July 2019

THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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INSIDE THIS ISSUE

2019 Q3 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 third quarter of 2019. Keep in mind that this list is not all-inclusive, so there may be additional deadlines that apply to you. Contact us to ensure you are meeting all applicable deadlines and to learn more about the filing requirements.

July 31

- Report income tax withholding and FICA taxes for the second quarter of 2019 (Form 941) and pay any tax due. (See the exception below, under "August 12.")
- File a 2018 calendar-year retirement plan report (Form 5500 or Form 5500-EZ) or request an extension.

August 12

- Report income tax withholding and FICA taxes for the second quarter of 2019 (Form 941), if you deposited on time and in full all of the associated taxes due.

September 16

- If a calendar-year C corporation, pay the third installment of 2019 estimated income taxes.
- If a calendar-year S corporation or partnership that filed an automatic six-month extension:
  - File a 2018 income tax return (Form 1120S, Form 1065 or Form 1065-B) and pay any tax, interest and penalties due.
  - Make contributions for 2018 to certain employer-sponsored retirement plans.

HOW AUDITORS USE NON-FINANCIAL INFORMATION

Every *financial* transaction your company records generates nonfinancial data that does not have a dollar value assigned to it. Though auditors may spend most of their time analyzing financial records, nonfinancial data can also help them analyze your business from multiple angles.

Gathering audit evidence

The purpose of an audit is to determine whether your financial statements are "fairly presented in all material respects, compliant with Generally Accepted Accounting Principles (GAAP) and free from material misstatement." To thoroughly assess these issues, auditors need to expand their procedures beyond the line items recorded in your company's financial statements.

Nonfinancial information helps auditors understand your business and how it operates. During planning, inquiry, analytics and testing procedures, auditors will be on the lookout for inconsistencies between financial and nonfinancial measures. This information also helps auditors test the accuracy and reasonableness of the amounts recorded on your

Please see *How Auditors Use Non-financial Information* on page 2

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financial statements.

Looking beyond the numbers
A good starting point is a tour of your facilities to observe how and where the company spends its money. The number of machines operating, the amount of inventory in the warehouse, the number of employees and even the overall morale of your staff can help bring to life the amounts shown in your company's financial statements.

Auditors also may ask questions during fieldwork to help determine the reasonableness of financial measures. For instance, they may ask you for detailed information about a key vendor when analyzing accounts payable. This might include the vendor's ownership structure, its location, copies of email communications between company personnel and vendor reps, and the name of the person who selected the vendor. Such information can give the auditor insight into the size of the relationship and whether the timing and magnitude of vendor payments appear accurate and appropriate.

Your auditor may even look *outside* your company for nonfinancial data. Many websites allow customers and employees to submit reviews of the company. These reviews can provide valuable insight regarding the company's inner workings. If the reviews uncover consistent themes — such as an unwillingness to honor product guarantees or allegations of illegal business practices — it may signal deep-seated problems that require further analysis.

Facilitating the audit process
Auditors typically ask many questions and request specific documentation to test the accuracy and integrity of a company's financial records. While these procedures may seem probing or superfluous, analyzing nonfinancial data is critical to issuing a nonqualified audit opinion. Let us work together to get it right!

"Strength & Growth Come Only Through Continuous Effort & Struggle. "

--Napolean Hill

WHICH ENTITY IS MOST SUITABLE FOR YOUR NEW OR EXISTING BUSINESS?
The Tax Cuts and Jobs Act (TCJA) has changed the landscape for business taxpayers. That is because the law introduced a flat 21% federal income tax rate for C corporations. Under prior law, profitable C corporations paid up to 35%.

The TCJA also cut individual income tax rates, which apply to sole proprietorships and pass-through entities, including partnerships, S corporations, and LLCs (treated as partnerships for tax purposes). However, the top rate dropped from 39.6% to only 37%.

These changes have caused many business owners to ask: What is the optimal entity choice for me?

Entity tax basics
Before the TCJA, conventional wisdom was that most small businesses should be set up as sole proprietorships or pass-through entities to avoid the double taxation of C corporations. A C corporation pays entity-level income tax and then shareholders pay tax on dividends — and on capital gains when they sell the stock. For pass-through entities, there is no federal income tax at the entity level.

Although C corporations are still potentially subject to double taxation, their current 21% tax rate helps make up for it. This issue is further complicated, however, by another tax provision that allows noncorporate owners of pass-through entities to take a deduction equal to as much as 20% of qualified business income (QBI), subject to various limits. But, unless Congress extends it, that deduction is available only through 2025.

Many factors to consider
The best entity choice for your business depends on many factors. Keep in mind that one form of doing business might be more appropriate at one time (say, when you are launching), while another form might be better after you've been operating for a few years. Here are a few examples:

- Suppose a business consistently generates losses.

Please see *Which Entity is Most Suitable for your New or Existing Business* on page 3

Which Entity is Most Suitable for your New or Existing Business **from page 2**

- There is no tax advantage to operating as a C corporation. C corporation losses cannot be deducted by their owners. A pass-through entity would generally make more sense in this scenario because losses would pass through to the owners' personal tax returns.
- What about a profitable business that pays out all income to the owners? In this case, operating as a pass-through entity would generally be better if significant QBI deductions are available. If not, there is probably not a clear entity-choice answer in terms of tax liability.
- Finally, what about a business that is profitable but holds on to its profits to fund future projects? In this case, operating as a C corporation generally would be beneficial if the corporation is a qualified small business (QSB). Reason: A 100% gain exclusion may be available for QSB stock sale gains. Even if QSB status is not available, C corporation status is still probably preferred — unless significant QBI deductions would be available at the owner level.

