\_\_\_

**Total Due: \$** \_\_\_\_\_

**Cancellation Policy:** Registration fees are refundable (less a \$75 per registration administration fee) until August 1, 2018.

**No refunds after August 1, 2018.**

**Questions?** Call NSA toll-free: 800-966-6679

### REGISTRATION PACKAGES

#### Early Bird Discount

Postmarked By: July 15 After July 15

#### Full Conference

Includes a full year  
NSA Membership!

NSA Member:  \$625  \$725  
 Nonmember:  \$799  \$850

#### 2- Day Package

NSA Member:  \$425  \$499  
 Nonmember:  \$499  \$550

Select two days you wish to attend:

Thurs., 8/23  Fri., 8/24  Sat., 8/25

#### Leadership Networking/Legislative Strategy

Package Registration 8/22 & 8/23:  \$380

CPE Only:  \$400

Spouse/Guest:  \$325  \$375

Youth Registration:  \$99

The Spouse/Guest Package is intended for guests of NSA members and is not available to NSA members.

Spouse/Guest/Child Name \_\_\_\_\_

Spouse/Guest/Child Name \_\_\_\_\_

#### EA Exam Review Course & Accredited Tax Preparer Review Course

NSA Member/ACAT

Credential Holder

Nonmember:

Full Course:  \$699  \$775

EA Part 1/ATP:  \$275  \$325

EA Part 2:  \$375  \$425

EA Part 3:  \$200  \$250

#### ABA Full Exam - August 20

ABA Full Exam: Practice 1 & Practice 2  \$200

ABA Exam: Practice 1  \$100

ABA Exam: Practice 2  \$100

#### ATP & ARA Exams

ATP & ARA Exams: \$100

August 21:  ATP Exam  ARA Exam

August 23:  ATP Exam  ARA Exam

#### A la Carte Tickets

Installation Banquet: \$150 x \_\_\_\_\_ = \_\_\_\_\_

Opening Night Reception: \$125 x \_\_\_\_\_ = \_\_\_\_\_

Awards Luncheon: \$100 x \_\_\_\_\_ = \_\_\_\_\_

Wine and Cheese Reception: \$100 x \_\_\_\_\_ = \_\_\_\_\_

Financial Statement Critique \$75 x \_\_\_\_\_ = \_\_\_\_\_

Scholarship Foundation

Raffle Tickets  1 ticket = \$5.00  5 tickets = \$20.00

20 tickets = \$60.00  40 tickets = \$100.00

#### NSA PAC Suite Deal Raffle

Buy your NSA PAC Suite Deal Raffle ticket(s) and you'll be entered to win an upgrade from a standard room already purchased to a Suite for up to 5 nights. Raffle ticket sales end on August 1st.

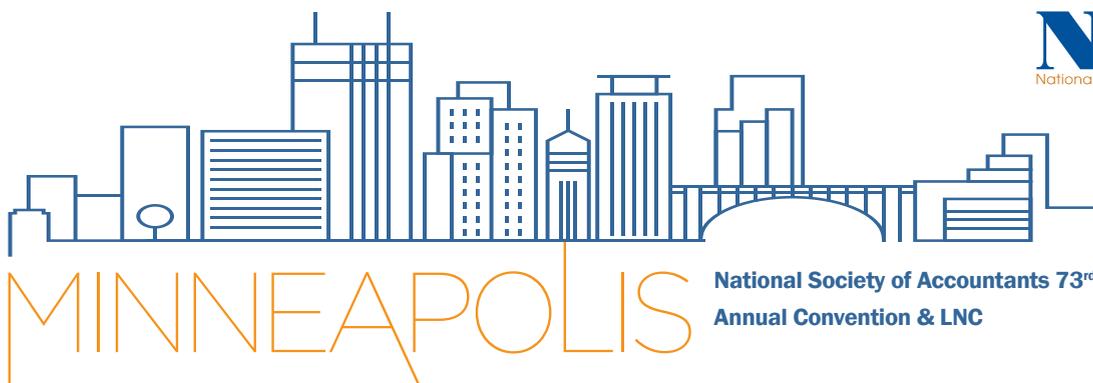
NSA PAC Suite Deal Raffle Tickets: \$50 each x \_\_\_\_\_ = \_\_\_\_\_

The PAC can not accept corporate contributions.

