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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

*VOS CPAs, PLLC 30 Wall Street, NY, NY 10005 * 80 Orville Drive, Bohemia, NY 11716 * 41 Park of Commerce Way, Savannah, GA 31405*
www.voscpas.com

We all know the cost of college is expensive. The latest figures from the College Board show that the average annual cost of tuition and fees was $10,230 for in-state students at public four-year universities — and $35,830 for students at private not-for-profit four-year institutions. These amounts don't include room and board, books, supplies, transportation and other expenses that a student may incur.

Two tax credits

Fortunately, the federal government offers two sizable tax credits for higher education costs that you may be able to claim:

1. ***The American Opportunity credit***. This tax break generally provides the biggest benefit to most taxpayers. The American Opportunity credit provides a maximum benefit of $2,500. That is, you may qualify for a credit equal to 100% of the first $2,000 of expenses for the year and 25% of the next $2,000 of expenses. It applies only to the first four years of postsecondary education and is available only to students who attend at least half time.

Basically, tuition, course materials and fees qualify for this credit. The credit is per eligible student and is subject to phaseouts based on modified adjusted gross income (MAGI). For 2019, the MAGI phaseout ranges are:

Between $80,000 and $90,000 for unmarried individuals, and
Between $160,000 and $180,000 for married joint filers.

2. ***The Lifetime Learning credit***. This credit equals 20% of qualified education expenses for up to $2,000 per tax return. There are fewer restrictions to qualify for this credit than for the American Opportunity credit.

The Lifetime Learning credit can be applied to education beyond the first four years, and qualifying students may attend school less than half time. The student doesn't even need to be part of a degree program. So, the credit works well for graduate studies and part-time students who take a qualifying course at a local college to improve job skills. It applies to tuition, fees and materials.

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It's also subject to phaseouts based on MAGI, however. For 2019, the MAGI phaseout ranges are:

Between $58,000 and $68,000 for unmarried individuals, and
Between $116,000 and $136,000 for married joint filers.
Note: You can't claim either the American Opportunity Credit or the Lifetime Learning Credit for the same student or for the same expense in the same year.

Credit for what you've paid

So which higher education tax credit is right for you? A number of factors need to be reviewed before determining the answer to that question. Contact us for more information about how to take advantage of tax-favored ways to save or pay for college.

ESTATE TAX RELIEF FOR FAMILY BUSINESSES

Fewer people currently are subject to transfer taxes than ever before. But gift, estate and generation-skipping transfer (GST) taxes continue to place a burden on families with significant amounts of wealth tied up in illiquid closely held businesses, including farms.

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Estate Tax Relief for Family Businesses **from page 1**

Fortunately, Internal Revenue Code Section 6166 provides some relief, allowing the estates of family business owners to defer estate taxes and pay them in installments if certain requirements are met.

Sec. 6166 benefits

For families with substantial closely held business interests, an election to defer estate taxes under Sec. 6166 can help them avoid having to sell business assets to pay estate taxes. It allows an estate to pay interest only (at modest rates) for four years and then to stretch out estate tax payments over 10 years in equal annual installments. The goal is to enable the estate to pay the taxes out of business earnings or otherwise to buy enough time to raise the necessary funds without disrupting business operations.

Be aware that deferral isn't available for the entire estate tax liability. Rather, it's limited to the amount of tax attributable to qualifying closely held business interests.

Sec. 6166 requirements

Estate tax deferral is available if 1) the deceased was a U.S. citizen or resident who owned a closely held business at the time of his or her death, 2) the value of the deceased's interest in the business exceeds 35% of his or her adjusted gross estate, and 3) the estate's executor or other personal representative makes a Sec. 6166 election on a timely filed estate tax return.

To qualify as a "closely held business," an entity must conduct an active trade or business at the time of the deceased's death (and only assets used to conduct that trade or business count for purposes of the 35% threshold). Merely managing investment assets isn't enough.

In addition, a closely held business must be structured as:

- A sole proprietorship,
- A partnership (including certain limited liability companies taxed as partnerships), provided either 1) 20% or more of the entity's total capital interest is included in the deceased's estate, or 2) the entity has a maximum of 45 partners, or
- A corporation, provided either 1) 20% or more of the corporation's voting stock is included in the deceased's estate, or 2) the corporation has a maximum of 45 shareholders.