As you can see, there are many issues involved and taxes are only one factor.

For example, one often-cited advantage of certain entities is that they allow a business to be treated as an entity separate from the owner. A properly structured corporation can protect you from business debts. But to ensure that the corporation is treated as a separate entity, it is important to observe various formalities required by the state. These include filing articles of incorporation, adopting by-laws, electing a board of directors, holding organizational meetings and keeping minutes.

The best long-term choice

The TCJA has far-reaching effects on businesses. Contact us to discuss how your business should be set up to lower its tax bill over the long run. But remember that entity choice is easier when starting up a business. Converting from one type of entity to another adds complexity. We can help you examine the ins and outs of making a change.

"The ladder of success is best climbed by stepping on the rungs of opportunity."

-- Ayn Rand

IRS CORNER

IRS Announces Tax Relief for Disaster Victims in Arkansas

Disaster victims in Arkansas qualify for tax relief, the IRS has announced. Due to severe storms and flooding, some Arkansas counties have been designated as federal disaster areas, qualifying for individual assistance. These counties include Conway, Crawford, Faulkner, Jefferson, Perry, Pulaski, Sebastian and Yell. The onset date of this disaster was May 21, 2019, and the extended due date is September 30, 2019. Taxpayers in these counties have more time to complete tax-related tasks such as filing returns and making payments (including quarterly estimated payments for June and September). Certain other time-sensitive tasks are also postponed. Contact us for more information.

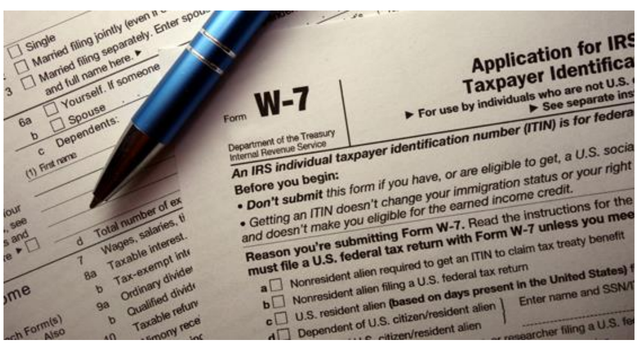
IRS Announces Tax Relief for Disaster Victims in Ohio

Victims of storms, tornadoes, flooding and landslides around the country may receive tax relief, the IRS announced. Due to severe weather that commenced on May 27, 2019, several Ohio counties have been declared federal disaster areas. The counties include Auglaize, Darke, Greene, Hocking, Mercer, Miami, Montgomery, Muskingum, Perry and Pickaway. Victims in these counties may qualify for individual assistance, and have extra time to complete tax-related tasks such as filing returns and making payments. In addition, more counties in Arkansas and Oklahoma have been declared disaster areas due to storms and flooding. Visit IRS.gov website our contact our office for a full list of who qualifies for disaster relief.

"Because Accounting Matters"

IRS Issues Final Regulations on Charitable Contributions & State and Local Tax (SALT) Credits

The IRS has issued final regulations on charitable contributions and state and local tax (SALT) credits. The regs require taxpayers to reduce their charitable contribution deductions by the amount of any SALT credits they receive or expect to receive in return. This allows some taxpayers to deduct certain payments as taxes. The IRS also has issued a safe harbor that allows individuals, in some circumstances, to deduct disallowed charitable contributions as state or local taxes. Treasury Decision 9864, available in the June 11 Federal Register, finalizes proposed regs published August 27, 2018.



ITIN Renewal Applications Being Accepted by IRS

The IRS is accepting renewal applications for Individual Taxpayer Identification Numbers (ITINs) that will expire by the end of the year. Affected taxpayers should submit renewal applications as soon as possible to avoid an anticipated rush. The renewal requirement applies to certain taxpayers who'll be filing income tax returns in 2020 — that is, those who have ITINs with the middle digits of 83, 84, 85, 86 or 87 (for example: 9NN-83-NNNN). These filers need to renew by completing a Form W-7, even if they have used their ITINs in the last three years. They have an option to renew for their entire family at the same time. Contact us to learn more.

Work For Tips? IRS Publication 1244 Can Help

Do you work for tips? Generally, income received as tips is taxable. This includes gratuities received directly from customers, added to credit cards, and received from tip-splitting agreements with other employees. Employees who receive $20 or more in tips in any month must report their tips for the month to their employers. Reporting must take place by the 10th of the next month. To ensure you keep an accurate record of tips to report, check out Publication 1244, "Employee's Daily Record of Tips and Report to Employer." Using this to record tips received can help you report the correct amount of tips on your tax returns. For more information, contact us.

Taxpayer First Act Signed Into Law

President Trump signed the Taxpayer First Act into law on July 1. The new law changes the management and oversight of the IRS, with the aim of improving customer service and the processes for assisting taxpayers with appeals. In addition, it contains provisions to protect personal data to help prevent tax-related identity theft. Other reforms include changes to the IRS whistleblower and private debt collection programs.