

FALL 2017

The Murky World of Tax Expenditures

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The term "tax expenditures" usually comes up when the topic is tax reform. We thought it would be informative (and perhaps even interesting!) to talk about what is meant by the term and what are the largest tax expenditures.

Tax expenditures have been officially defined as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." In shorter form, a tax expenditure has been defined as being a departure from the "normal tax code" that lowers a taxpayer's burden. The latter definition begs the question of what is a "normal tax code." Consider the following examples of how the U.S. Treasury Department and the Joint Committee on Taxation measure tax expenditures:

1. Are individual tax rates below the top rate included in the measure of tax expenditures?
2. Are caps on tax rates that apply to long-term capital gains included?

The answer to the former is "No" and to the latter is "Yes." It is not hard to see that the measurement of tax expenditures is far from an exact science, and the term "normal tax code" is subject to varying interpretations.

Largest Tax Expenditures

According to a study by the Federal Office of Management and Budget, these are the five largest individual (as contrasted with corporation) tax expenditures:

1. **The Exclusion of Employer Payments for Employee Health Insurance Premiums** (\$2.9 trillion projected tax expenditure over 2016-2025). Note that this projected amount considers just income taxes. The exclusion is projected to impact payroll taxes by another \$1.6 trillion over 10 years.

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TAX QUOTE

"Bad things happen to people who ignore IRS correspondence."

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

The Murky World of Tax Expenditures (continued)

2. **The Exclusion of Net Imputed Rental Income** (\$1.2 trillion). Most of us would not think of this one as a tax expenditure. For owner-occupied residences, no rent obviously is charged to the owner-occupant. The income, the benefit to the owner, is the value of the use of the residence. The absence of tax on this “imputed rent” is considered to be a tax expenditure.
3. **The Cap on Tax Rates for Capital Gains and Qualified Dividends** (\$1.1 trillion).
4. **Tax Deferral for Defined Contribution Employer Retirement Plans** (\$958 billion). This category covers 401(k) and similar tax deferred retirement plans. Tax deferrals under defined benefit plans are a separate category of tax expenditure. Note that these items defer tax; they don’t represent permanent tax reductions.
5. **Deductions of Home Mortgage Interest** (\$895 billion). Note that housing-related tax expenditures — this item, the imputed rental income item, and the exclusion of tax on certain gains from selling principal residences combined — amount to \$2.7 trillion.

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AICPA Announces New System and Organization Controls Report for Cybersecurity

While cybersecurity often has been a concern only for the IT department, it has become a high priority for all levels of organizations’ management, including board oversight. The American Institute of CPAs (AICPA), recognizing the growing need for key business leaders to assess their organization’s ability to detect, respond to, mitigate, and recover from system breaches or security threats, has created a new System and Organization Controls (SOC) reporting program for cybersecurity. CPA firms now have a new framework to guide engagements for assessing an organization’s enterprise-wide cybersecurity risk management program.

For many years, CPA firms have been the trusted source to evaluate certain critical services performed by entities for other organizations. The resulting reports were known as SAS 70, SOC 1, and SOC 2 reports. Responding to business needs, the AICPA now provides standards to guide engagements for qualified CPA firms to offer clients who want independent cybersecurity assessments. The new framework will provide a more structured and consistent methodology for performing and reporting on the results of these engagements.

If your organization already is using an accepted framework for managing cyber risks like COSO, NIST, ISO, ITIL, and others, you need not start over, as the new SOC engagement framework provides flexibility.

Business leaders understand that cybersecurity assessment is not a one-time project. Continual monitoring is necessary, as new security threats can arise at any time.

To learn more about how Dean Dorton can help your organization assess its position on cybersecurity risk management, including user awareness training, contact Jason Miller, Director of Business Consulting Services, at jmiller@ddaftech.com or 859-425-7626.

Firm News

Dean Dorton Acquires MetroMedical Solutions, LLC

Dean Dorton has expanded its healthcare services by acquiring MetroMedical Solutions, LLC, a physician billing and credentialing company located in Louisville. The new physician billing and credentialing services were combined with Dean Dorton's existing healthcare consulting practice and branded as Dean Dorton Healthcare Solutions.