Several special rules make it easier to satisfy Sec. 6166's requirements. For example, if an estate holds interests in multiple closely held businesses, and owns at least 20% of each business, it may combine them and treat them as a single closely held business for purposes of the 35% threshold. In addition, the section treats stock and partnership interests held by certain family members as owned by the deceased.

On the other hand, interests owned by corporations, Partnerships, estates and trusts are attributed to the underlying shareholders, partners or beneficiaries. This can make it harder to stay under the 45-partner/shareholder limit. Contact us with questions.

MEASURING FAIR VALUE FOR FINANCIAL REPORTING

Business assets are generally reported at the lower of cost or market value. Under this accounting principle, certain assets are reported at fair value, such as asset retirement obligations and derivatives.

Fair value also comes into play in M&A transactions. That is, if one company acquires another, the buyer must allocate the purchase price of the target company to its assets and liabilities. This allocation requires the valuation of identifiable intangible assets that weren't on the target company's balance sheet, such as brands, patents, customer lists and goodwill.

What is fair value?

Under U.S. Generally Accepted Accounting Principles (GAAP), fair value is "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." Though this term is similar to "fair market value," which is defined in IRS Revenue Ruling 59-60, the terms aren't synonymous.

The FASB chose the term "fair value" to prevent companies from applying IRS regulations or guidance and U.S. Tax Court precedent when valuing assets and liabilities for financial reporting purposes.

The FASB's use of the term "market participants" refers to buyers and sellers in the item's principal market. This market is entity specific and may vary among companies.

What goes into a fair value estimate?

When valuing an asset, there are three general valuation approaches: cost, income and market. For financial reporting purposes, fair value should first be based on quoted prices in active markets for *identical* assets and liabilities. When that

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Measuring Fair Value for Financial Reporting **from page 2**

information isn't available, fair value should be based on observable market data, such as quoted prices for *similar* items in active markets.

In the absence of observable market data, fair value should be based on *unobservable* inputs. Examples include cash-flow projections prepared by management or other internal financial data.

While a CFO or controller can enlist the *help* of outside valuation specialists to estimate fair value, a company's management is ultimately responsible for fair value estimates. So, it's important to understand the assumptions, methods and models underlying a fair value estimate. Management also must implement adequate internal controls over fair value measurements, impairment charges and disclosures.

Valuation pros needed

Asset valuations are typically outside the comfort zone of in-house accounting personnel, so it pays to hire an outside specialist who will get it right. We can help you evaluate subjective inputs and methods, as well as recommend additional controls over the process to ensure that you're meeting your financial reporting responsibilities.

"Because Accounting Matters"

CHANCES OF AN IRS AUDIT ARE LOW, BUT BUSINESS OWNERS SHOULD BE PREPARED

Many business owners ask: *How can I avoid an IRS audit?* The good news is that the odds against being audited are in your favor. In fiscal year 2018, the IRS audited approximately 0.6% of individuals. Businesses, large corporations and high-income individuals are more likely to be audited but, overall, audit rates are historically low.

There's no 100% guarantee that you won't be picked for an audit, because some tax returns are chosen randomly. However, completing your returns in a timely and accurate fashion with our firm certainly works in your favor. And it helps to know what might catch the attention of the IRS.

Audit red flags

A variety of tax-return entries may raise red flags with the IRS and may lead to an audit. Here are a few examples:

- Significant inconsistencies between previous years' filings and your most current filing,
- Gross profit margin or expenses markedly different from those of other businesses in your industry, and
- Miscalculated or unusually high deductions.

Certain types of deductions may be questioned by the IRS because there are strict recordkeeping requirements for them — for example, auto and travel expense deductions. In addition, an owner-employee salary that's inordinately higher or lower than those in similar companies in his or her location can catch the IRS's eye, especially if the business is structured as a corporation.

How to respond

If you're selected for an audit, you'll be notified by letter. Generally, the IRS won't make initial contact by phone. But if there's no response to the letter, the agency may follow up with a call.