#### NSA Scholarship Walk Donation:

Registration: \$35 per person x \_\_\_\_\_ = \_\_\_\_\_

Sleep in for Scholars: \$60 per person x \_\_\_\_\_ = \_\_\_\_\_



## REGISTRATION PACKAGE DETAILS

### REGISTRATION PACKAGE DETAILS

#### Your Full Registration Package is All-Inclusive!

You Get:

- Earn up to 16 Hours of CPE
- LNC Sessions
- Fabulous 50's Welcome Reception
- Awards Luncheon
- Three Continental Breakfasts
- Wine & Cheese Reception
- Dessert Reception
- Installation Reception and Banquet

#### 2-Day Package

2-Day Package includes programs offered on the days selected:

##### Thursday, August 23

- Continental Breakfast
- Awards Luncheon
- Business Sessions
- Cyber Security CPE Sessions (4 hours)
- LNC Sessions
- Wine & Cheese Reception

##### Friday, August 24

- Continental Breakfast
- Tax Cuts and Jobs Act CPE (4 hours)
- Dessert Reception

##### Saturday, August 25

- Continental Breakfast
- The Long and Winding Road will Come to an End: How Accountants can Assist their Clients Achieve Tax Heaven (8 hours)
- Installation Reception and Banquet

#### Leadership Networking/Legislative Strategy Package

The Leadership Networking/Legislative Strategy Conference (LNC) Package includes:

##### Wednesday, August 22

- LNC Sessions
- Fabulous 50's Welcome Reception

##### Thursday, August 23

- Continental Breakfast
- Awards Luncheon
- LNC Sessions
- Wine & Cheese Reception

#### CPE Package

The CPE Only Package includes continuing education sessions on Thursday, Friday and Saturday. Earn up to 16 hours of CPE

- Cyber Security Thursday: 4 hours
- Tax Cuts and Jobs Act of 2017: 4 hours
- The Long and Winding Road will Come to an End: How Accountants can Assist their Clients Achieve Tax Heaven (8 hours)

#### Spouse/Guest Package

The Spouse/Guest Registration Package includes:

- Continental Breakfasts
- Fabulous 50's Welcome Reception
- Wine & Cheese Reception
- Dessert Reception
- Awards Luncheon
- Installation Reception and Banquet

*The Spouse/Guest Package is intended for guests of NSA members and is not available to NSA members.*

#### Youth

- All meal functions

### HOTEL INFORMATION

#### Marriott Hotel City Center

30 South 7th Street  
Minneapolis, MN 55402  
866-315-9403

Discounted room rate: \$159

Ask for the National Society of Accountants Room Rate.

Reservation cut off date: July 30, 2018

Reserve [Online](#)

*Every room features stunning views of the Twin City skyline, plush bedding, convenient plug-in panels, Wi-Fi access and ergonomic workstations.*



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## GEAR UP FOR THE 1040 AND THE TAX ACT AT MOHEGAN SUN

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*NSA Gear Up 1040 Individual Tax Seminar December 13-14, 2018*

The National Society of Accountants is bringing Gear Up back to Mohegan Sun in December. This industry-leading event will cover key points for preparing the 1040, including Tax Cuts and Jobs Act individual tax reform provisions. Attendees will be brought up to date on the new deduction for qualified business income (Code Sec. 199A), modifications to many Schedule A itemized deductions, and the impact of the new marginal tax rate structure on taxpayers. The course will also address trends in LLC member self-employment taxation, tackle tax challenges facing special industries including shared economy businesses and marijuana dispensaries, and explore tax planning opportunities in the wake of the new tax bill.