Inside Public Accounting Top 200

Dean Dorton has once again been named an IPA Top 200 firm, based on U.S. net revenue, by INSIDE Public Accounting.

Thoroughbred Survey Results

The 2017 Kentucky Thoroughbred Horse Farm Operations Survey results are available. This survey focuses on operational matters for Thoroughbred farms in the Commonwealth. Visit deandorton.com/publications to view the results.

People News

We welcome the following new team members:

Jon Barclay, a CPA, returned to Dean Dorton, joining our Assurance Services team in Louisville. He has eight years of public and private accounting experience. Jon earned his Bachelor degree in Business from Murray State University, where he served as president of Beta Alpha Psi, an honorary accounting student organization.

Justin Harris joined our Healthcare Consulting team in Louisville. He has two years of experience in the healthcare industry. Justin earned his Bachelor degree in Political Science from Georgetown College, as well as an MBA and a Master degree in Health Administration from The University of Alabama at Birmingham.

Bert Layne, a CPA, Certified Management Accountant, Certified Internal Auditor, and Certified Financial Planner, joined our Tax team in Lexington. He has over 30 years of public and private accounting and tax experience. He has returned to Kentucky after living and working in Florida the last couple of years. Bert earned his Bachelor degree in Accounting from Hillsdale College in Michigan and his Master degree in Accounting from the University of Kentucky.

Shelby Clements, a CPA who is Accredited in Business Valuation, joined our Business Valuation team in Louisville. He has over three years of experience in public and private industry accounting and valuation positions. Shelby holds Bachelor degrees in Finance and Accounting from the University of Kentucky.

Ashley Legace, a CPA, joined our Assurance Services group. She had four years of public accounting experience in Connecticut and Texas before relocating to Louisville. Ashley earned Bachelor degrees in Accounting and Economics from the University of Connecticut.

Matt Nyquist joined our Technology team in Lexington. He has five years of IT work experience. Matt earned his Bachelor degree in History from the University of Michigan, where he held IT support positions while on campus.

Abby Raetz joined our Technology team in Lexington. She earned her Bachelor degree in Media Communications from Asbury University, where she was senior class president.

Brittany Rebalsky, a CPA, joined our Tax team in Louisville. She has over four years of accounting and tax experience. Brittany earned her Bachelor degree in Accounting from Transylvania University.

David Sorrell joined our Lexington office as an Associate Director in Accounting & Financial Outsourcing, with an equine industry focus. Dave has served in financial management and accounting roles with Thoroughbred horse farms for over 25 years. He earned his Bachelor degree in Accounting and Business Management from Saint Ambrose University in Davenport, Iowa.

People News, continued

Victoria Spencer joined our Tax team in Louisville. She has over two years of public accounting experience. Victoria earned Bachelor degrees in Accountancy and Spanish from the University of Louisville.

Felicia Ingram and **Linda McCue** joined Dean Dorton Healthcare Solutions in medical billing roles. Felicia is pursuing a degree in Business and Health Management from Northwood University in Louisville. Linda earned a degree in medical billing and coding from Daymar College in Owensboro.

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

Chad Luttrell successfully completed the CPA exam.

Elizabeth Woodward was elected Secretary-Treasurer of the Kentucky Society of CPAs.

Jason Whitaker achieved the Aruba Certified Mobility Associate Certification from Aruba Networks. Jason also starred in Lexington Children's Theatre's summer production of Beauty and the Beast.

Bryan Bulkley was elected Treasurer of the Kentucky Court Appointed Special Advocates Network.

Porter Roberts was acknowledged as the Camp Horsin' Around's Camp Out 2017 Honoree.

Lance Mann received the 2017 Clara Barton Volunteer Award from the American Red Cross.

Elizabeth Leatherman was selected to serve in the Leadership Lexington 2017-2018 class.

Carla Shields was elected Treasurer of Actors Theatre Associates.