DEANDORTON
DEAN DORTON ALLEN FORD, PLLC

NEWSLETTER

SUMMER 2017

The President's Tax Proposals

Inside

On April 26, the White House issued a single page of double-spaced bullet points outlining President Trump's tax proposals. Because the proposals are so sketchy on details, they perhaps should be thought of more as a list of major issues to be considered than a plan. These proposals undoubtedly will be worked-over by Congress in coming months, so they likely are the beginning of a lengthy and contentious process leading to outcomes that could be very different from these proposals.

Here are some of the highlights of President Trump's plan, along with some brief notes assessing how each proposal may contribute to some of the principal goals of tax reform: simplification, deficit reduction, and economic growth.

Individual Proposals

Individual tax brackets, of which there now are seven, ranging from 10% to 39.6%, would be reduced to three brackets, 10%, 25%, and 35%. No details have been announced about where the breakpoints in the brackets would be.

- **Simplification:** Fewer tax brackets have little value in relation to simplification. Simplification opportunities exist in such things as:
  - the composition of taxable income,
  - all the taxes other than regular income tax (e.g., AMT, net investment income tax),
  - a long list of tax credits, and
  - the phase-ins and phase-outs built into tax law.
- **Deficit Reduction:** Not likely, unless the reduced number of brackets is structured to start at lower taxable income levels.
- **Economic Growth:** If a new bracket structure reduces federal income taxes, economic growth should result as the cash saved in taxes is used for capital investments and other spending.

Home mortgage and charitable gift tax deductions would be protected under the plan, but other itemized deductions (those for medical expenses, state and local taxes, investment interest expense, and miscellaneous) are not mentioned and may not be intended to survive under the proposals.

- **Simplification:** Yes, the reduction in itemized deductions would be positive in relation to a simplification goal.
- **Deficit Reduction:** Reducing the amount of deductions would be a positive in a deficit reduction context.
- **Economic Growth:** By increasing taxes, this change would not be expected to spur economic growth.

Additional tax breaks largely targeted at the middle class would provide a doubling of the standard deduction and additional tax relief for working families with child care expenses.

- **Simplification:** Fewer people itemizing deductions would contribute to simplification.
- **Deficit Reduction:** Such middle-class tax relief would tend to increase rather than reduce deficits.
- **Economic Growth:** With more after-tax income, investment and spending would be expected to help grow our economy.

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The President's Tax Proposals, continued

Three taxes significant to our clients would be repealed under the President's plan, these being the alternative minimum tax, federal estate tax, and 3.8% tax on net investment income.

- **Simplification:** These proposed changes, if enacted, definitely would simplify our tax system.
- **Deficit Reduction:** If repealed (and not replaced), these changes would conflict with deficit reduction.
- **Economic Growth:** These changes would contribute to economic growth.

Business Proposals

For businesses, a flat 15% tax rate would replace the multiple existing corporate tax brackets ranging from 15% to 35%. This 15% rate apparently would apply to corporations and to pass-through entities (and perhaps sole proprietorships). Many questions regarding how the proposed 15% tax rate on pass-through entity business income would be structured are unresolved at this early stage of the process.

- **Simplification:** Without more details, it is not possible to assess whether or not these proposals would simplify the law.
- **Deficit Reduction:** These proposals would not be expected to reduce budget deficits unless they would have so much of a positive economic growth impact that business' pre-tax income would increase quite substantially.
- **Economic Growth:** Yes, these proposals should contribute to economic growth.

For businesses operating outside the U.S. the plan calls for a territorial tax system, which generally would exclude foreign business income from U.S. tax. Also, the plan would impose a one-time tax on corporate earnings held overseas and on which U.S. tax has been deferred. The "one-time tax" rate is not specified.

- **Simplification:** For businesses operating multi-nationally, these proposals could be somewhat of a simplifier.
- **Deficit Reduction:** The first part of the proposal may not tend to reduce deficits, unless it stops corporate inversions and causes new businesses to be formed in the U.S. versus abroad.
- **Economic Growth:** The "one-time tax" may spur domestic economic growth.

We welcome discussing these proposals with you, but until "there's more meat on their bones," many questions will be unanswerable.

Doug Dean, *ddean@deandorton.com*

Kentucky Tangible Personal Property Tax Matter

The Kentucky Department of Revenue recently provided guidance regarding how businesses owning tangible personal property in Kentucky should report such property on their property tax returns. Specifically, the guidance addresses the *de minimis* safe harbor threshold contained in federal tangible asset regulations.