**16 hours CPE: 13 hrs Tax + 3 hrs Tax Update**

**Prerequisites:** None

**Advance Preparation:** None

**Who should attend?** CPAs, EAs, CTEC, CFPs, ALL TAX PROS

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### Schedule

December 13: 8:00 am – 4:30 pm

December 14: 8:00 am – 4:30 pm

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### Registration

*Register by November 1st and Save!*

NSA Member: \$369

Nonmember: \$425

*After 11/1/18:*

NSA Member: \$399

Nonmember: \$479

*Attendees receive a comprehensive manual that alone is worth the price of registration!*

### **REGISTER**

Refunds and Cancellations: Requests for refunds must be received in writing by November 15, 2018 and will be subject to a \$75 cancellation fee. No refunds will be granted after November 15, 2018.

For more information regarding refund, complaint and/or program cancellation policies, please contact our offices at (800) 966-6679.

NSA is approved by NASBA, the IRS, ACAT, and CTEC as a provider of continuing professional education.



### Hotel Information

Mohegan Sun Casino and Resort  
1 Mohegan Sun Boulevard  
Uncasville, CT 06382

General Information: 1.888.226.7711  
Hotel Reservations: 1.888.777.7922

[Click here to reserve your room online](#)

Click here to reserve your room online  
Group code: NSACC18  
Group rate: \$149 plus 15% tax\*  
Resort fee not included  
Dates available: December 12-14, 2018

\*Reserve your room by November 28, 2018 to receive the group rate.

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## CONGRATULATIONS TO THE 2018 NSA SCHOLARSHIP RECIPIENTS

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The National Society of Accountants (NSA) Scholarship Foundation has awarded 25 students scholarships to continue their college education. Combined, NSA scholarships for 2018 totaled \$31,200.

Since its inception in 1969, the NSA Scholarship Foundation has provided more than \$1 million to deserving undergraduate and graduate students pursuing a career in accounting. The scholarships range from \$500 - \$2,500. Recipients were selected on the basis of scholastic achievement, demonstrated leadership ability, and financial need.

“The NSA Scholarship Foundation assists dedicated students who are committed to a career in accounting by providing financial assistance to support their education,” said Foundation President Donny Woods, EA, PA, ATA, ABA. “The 25 students selected for this year’s scholarships are among the best and brightest. NSA is pleased to assist these highly-qualified young accountants and we look forward to having them join the accounting profession.”

The 2018 scholarship recipients are noted below, complete with the name of their university, sponsoring NSA Affiliated Organization or named scholarships that provided funding, and scholarship amount.

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### 2018 National Society of Accountants Scholarship Winners

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Jared Bolt  
Harding University  
Arkansas Society of Accountants: \$1,000

KeiAsia Coates  
University of Maryland-College Park  
National Society of Accountants: \$1,500

Adam Cochran  
University of Missouri-Columbia

Missouri Society of Accountants: \$1,000

Nicole Earl  
Yavapai College  
Arizona Society of Practicing Accountants: \$1,000

Kenneth Fenster  
University of Pittsburgh-Pittsburgh Campus  
Pennsylvania Society of Tax & Accounting Professionals:  
\$1,000

Dillon Groves  
Ouachita Baptist University  
Ronny Woods Memorial Award: \$1,000

Linjiang Han  
University of Virginia-Main Campus  
NSA Sager Award: \$1,000

Kingston Handley  
University of North Carolina at Charlotte  
North Carolina Society of Accountants: 2,000

Terrence Henderson  
University of Phoenix-Phoenix-Hohokam Campus  
Arizona Society of Practicing Accountants: \$1,000

Nia Hill  
Howard University  
Independent Accountants Association of Illinois: \$1,000

Jacob Isiminger  
Spring Arbor University  
Milton Brown Award: \$1,000

Anton Khokhryakov  
University of Oregon  
Oregon Association of Independent Accountants: \$1,000

Monica Linn  
James Madison University  
Millard Ashley Memorial Award: \$1,000

Audrey Manser  
University of Wisconsin-Madison  
Wisconsin Association of Accountants: \$1,500

Amanda Muscha  
Montana State University  
Montana Society of Public Accountants: 1,000

Josie Orvik  
Washington State University  
Washington Association of Accountants: \$2,100

Roy Rosekrans  
Georgia State University  
Georgia Association of Accountants and Tax Professionals:  
\$1,100

