June 2019

THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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INSIDE THIS ISSUE

MEASURING "FAIR VALUE" FOR FINANCIAL REPORTING PURPOSES

The standard for valuing certain assets and liabilities under U.S. Generally Accepted Accounting Principles (GAAP) is "fair value." This differs from other valuation standards that may apply when valuing a security or business interest in a litigation or mergers and acquisitions (M&A) setting.

FASB guidance

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, in 2006. It defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The statement unified approximately 60 existing accounting pronouncements that used this term. Among the items currently reported at fair value (rather than historic cost) are asset retirement obligations, derivatives and intangible assets acquired in a business combination.

Valuation hierarchy

The statement also establishes a "fair value hierarchy" that emphasizes market-based valuation methods. In order of decreasing relevance, the following factors should be considered when measuring fair value:

- Quoted prices in active markets for identical assets or liabilities
- Quoted prices in active markets for similar assets or liabilities, or other "observable" inputs, and
- Unobservable inputs, such as the reporting entity's own data

When the recession hit in 2008, the FASB advised companies to use internal assumptions, such as expected cash flows and appropriately risk-adjusted discount rates, to value securities when relevant market data is unavailable. FASB guidance said that, in times of "market dislocation," market prices may not always be determinative of fair value. Rather, valuations "may require the use of significant judgment about whether individual transactions are forced liquidations or distressed sales."

Different purposes, different standards

Though it may be tempting to "recycle" valuations prepared for litigation or M&A purposes for use in financial reporting (or vice versa), the values may not be equivalent. That is because different standards sometimes apply, depending on the purpose of the valuation.

For example, "fair value" in an oppressed shareholder or divorce case may be statutorily defined and based on relevant case law. Likewise, "strategic value," which is commonly used in M&As, may include buyer-specific synergies and, therefore, warrant a premium above the price others in the marketplace would pay.

In addition, the FASB specifically avoided using the term "fair market value" in ASC 820. This term applies to valuations prepared for federal tax purposes. The rationale was that the FASB wanted to separate its guidance from the extensive body of IRS guidance and Tax Court precedent. The term "fair value" has less baggage tied to it and allowed the FASB to start with a clean slate.

Use valuation experts

Estimating fair value, like any valuation assignment, generally requires the use of specialists who are independent of your audit team. Contact us for more information about fair value measurements.

"The secret of getting ahead is getting started."

--Mark Twain

HIRING THIS SUMMER? YOU MAY QUALIFY FOR A VALUABLE TAX CREDIT Is your business hiring this summer? If the employees come from certain "targeted groups," you may be eligible for the Work Opportunity Tax Credit (WOTC). This includes youth whom you bring in this summer for two or three months. The maximum credit employers can claim is $2,400 to $9,600 for each eligible employee.

10 targeted groups

An employer is generally eligible for the credit only for qualified wages paid to members of 10 targeted groups:

- Qualified members of families receiving assistance under the Temporary Assistance for Needy Families program,
- Qualified veterans,
- Designated community residents who live in Empowerment Zones or rural renewal counties,
- Qualified ex-felons,
- Vocational rehabilitation referrals,
- Qualified summer youth employees,
- Qualified members of families in the Supplemental Nutrition Assistance Program,
- Qualified Supplemental Security Income recipients,
- Long-term family assistance recipients, and
- Qualified individuals who have been unemployed for 27 weeks or longer.

For each employee, there's also a minimum requirement that the employee have completed at least 120 hours of service for the employer, and that employment begin before January 1, 2020.

Also, the credit isn't available for certain employees who are related to the employer or work more than 50% of the time outside of a trade or business of the employer (for example, working as a house cleaner in the employer's home). And it generally isn't available for employees who have previously worked for the employer.

Calculate the savings

For employees other than summer youth employees, the credit amount is calculated under the following rules. The employer can take into account up to $6,000 of first-year wages per employee ($10,000 for "long-term family assistance recipients" and/or $12,000, $14,000 or $24,000 for certain veterans). If the employee completed at least 120 hours but less than 400 hours of service for the employer, the wages taken into account are multiplied by 25%. If the employee completed 400 or more hours, all of the wages taken into account are multiplied by 40%.

Therefore, the maximum credit available for the first-year wages is $2,400 ($6,000 × 40%) per employee. It is $4,000 [$10,000 × 40%] for "long-term family assistance recipients"; $4,800, $5,600 or $9,600 [$12,000, $14,000 or $24,000 × 40%] for certain veterans. In order to claim a $9,600 credit, a veteran must be certified as being entitled to compensation for a service-connected disability and be unemployed for at least six months during the one-year period ending on the hiring date.

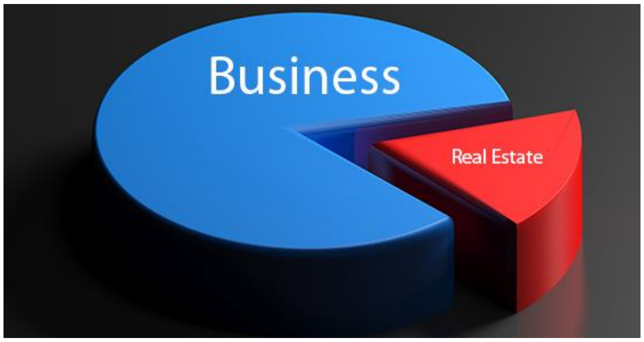
Additionally, for "long-term family assistance recipients," there's a 50% credit for up to $10,000 of second-year wages, resulting in a total maximum credit, over two years, of $9,000 [$10,000 × 40% plus $10,000 × 50%].