Under these regulations, businesses can elect annually to apply a *de minimis* safe harbor (provided certain conditions are met), which allows them to deduct amounts paid for property costing up to $5,000 (on a per invoice or per item basis). One such condition is that the business has an "applicable financial statement" (generally, an audited financial statement). Absent an "applicable financial statement," the threshold amount drops to $2,500. These provisions were meant to ease the compliance burden on businesses.

Kentucky's recent guidance provides that the state will comply with the federal rules for Kentucky income tax purposes. However, the guidance goes on to provide that the *de minimis* safe harbor rules are not applicable for property tax purposes. Their position is that all Kentucky property is taxable unless specifically exempted, and all Kentucky property not exempted is to be assessed at its fair cash value. Kentucky's recent guidance provides that all taxable Kentucky tangible personal property should be listed annually on the Tangible Personal Property Tax Return utilizing the appropriate schedule and class or economic life.

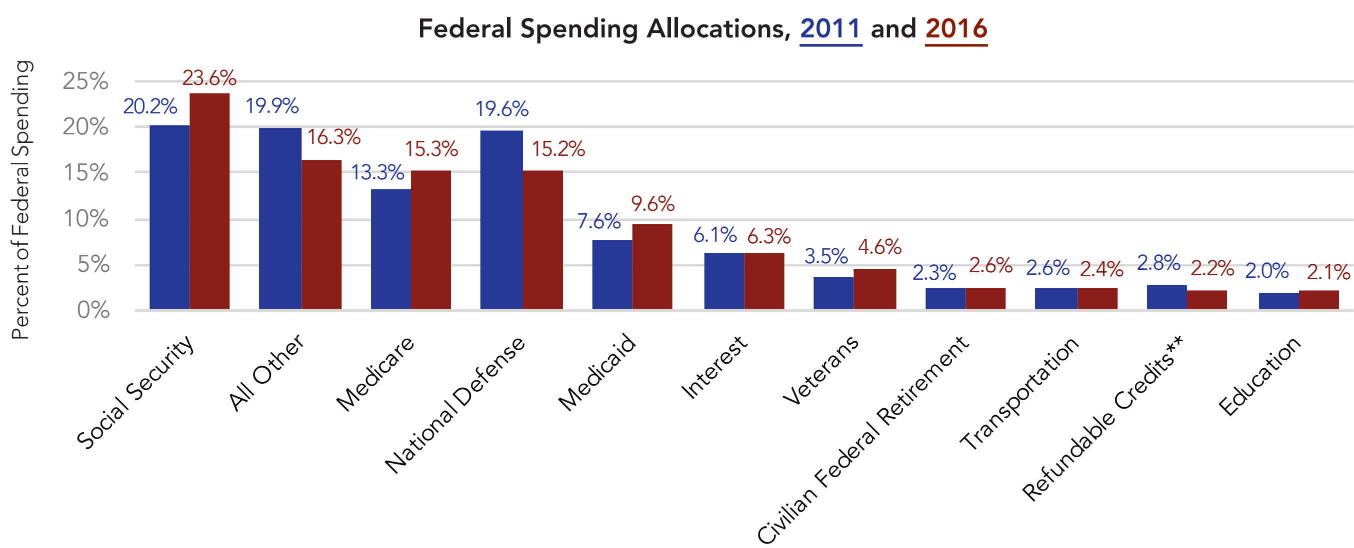
This guidance from Kentucky conflicts with the federal goal of minimizing the tax compliance burden. Often, the source of identifying tangible personal property is the business' depreciation schedules, but Kentucky's position means that this source no longer will be fully sufficient for property tax reporting.