Victoria Schmidlin  
Pacific Lutheran University  
Washington Association of Accountants: 2,100

Alisia Szablewski  
University of Wisconsin-Parkside  
Wisconsin Association of Accountants Southeast Chapter:  
\$500

Ryan Waelde  
The University of Alabama  
Alabama Association of Accountants and Tax Preparers:  
\$2,400

Adeline Weems  
Stetson University  
Public Accountants Society of Colorado Chester Borelli  
Award: \$1,000

Lawrence Williams  
University of Louisiana-Lafayette  
Louisiana Society of Independent Accountants: \$1,000

To learn more about the NSA Scholarship Foundation program or to make contributions, visit [www.nsacct.org/scholarships](http://www.nsacct.org/scholarships).

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## THERE'S STILL TIME TO REGISTER FOR IRS TAX FORUMS

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NSA is presenting sessions at all five summer IRS Tax Forums this year. We are also representing the organization and members in the registration area. Visit our table, meet NSA staff and volunteers, and learn more about NSA benefits. You can renew your membership or join NSA onsite.

Below are titles and descriptions of our sessions.

### Partnership Schedule K-1 – What You Need to Know in Light of The Tax Cuts and Jobs Act

Do you feel overwhelmed when your client hands you a partnership Schedule K-1 (Form 1065)? Where do you start, what questions do you ask, and what do you need to know? What qualifies for the 20 percent Qualified Business Income (QBI) deduction? With the increasing popularity of pass through entities, it is more likely that you may be dealing with a Schedule K-1 from a partnership on your client's tax return. This session will discuss how to take the Schedule K-1 items to the 1040 tax return and practice points on issues such as passive and active participation, basis issues, and unreimbursed partner expenses. This session includes real life examples, potential hazards, and resources to keep you in compliance and help you report the Schedule K-1 correctly.

CE: 1 hour/Federal Tax Law

### S Corporation Hot Spots – What You Need to Know in Light of the Tax Cuts and Jobs Act

For the last several years, S corporations have been the most popular entity for a small business. The Tax Cuts and Jobs Act (TCJA) impacts S corporations in a variety of ways. In this session, we will cover what you need to know about the tax act provisions and their effect on S corporation "hot spots." This seminar will include a new analysis of reasonable compensation, health insurance, cash vs. accrual basis, shareholder loans and distributions, depreciation, fringe benefits, accountable plans and revoking the S election. It is more important than ever to understand and watch out for the hazard areas of S corporations.

CE: 1 hour/Federal Tax Law

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#### This year's summer 2018 NSA Speaker Team is:

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**Kathy Hettick, EA, ABA, ATP**, has been the owner and principal of an accounting and tax practice for over 23 years. She has held numerous leadership positions at local, state, and national levels, including WAA President and served as NSA's President 2015-2016. In January 2017, she was appointed to, and now serves on, the Internal Revenue Service Advisory Council (IRSAC).



**Gene Bell, EA, ATA, CFP**, is the owner and president of Gene Bell & Associates, Inc. where he provides personal and business tax preparation and planning as well as wealth management services. He was awarded the NSA Distinguished Service Award for 2012, and received the NSA's Speaker of the Year Award in 2015.

Register to attend one of these three 2018 IRS Tax Forums in destination cities throughout the U.S.

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#### San Diego, CA

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Town & Country Resort and Convention Center  
August 7-9, 2018

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#### Chicago, IL

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Hyatt Regency Chicago  
August 21-23, 2018

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#### Orlando, FL

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Hyatt Regency Orlando  
September 11-13, 2018

[REGISTER ONLINE](#)

NSA's tax research team is busy helping members answer the toughest Federal tax questions.

# Tax Topics

This installment of Tax Help Desk features a recap of tax season 2018—some of the more common interesting questions and tax issues that were posted by the membership in their use of our service.



**Q-1** With the change in the filing deadline for the partnership tax return, Form 1065—from its long-time tax due date of April 15th, or the 15th day of the fourth month—to its “new” due date of or March 15th, has generated a lot of requests about the ability to get a waiver of the late filing penalty from the IRS.