The "first year" described above is the year-long period which begins with the employee's first day of work. The "second year" is the year that immediately follows.

For summer youth employees, the rules described above apply, except that you can only take into account up to $3,000 of wages, and the wages must be paid for services performed during any 90-day period between May 1 and September 15. That means that, for summer youth employees, the maximum credit available is $1,200 ($3,000 × 40%) per employee. Summer youth employees are defined as those who are at least 16 years old, but under 18 on the hiring date or May 1 (whichever is later), and reside in an Empowerment Zone, enterprise community or renewal community.

We can help

The WOTC can offset the cost of hiring qualified new employees. There are some additional rules that, in limited circumstances, prohibit the credit or require an allocation of the credit. And you must fill out and submit paperwork to the government. Contact us for assistance or more information about your situation.



<u>YOUR SUCCESSION PLAN MAY BENEFIT FROM A SEPARATION OF BUSINESS AND REAL ESTATE</u>

Like most businesses, yours probably has a variety of physical assets, such as production equipment, office furnishings and a plethora of technological devices. But the largest physical asset in your portfolio may be your real estate holdings — that is, the building and the land it sits on.

Under such circumstances, many business owners choose to separate ownership of the real estate from the company itself. A typical purpose of this strategy is to shield these assets from claims by creditors if the business ever files for bankruptcy (assuming the property isn't pledged as loan collateral). In addition, the property is better protected against claims that may arise if a customer is injured on the property and sues the business.

But there's another reason to consider separating your business interests from your real estate holdings: to benefit your succession plan.

<u>Ownership transition</u>

A common and generally effective way to separate the ownership of real estate from a company is to form a distinct entity, such as a limited liability company (LLC) or a limited liability partnership (LLP), to hold legal title to the property. Your business will then rent the property from the entity in a tenant-landlord relationship.

Using this strategy can help you transition ownership of your company to one or more chosen successors, or to reward employees for strong performance. By holding real estate in a separate entity, you can sell shares in the company to the successors or employees without transferring ownership of the real estate.

In addition, retaining title to the property will allow you to collect rent from the new owners. Doing so can be a valuable source of cash flow during retirement.

You could also realize estate planning benefits. When real estate is held in a separate legal entity, you can gift business interests to your heirs without giving up interest in the property.

<u>Complex strategy</u>

The details involved in separating the title to your real estate from your business can be complex. Our firm can help you determine whether this strategy would suit your company and succession plan, including a close examination of the potential tax benefits or risks.

"Because Accounting Matters"

~ <u>I R S Corner</u>

<u>REMINDER: JUNE 17 - NEXT DEADLINE FOR ESTIMATED TAX PAYMENTS</u>. Self-employed individuals, retirees, investors and some individuals involved in the sharing economy are among those who often need to pay quarterly estimated taxes. That is because all, or a substantial part, of their income is not subject to withholding. After the June payment, the two remaining due dates for tax year 2019 are September 16 and January 15, 2020.

PLANNING YOUR WEDDING?

The IRS reminds you that it is not all about cake and gifts. You will also be filing your first tax return as a married couple. To help you take the plunge, the IRS lists simple steps to follow. For example, check your withholding. You may need to have more (or less) tax taken out, so you should submit a new Form W-4 to your employer. If the marriage results in a name change, you will need to inform the Social Security Administration. For address changes, let the IRS and the U.S. Postal Service know. You will also need to decide whether to file joint or separate tax returns. For more details on these important issues, contact our office, we can help.

THE IRS WILL SOON END SOME TAXPAYER SERVICES Currently, taxpayers who need transcripts (summaries) of their filed tax returns can request them from the IRS. Third parties, such as lenders or tax professionals, may also request that a taxpayer's transcripts be mailed to them. However, identity thieves sometimes intercept these transcripts and use them to file fraudulent tax returns that are hard to detect. That is why on June 28, to enhance security, the IRS will cease faxing transcripts to taxpayers, and on July 1 it will stop mailing transcripts to third parties. When transcripts are needed, taxpayers may request them online, by phone or by mail. Contact us for more information.

FINAL REGULATIONS ISSUED – RICS AND REITS

The IRS has issued final regulations on certain transfers of property to RICs and REITs. They impose corporate-level tax on some transactions, including those involving regulated investment companies (RICs) in which property of a C corporation becomes the property of a real estate investment trust (REIT). The regulations effect the repeal of the General Utilities doctrine by the Tax Reform Act of 1986. They also prevent abuse of the Protecting Americans from Tax Hikes Act of 2015.

VICTIMS OF SEVERE WEATHER IN OKLAHOMA QUALIFY FOR TAX RELIEF

The IRS said that storm victims in Oklahoma counties designated as federal disaster areas qualifying for individual assistance have more time to make tax payments and file returns. The following counties qualify for relief due to storms that took place on May 7, 2019: Muskogee, Tulsa and Wagoner counties. For these Oklahoma counties, the onset date of the disaster was May 7, 2019, and the extended date is September 16, 2019 (which includes the quarterly estimated income tax payment due on June 17, 2019, as well as the employment and excise tax returns due on July 31, 2019). Contact us if you need assistance.

"The best preparation for tomorrow is doing your best today."

-- H. Jackson Brown, Jr.