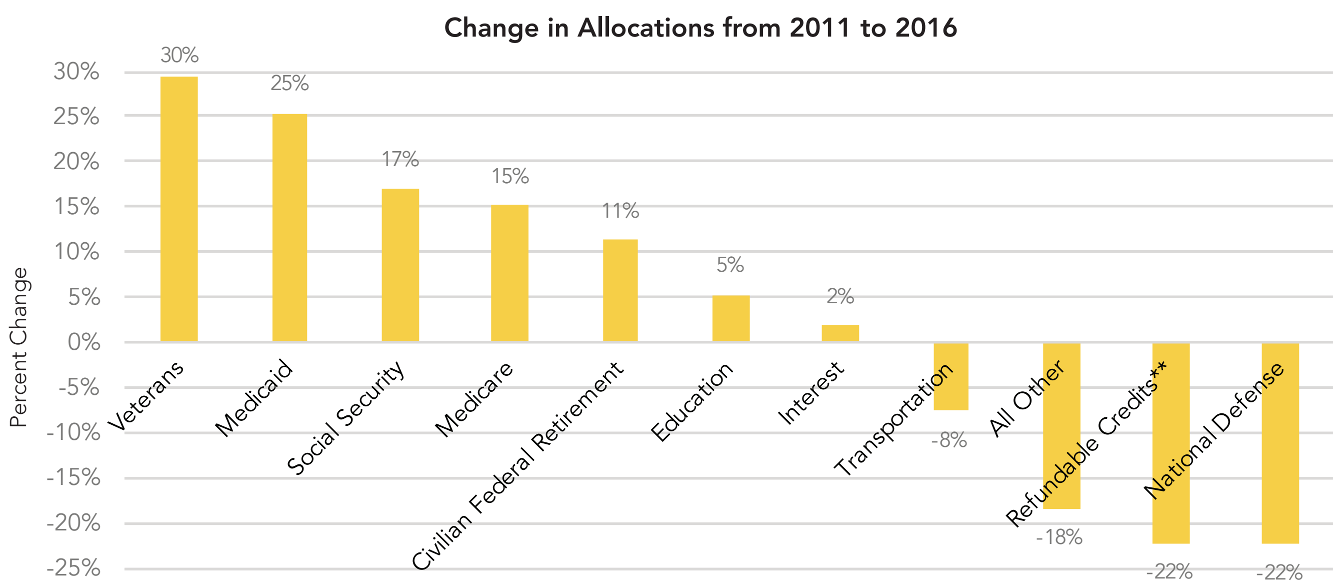
Businesses will need to develop a method of compiling and tracking capital additions information that is expensed for income tax purposes under the *de minimis* rules. Please contact us with questions.

Mike Harbold, *mharbold@deandorton.com*

Federal Government Spending: What's Increasing, What's Not

The Committee for a Responsible Federal Budget, a nonprofit group that monitors federal spending, broke down spending allocations in 2011 and 2016. The first graph below shows, in descending order (based on 2016 spending), the composition of federal spending in 2011 and 2016. The second graph shows the percentage change from 2011 to 2016 in the components of federal spending.





**Includes the American Opportunity Credit, Child Tax Credit, and Earned-Income Credit

Sources: Committee for a Responsible Federal Budget and *The Wall Street Journal*

IRS Scam Warning

The IRS recently issued a publication titled "How to know it's really the IRS calling or knocking on your door." In it, the IRS warns against criminals impersonating IRS officials — in person, over the telephone, or by email.

The IRS points out that its employees do not:

- Demand that you use a specific payment method, such as a prepaid debit card, gift card, or wire transfer. The IRS will not ask for your debit or credit card numbers over the phone.
- Demand that you pay taxes without the opportunity to question or appeal the amount they say you owe. Generally, the IRS will first mail you a bill if you owe any taxes. You should also be advised of your rights as a taxpayer.
- Threaten to bring in local police, immigration officers, or other law enforcement to have you arrested for not paying. The IRS also cannot revoke your driver's license, business licenses, or immigration status. Threats like these are common tactics scam artists use to trick victims into buying into their schemes.

Checks for payment of federal taxes (and related interest and penalties) are to be made payable to United States Treasury, not to any other payee.

These scams are real, not imagined, so we urge our clients to be alert to potential scams and to avoid enabling criminals to profit at their expense.

Home Is Where Your Pet Is

The CEO of Match.com, Greg Blatt, won his case in the New York Division of Tax Appeals earlier this year. New York claimed that Mr. Blatt owed New York income tax of over $400,000 for 2009 and 2010, because New York remained his domicile during those years.

Mr. Blatt lived in New York until he became CEO of Match.com, which is based in Dallas. He signed a one year lease for an apartment in Dallas in 2009, and his employment contract listed Dallas as his principal place of employment. He continued, though, to maintain a residence in New York. The Division of Taxation claimed his domicile was in New York, but the court disagreed, determining that his domicile had changed to Texas. The fact that Mr. Blatt had moved his dog from New York to Texas was considered to be a major factor in determining his domicile.

If you have changed or are considering a change in your residency for state tax purposes, where your pet resides is one of many relevant factors.

Matt Smith, *msmith@deandorton.com*

Tax Authorities Act to Reduce Fraudulent Refunds

For several years the popular press has reported increases of tax-related identity theft. The most common of these thefts occurs when a fraudster uses a stolen Social Security number to file a tax return and claims a refund to which he is not entitled.

