THE VOS VOICE

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"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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2019 Q1 TAX CALENDAR: KEY DEADLINES FOR BUSINESSES AND OTHER EMPLOYERS

Here are some of the key tax-related deadlines affecting businesses and other employers during the first quarter of 2019. Keep in mind that this list isn't all-inclusive, so there may be additional deadlines that apply to you. Contact us to ensure you're meeting all applicable deadlines and to learn more about the filing requirements.

January 31

- File 2018 Forms W-2, "Wage and Tax Statement," with the Social Security Administration and provide copies to your employees.
- Provide copies of 2018 Forms 1099-MISC, "Miscellaneous Income," to recipients of income from your business where required.
- File 2018 Forms 1099-MISC reporting nonemployee compensation payments in Box 7 with the IRS.
- File Form 940, "Employer's Annual Federal Unemployment (FUTA) Tax Return," for 2018. If your undeposited tax is $500 or less, you can either pay it with your return or deposit it. If it's more than $500, you must deposit it. However, if you deposited the tax for the year in full and on time, you have until February 11 to file the return.
- File Form 941, "Employer's Quarterly Federal Tax Return," to report Medicare, Social Security and income taxes withheld in the fourth quarter of 2018. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until February 11 to file the return. (Employers that have an estimated annual employment tax liability of $1,000 or less may be eligible to file Form 944, "Employer's Annual Federal Tax Return.")
- File Form 945, "Annual Return of Withheld Federal Income Tax," for 2018 to report income tax withheld on all non-payroll items, including backup withholding, and withholding on accounts such as pensions, annuities and IRAs. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the year in full and on time, you have until February 11 to file the return.

February 28

- File 2018 Forms 1099-MISC with the IRS if 1) they're not required to be filed earlier and 2) you're filing paper copies. (Otherwise, the filing deadline is April 1.)

March 15

- If a calendar-year partnership or S Corporation, file or extend your 2018 tax return and pay any tax due. If the return isn't extended, this is also the last day to make 2018 contributions to pension and profit-sharing plans.

Buy Business Assets Before Year End to Reduce Your 2018 Tax Liability

The Tax Cuts and Jobs Act (TCJA) has enhanced two depreciation-related breaks that are popular year-end tax planning tools for businesses. To take advantage of these breaks, you must purchase qualifying assets and place them in service by the end of the tax year. That means there's still time to reduce your 2018 tax liability with these breaks, but you need to act soon.

Section 179 expensing

Sec. 179 expensing is valuable because it allows businesses to deduct up to 100% of the cost of qualifying assets in Year 1 instead of depreciating the cost over a number of years. Sec. 179 expensing can be used for assets such as equipment, furniture and software. Beginning in 2018, the TCJA expanded the list of qualifying assets to include qualified improvement property, certain property used primarily to furnish lodging and the following improvements to nonresidential real property: roofs, HVAC equipment, fire protection and alarm systems, and security systems.

The maximum Sec. 179 deduction for 2018 is $1 million, up from $510,000 for 2017. The deduction begins to phase out dollar-for-dollar for 2018 when total asset acquisitions for the tax year exceed $2.5 million, up from $2.03 million for 2017.

100% bonus depreciation

For qualified assets that your business places in service in 2018, the TCJA allows you to claim 100% first-year bonus depreciation -- compared to 50% in 2017. This break is available when buying computer systems, software, machinery, equipment and office furniture. The TCJA has expanded eligible assets to include used assets; previously, only new assets were eligible.

However, due to a TCJA drafting error, qualified improvement property will be eligible only if a technical correction is issued. Also be aware that, under the TCJA, certain businesses aren't eligible for bonus depreciation in 2018, such as real estate businesses that elect to deduct 100% of their business interest and auto dealerships with floor plan financing (if the dealership has average annual gross receipts of more than $25 million for the three previous tax years).

Traditional, powerful strategy

Keep in mind that Sec. 179 expensing and bonus depreciation can also be used for business vehicles. So purchasing vehicles before year end could reduce your 2018 tax liability. But, depending on the type of vehicle, additional limits may apply.

Investing in business assets is a traditional and powerful year-end tax planning strategy, and it might make even more sense in 2018 because of the TCJA enhancements to Sec. 179 expensing and bonus depreciation. If you have questions about these breaks or other ways to maximize your depreciation deductions, please contact us.

"Vision is the art of seeing the invisible."

-- Jonathan Swift

Why Revenue Matters in an Audit

For many companies, revenue is one of the largest financial statement accounts. It's also highly susceptible to financial misstatement.

When it comes to revenue, auditors customarily watch for fictitious transactions and premature recognition ploys. Here's a look at some examples of critical issues that auditors may target to prevent and detect improper revenue recognition tactics.

Contractual arrangements

Auditors aim to understand the company, its environment and its internal controls. This includes becoming familiar with key products and services and the contractual terms of the company's sales transactions. With this knowledge, the auditor can identify key terms of standardized contracts and evaluate the effects of nonstandard terms. Such information helps the auditor determine the procedures necessary to test whether revenue was properly reported.

For example, in construction-type or production-type contracts, audit procedures may be designed to 1) test management's estimated costs to complete projects, 2) test the progress of contracts, and 3) evaluate the reasonableness of the company's application of the percentage-of-completion method of accounting.

Please see *Why Revenue Matters in an Audit* on page 3

Why Revenue Matters in an Audit **from page 2**

Gross vs. net revenue

Auditors evaluate whether the company is the principal or agent in a given transaction. This information is needed to evaluate whether the company's presentation of revenue on a gross basis (as a principal) vs. a net basis (as an agent) complies with applicable standards.