**A-1** As a matter of fact, there is an administrative remedy for many of the late filed Form 1065's. Given a set of facts and circumstances, and if the list of factors are satisfied the, IRS will automatically waive the late filing penalty for the partnership tax return.

The procedures are set out in IRS Revenue Procedure 84-35. The revenue procedure requires that the partnership must be a domestic entity, consist of 10 or fewer C-corporation or individual partners (other than nonresident aliens or estates), whom have properly reported their share of partnership income or loss on their timely filed income tax returns. (There can be no special allocations of any pass-thru partnership items.)

This waiver will be honored by the IRS if all the conditions listed above are satisfied and the taxpayer makes a formal request for the waiver.

Partnerships that file late and are assessed the late filing penalty, and do not satisfy the list of conditions within the Revenue Procedure, can still make a request for waiver under the normal reasonable cause provisions. Also keep in mind that this revenue procedure does NOT apply to the late filing of an S-corporation tax return or the Form 1120-S, as there is no equivalent revenue procedure for the S-corp entity.



**Q-2** A new issue to the Tax Help Desk this year, but one that surfaced often during the tax season, involved the tax treatment of cryptocurrency, or more specifically, Bitcoin. The issues that were raised involved how this new form of monetary exchange is handled for income tax purposes? Is it ordinary income, is it a capital asset entitled to capital gain tax rates, or is it some form of income or loss due to currency fluctuations?

**A-2** The IRS—a few years back in 2014—came out with a formal announcement in the form of IRS Notice 2014-21. This notice takes the form of a Q&A and basically tagged Bitcoin and other forms of cryptocurrency, such as Linden dollars, Litecoin, and Ethereum as **property**. This property would take the form of a capital gain or loss when bought and sold. However, the new form of internet money can be used to buy a cup of coffee, to buy products, or hire services, means that cryptocurrency can produce trade or business deductions, and even ordinary income subject to self-employment tax.

This new form of payment has generated a whole new world of unreported activity. In fact, one report from the Government Accountability Office claims that there are over 1,000 virtual currencies on the internet right now.

The quote below emphasizes the current lack of reporting and disclosure with this new form of barter and trading.

*“The increasing likelihood each year that a taxpayer is mining, holding, using, or exchanging virtual currency mandates that preparers ask all taxpayers if they own or use any virtual currency. In an affidavit filed by the IRS seeking ownership information on the accounts of a popular conduit for handling virtual currency transactions, the IRS revealed that in 2015,*

NSA's tax research team is busy helping members answer the toughest Federal tax questions.

# Tax Topics

out of almost 129 million e-filed 1040s, only 802 reported a Bitcoin transaction on Form 8949, Sales and Other Dispositions of Capital Assets. This lack of tax reporting occurred even though this virtual currency intermediary claims to serve 4.9 million customers in 190 countries and handles about \$2.5 billion worth of Bitcoin exchanges".<sup>24</sup>

The Tax Help Desk recommends that tax practitioners ask clients about this new medium of making money: whether it creates an expense or produces income for them. At a minimum take a minute to review the IRS Notice 2014-21 on the IRS website, irs.gov. It is well worth the gained knowledge and insight.

Some of the tracking and reporting agencies that handle this new form of currency will be issuing the IRS Form 1099-K. Brokers may be sending your clients the Form 1099-B for trading activity done thru their brokerages houses as well.

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**Q-3** Yet another issue that arose during tax season was the issue of “tax free” payments from government sources for the in-home care of an elderly parent or disabled dependent. IRS Notice 2014-7 deals with certain types of “Medicaid Waiver Payments” being tax-free to the recipient if they meet certain criteria.

**A-3** The answer here lies within IRC Sec 131, under the difficulty of care rules of foster care payments. In this situation, a taxpayer, parent, or guardian is receiving payments from a government (State) based Medicaid home-based service program. Historically, they have been paid for services typically rendered by other medical professionals and now as parents, guardians or other individual care for dependents, or other related or unrelated individuals in their homes the payments help keep disabled or otherwise incapacitated individual out of facilities and in their homes.