Many audits simply request that you mail in documentation to support certain deductions you've taken. Others may ask you to take receipts and other documents to a local IRS office. Only the harshest version, the field audit, requires meeting with one or more IRS auditors. (Note: Ignore unsolicited email messages about an audit. The IRS doesn't contact people in this manner. These are scams.)

Keep in mind that the tax agency won't demand an immediate response to a mailed notice. You'll be informed of the discrepancies in question and given time to prepare. You'll need to collect and organize all relevant income and expense records. If any records are missing, you'll have to reconstruct the information as accurately as possible based on other documentation.

If the IRS chooses you for an audit, our firm can help you:

- Understand what the IRS is disputing (it's not always crystal clear),
- Gather the specific documents and information needed, and
- Respond to the auditor's inquiries in the most expedient and effective manner.

Don't panic if you're contacted by the IRS. Many audits are routine. By taking a meticulous, proactive approach to how you track, document and file your company's tax-related information, you'll make an audit much less painful and even decrease the chances that one will happen in the first place.

~ *I R S Corner*

SIMPLIFIED PER DIEM RATES FOR POST 09/30/2019 TRAVEL: The IRS has issued a new notice listing the “high-low” simplified per-diem rates for post-Sept. 30, 2019 travel. The high-cost area per-diem increases $10, and the low-cost area per-diem increases $5, from the prior simplified per-diems. In addition, the following have been added to the list of high-cost localities: Mill Valley / San Rafael / Novato, CA; Crested Butte / Gunnison, CO; Petoskey, MI; Big Sky / West Yellowstone / Gardiner, MT; Carlsbad, NM; Nashville, TN; and Midland/Odessa, TX. The following have been removed from the list of high-cost localities: Los Angeles and San Diego, CA; Duluth, MN; Moab, UT; and Virginia Beach, VA. (Notice 2019-55)

EXTENDED TAX RETURNS DUE OCTOBER 15TH: Did you request an automatic six-month extension to file your 2018 tax return? If so, time’s running out. For most extended filers, the deadline is Tuesday, Oct. 15. Special rules apply to members of the military and those serving in a combat zone. Military members typically have until at least 180 days after leaving a combat zone to both file tax returns and pay any taxes due. Also, calendar-year corporate taxpayers that requested a six-month filing extension to file their 2018 corporate income tax returns must file their returns on or before Oct. 15. Contact us as soon as possible so we can prepare your return.

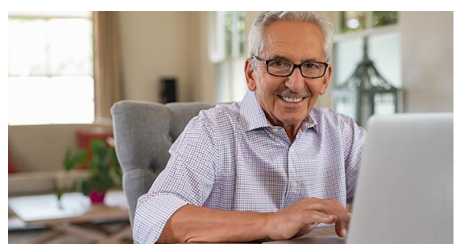
“Great Acts are Made of Small Deeds.”

-- Lao Tzu

IRS COMMUNICATION TO TAX PAYERS: The IRS sends notices or letters to taxpayers for a variety of reasons. According to the agency, it sends out these communiques because the taxpayer has a balance due or is due a larger or smaller refund, or the agency has a question about a tax return. The IRS also may send a notice or letter if the taxpayer’s identity must be verified, the IRS needs more information, it changed a return, or it needs to notify the taxpayer about delays in processing a return. If you receive such communication, you can contact us to help sort things out. These notices are always sent through the mail. The IRS doesn’t send out unsolicited emails or texts about these issues.

“Success is the sum of small efforts - repeated day in and day out”

--Robert Collier



SPECIAL HELP FOR RETIREES: Are you a retiree who may owe taxes this year on your Social Security or pension income? The IRS has created a tool that calculates the taxable portion of benefits. It also incorporates that information into an overall estimate of the projected tax liability and withholding for the year. If a withholding change is needed, you can choose between a tax due that will bring your tax bill close to zero, or a refund amount. The estimator tool then links to Form W-4P (“Withholding Certificate for Pension or Annuity Payments”) and provides a specific withholding recommendation, based on the option chosen. Visit the IRS website, and see “Special help for retirees.”