Revenue cutoffs

Revenue must be reported in the correct accounting period (generally the period in which it's earned). Cutoff testing procedures should be designed to detect potential misstatements related to timing issues, as well as to obtain sufficient relevant and reliable evidence regarding whether revenue is recorded in the appropriate period.

If the risk of improper accounting cutoffs is related to overstatement or understatement of revenue, the procedures should encompass testing of revenue recorded in the period covered by the financial statements — and in the subsequent period.

A typical cutoff procedure might involve testing sales transactions by comparing sales data for a sufficient period before and after year end to sales invoices, shipping documentation or other evidence. Such comparisons help determine whether revenue recognition criteria were met and sales were recorded in the proper period.

Renewed attention

Starting in 2018 for public companies and 2019 for other entities, revenue must be reported using the new principles-based guidance found in Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The updated guidance doesn't affect the amount of revenue companies report over the life of a contract. Rather, it affects the timing of revenue recognition.

In light of the new revenue recognition standard, companies should expect revenue to receive renewed attention in the coming audit season. Contact us to help implement the new revenue recognition rules or to discuss how the changes will affect audit fieldwork.

"Because Accounting Matters"

SELLING YOUR BUSINESS? DEFER - AND POSSIBLY REDUCE - TAX WITH AN INSTALLMENT SALE

You've spent years building your company and now are ready to move on to something else, whether launching a new business, taking advantage of another career opportunity or retiring. Whatever your plans, you want to get the return from your business that you've earned from all of the time and money you've put into it.

That means not only getting a good price, but also minimizing the tax hit on the proceeds. One option that can help you defer tax and perhaps even reduce it is an installment sale.

Tax benefits

With an installment sale, you don't receive a lump sum payment when the deal closes. Instead, you receive installment payments over a period of time, spreading the gain over a number of years.

This generally defers tax, because you pay most of the tax liability as you receive the payments. Usually tax deferral is beneficial, but it could be especially beneficial if it would allow you to stay under the thresholds for triggering the 3.8% net investment income tax (NIIT) or the 20% long-term capital gains rate.

For 2018, taxpayers with modified adjusted gross income (MAGI) over $200,000 per year ($250,000 for married filing jointly and $125,000 for married filing separately) will owe NIIT on some or all of their investment income. And the 20% long-term capital gains rate kicks in when 2018 taxable income exceeds $425,800 for singles, $452,400 for heads of households and $479,000 for joint filers (half that for separate filers).

Other benefits

An installment sale also might help you close a deal or get a better price for your business. For instance, an installment sale might appeal to a buyer that lacks sufficient cash to pay the price you're looking for in a lump sum.

Or a buyer might be concerned about the ongoing success of your business without you at the helm or because of changing market or other economic factors. An installment sale that includes a contingent amount based on the business's performance might be the solution.

Please see *Selling Your Business? Defer & Possibly Reduce Tax with an Installment Sale* on page 4

Selling Your Business? Defer & Possibly Reduce Tax with an Installment Sale
from page 3

Tax risks
An installment sale isn't without tax risk for sellers. For example, depreciation recapture must be reported as gain in the year of sale, no matter how much cash you receive. So you could owe tax that year without receiving enough cash proceeds from the sale to pay the tax. If depreciation recapture is an issue, be sure you have cash from another source to pay the tax.

It's also important to keep in mind that, if tax rates increase, the overall tax could end up being more. With tax rates currently quite low historically, there might be a greater chance that they could rise in the future. Weigh this risk carefully against the potential benefits of an installment sale.

Pluses and minuses
As you can see, installment sales have both pluses and minuses. To determine whether one is right for you and your business — and find out about other tax-smart options — please contact us.

"The Secret of Change

Is to Focus All of Your

Energy, not on Fighting

the Old, but on

Building the New"

--Socrates

~ I R S Corner

IRS REMINDS EMPLOYERS, BUSINESS OWNERS OF JAN. 31 FILING DEADLINE FOR WAGE STATEMENTS, INDEPENDENT CONTRACTOR FORMS

WASHINGTON — The Internal Revenue Service today reminded employers and other businesses that Jan. 31 remains the filing deadline for wage statements and independent contractor forms.

The Protecting Americans from Tax Hikes (PATH) Act of 2015 started a requirement for employers to file their copies of Form W-2, Wage and Tax Statement, and Form W-3, Transmittal of Wage and Tax Statements, with the Social Security Administration by Jan. 31. Certain Forms 1099-MISC, Miscellaneous Income, filed with the IRS to report non-employee compensation to independent contractors are also due at this time. Such payments are reported in box 7 of this form.

The IRS can more efficiently verify income that individuals report on their tax returns because of the Jan. 31 deadline; this helps prevent fraud. File these forms correctly and timely to avoid penalties. IRS e-file is the quickest, most accurate and convenient way to file these forms.

Pointers to help filers prepare
Employers should verify employees' information. This includes names, addresses, and Social Security or individual taxpayer identification numbers. They should also ensure their company's account information is current and active with the Social Security Administration before January. If paper Forms W-2 are needed, they should be ordered early.

Automatic extensions of time to file Forms W-2 are not available. The IRS will only grant extensions for very specific reasons. Details can be found on the instructions for Form 8809, Application for Time to File Information Returns.

For more information, read the instructions for Forms W-2 & W-3 and the Information Return Penalties page at IRS.gov.