The IRS implemented safeguards this year targeted mainly at people who prepare their own returns. These safeguards included changing log-on standards, requiring a 16-character code included on Form W-2, and requiring your 2015 AGI to complete the electronic filing process.

For 2016 tax returns, the Kentucky Department of Revenue implemented an identity confirmation quiz for selected filers. Notification of the requirement to complete the multiple choice quiz within 30 days is sent via the US Postal Service. Filers are allowed two attempts to successfully complete the quiz online or by telephone. Failure to pass the quiz on time results in having to submit additional documentation (government issued ID and proof of employer withholding) to continue the refund process.

Let's hope that these measures are effective in dealing with what has become a major problem costing millions of taxpayer dollars.

Elizabeth Woodward, *ewoodward@deandorton.com*

Recent Firm Accolades

Fourth Ranked Best Place to Work
For the thirteenth consecutive year, we have been named one of the "Best Places to Work in Kentucky" by the Kentucky Society for Human Resources Management State Council and the Kentucky Chamber of Commerce. We are one of 100 companies recognized for our commitment to focus, measure, and move their workplace environments toward excellence. This year, Dean Dorton ranked #4 overall in the Medium Companies category (150 to 499 employees), having ranked #10 in the Small Companies category last year. Dean Dorton also was recognized as one of only six companies which has been a Best Place to Work for all 13 years of the program and is a member of the Best Places to Work Hall of Fame!

Dean Dorton Named Top Firm to Watch
We were recently named to the "Beyond the Top 100: Firms to Watch" list by Accounting Today, a national publication. We were also listed a Top Firm in the Southeast.

TAX QUOTE

Q: Are we ever going to have a federal tax system that regular people can understand?

A: Our top political leaders have all voiced strong support for this idea.

Q: So you're saying it will never happen?

A: Right.

– Dave Barry
(from a compilation by Jeffrey L. Yablon, a tax attorney with Pillsbury Winthrop Shaw Pittman LLP in Washington)

People News

We welcome the following new team members:

Samantha Branum joined our Accounting and Financial Outsourcing group in Louisville. She has over five years of accounting and bookkeeping experience. Sam is working toward a Bachelor degree in Accounting at Sullivan University.

Julie Caudill joined our Accounting and Financial Outsourcing group in Lexington. She has over 20 years of accounting experience and earned her Bachelor degree in Business Administration from Morehead State University.

Steven Clark joined our Technology team in Lexington. He has about eight years of technology work experience. He earned an Associate degree from Big Sandy Community & Technical College.

Andrew Harris, a CPA, joined our Assurance Services group in Louisville, after working with a large regional accounting firm for about 1.5 years. He earned his Bachelor degree in Accounting from Asbury University and Master of Accountancy degree from the University of Kentucky.

Nixon Tarrant joined our Accounting and Financial Outsourcing group in Lexington. He earned his Bachelor degree in Accounting from Truman State University in Missouri while carrying on duties as an employee and an entrepreneur.

Dylan Tungate joined our Technology Consulting group in Louisville. Dylan earned an Associate degree in Business Information Technology and is working on his Bachelor degree in Business Administration from Campbellsville University.

Jason Whitaker joined our Technology Consulting group in Lexington. He has over 20 years of work experience in information technology. He comes to us from Transylvania University, where he last served as Vice President for Information Technology. Jason earned his Bachelor degree in Computer Science from Transylvania University and his Master degree in Computer Science from the University of Kentucky.

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People News, continued

We recognize the following activities and accomplishments of our team members:

Alex Goffner earned his CPA license.

Shawn Stevison joined the Surgery on Sunday – Louisville Board of Directors. She also spoke on "Leveraging Internal Audit to Improve Quality of Care Metrics" at the Kentucky Association of Health Care Facilities Quality Summit and the Health Care Compliance Association's Compliance Institute.

Simon Keemer participated in the Business First Construction Roundtable. He also has been selected to serve as Chair of the Kentucky Society of CPAs Governmental Accounting and Auditing Committee.

Paula Hanson, Simon Keemer, Jim Tencza, and **Gwen Tilton** each was recognized by Insider Louisville as one of the Top 100 Accounting Influencers in Louisville.

Jeff Ricketts joined the United Way of the Bluegrass Human Resources Committee.

David Bundy was named the Outstanding Alumnus of Murray State's Accounting Department.

Jim Tencza was named Chairman of the Resource Management Committee of Trinity High School in Louisville.