In the past, the payments have been considered taxable and in most cases produced a Form W-2 from the governmental agency. Under this notice the IRS has finally given in on the taxability of these payments.

The determination in IRS Notice 2014-7 and its updated version—which can be found on the IRS website (irs.com)—classifies the Medicaid waiver payments as nontaxable under IRC Sec 131.

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This tax season brought some new challenges for accountants and tax preparers everywhere, and we encourage you to take advantage of your NSA Member benefits and use the Tax Help Desk. We can help you keep up to date on changes that impact you and your clients, and remember **You have 5 free questions every year that you can submit to us. We are here to help you.** Drop us an e-mail anytime at [taxresearch@nsacct.org](mailto:taxresearch@nsacct.org)

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<sup>24</sup> 21st Century Taxation, “IRS Guidance and Government Reports on Taxation; IRS Petition to enforce ‘John Doe’ summons upon Coinbase, No. 3:17-cv-01431-JSC (ND CA, 3/16/17). Petitions and related documents, [www.21stcenturytaxation.com/virtual-currency-and-tax.html](http://www.21stcenturytaxation.com/virtual-currency-and-tax.html).

# Legislative Link



John Ams  
Executive  
Vice President

## Senate Finance Unveils Several IRS Reform Measures

The Senate Finance Committee released its version of legislation to retool the IRS, building off of the work that's been done on the House side.

The Taxpayer First Act ([S. 3246](#)), bipartisan legislation to reform certain administrative practices at the Internal Revenue Service, is based on two earlier bills that were approved unanimously by the committee in 2016, according to a [July 19 news release](#) from Senate Finance Committee Chairman Orrin G. Hatch (R-UT) and ranking member Ron Wyden (D-OR). The new bill includes changes that would enhance whistleblower protections, reform the laws governing IRS employees, and impose measures to prevent identity theft and tax refund fraud. The bill contains provisions to increase electronic filing of tax returns by, for example, imposing a mandatory e-filing requirement for annual returns of tax-exempt organizations. The legislation would also add more protections for taxpayers, including a provision prohibiting the IRS from using funds for political targeting.

The Senate announcement comes about three months after the House passed a series of bills to revamp the IRS, including its own Taxpayer First Act (H.R. 5444), which contains measures to establish an IRS Independent Office of Appeals, eliminate the IRS Oversight Board and, for some reason, change the title of the IRS Commissioner to IRS Administrator.

Another bill, by Sens. Rob Portman (R-OH) and Benjamin L. Cardin (D-MD) is aimed at strengthening taxpayer rights and enhancing small business and low-income tax services. Portman and Cardin, who are both Finance members, were co-sponsors of the IRS Restructuring and Reform Act of 1998 when they served in the House. Their legislation is intended to complement to bill introduced by Hatch and Wyden.

At a July 26 hearing of the Finance Subcommittee on Taxation and IRS Oversight, Portman said that “after some sustained improvement, we have now gotten to the point where we’re back to some of the very same issues again.” The IRS, which is “tasked with helping Americans carry out one of their most basic duties is failing to serve the taxpayers in an effective manner. So, it’s an opportunity now to reboot.” He did not address how the failure to serve taxpayers in an effective manner was possibly related to the substantial decline in IRS funding authorized by Congress.

A large portion of the Finance Subcommittee hearing involved a discussion of the critical need to update IRS IT systems. IRS Taxpayer Advocate Nina Olson, who testified at the hearing, stated that IRS information technology lags far behind the rest of the federal government. She reminded Subcommittee members that the IRS uses the two oldest databases to be found in any federal agency, and utilizes 60 systems that cannot adequately communicate to one another. According to Olson, these technology issues reduce IRS responsiveness, hamper agent performance, and result in poor customer service.

John Sapp, chair of the IRS Electronic Tax Administration Advisory Committee, also

# Legislative Link



John Ams  
Executive  
Vice President

testified and said that e-services need to be hardened in order to better protect taxpayers' private information. He suggested that the e-service program should be configured in such a way that consumers would find it more accessible and easier to use, which would likely result in better compliance.

It is unclear what next steps the Finance Committee may take given the tight legislative calendar prior to the mid-term elections in November.