

SPRING 2019

## 2018 Tax Return Pointers and Reminders

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Federal and most state (including Kentucky) individual income tax returns for 2018 are **due to be filed** by Monday, April 15, 2019.

Individuals who need additional time to file 2018 income tax returns may file for an **automatic extension** of time to file until October 15, 2019. The extension of time to file is not an extension of time to pay tax due. Failure to pay tax due shown on your return is subject to interest and to a 0.5% per month failure-to-pay penalty. You should make a good-faith effort to estimate the amount of tax due and report that amount on your extension form. Failure to do so may invalidate your extension and result in imposition of the failure-to-file penalty—a steep 5% per month of the balance due. You can underestimate the tax by up to 10% on the extension form without incurring penalties, but interest still applies.

As you're compiling your 2018 tax information, give some thought to what information you would need **if your return is selected for audit** and how you would access that information. Most people are aware that expense documentation is important, but many do not realize that they should be prepared to identify and substantiate every deposit into their bank accounts. If you cannot demonstrate that a deposit was a gift, reimbursement, or other nontaxable payment, the IRS may consider it to be taxable income.

While recordkeeping itself is essential, every person should also **consider the format of those records**. Many of us rely upon online calendars and financial records stored electronically that may simply not be available when needed. The information may be on the hard drive of a computer that "died." It may be online with your bank but only available for a year or so. It may be in your Outlook calendar at your former employer or that of your current employer, who may retain such information for only a limited duration. Or it may be in a program that is now out of date and inaccessible. You need to think proactively about how you will retrieve that information, if needed, from electronic information sources.

Remember that the **federal standard deduction** has almost doubled for 2018 (up to \$12,000 for a single filer and \$24,000 for married filing jointly). Some common itemized deductions are taxes paid, medical expenses (to the extent they exceed a threshold), certain interest paid, and gifts to charity—all of which have limitations. It is more beneficial to claim the standard deduction if all of these items together don't reach the threshold. However, many people will still benefit from itemizing deductions on their state returns, though Kentucky now limits itemized deductions primarily to home mortgage interest and charitable contributions.

Substantiating records are required for charitable donations of any amount to be deductible on your tax return, but **charitable gifts of \$250 or more** also require a timely written gift acknowledgment containing certain information. The charitable organization's letter must state the gift's date and amount and either (1) affirm that no goods or services were provided in connection with the gift, or (2) if such goods or services were provided, identify what they were and their value, and include a statement that the amount deductible is limited to the excess of the amount given over the value received. The deduction also is contingent on the contributor having the acknowledgement letter by the earlier of the filing date or due date (including an extension) of the return.

**IRA and HSA contributions**, if any, for 2018 must be made by April 15, 2019.

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## 2018 Tax Return Pointers and Reminders (continued)

An impact of globalization is a greater incidence of U.S. persons having **financial accounts or owning other property outside the U.S.** Additional reporting requirements are imposed on certain owners of such assets. These reporting requirements may apply if:

- You have a beneficial interest in or signature authority over a foreign bank or investment account.
- You own an interest in a foreign corporation, partnership, or other business entity (not held in an investment account), a note, or other receivable due from a foreign borrower, or any other interest in any foreign financial asset.
- You have an interest in a foreign trust or estate, have ever created a foreign trust, or received a gift or bequest from a foreign person during the year.

If you pay no or minimal state income tax, please note that you can choose to **deduct state sales tax** instead of state income tax as an itemized deduction. Consider whether you made any large purchases, such as vehicles, during 2018.

The Kentucky individual income tax return includes a line to report **use tax** on purchases from out-of-state retailers. If you purchased items online or from a catalog and did not pay sales tax on those items, you would report the use tax on this line. Also, if you purchase taxable property out-of-state, but use it in Kentucky, then Kentucky use tax will apply to the excess, if any, of Kentucky's 6% tax rate over the rate paid in the state where the item was purchased. For example, if you purchased a boat out of state, paid 5% sales tax, and moved the boat into Kentucky (where the tax is 6%), you would owe Kentucky the 1% difference in tax.

You can check the status of your **2018 tax refund**, if you are due one, at [www.irs.gov/refunds](http://www.irs.gov/refunds). You will need your tax identification number, filing status, and refund amount from your return. For Kentucky refunds, visit [www.refund.ky.gov](http://www.refund.ky.gov). Please note that due to rising rates of identity theft, refunds may be delayed.

Matthew Smith, [msmith@deandorton.com](mailto:msmith@deandorton.com)  
Jon Tennent, [jtennent@deandorton.com](mailto:jtennent@deandorton.com)

## Tax Cuts and Jobs Act Further Limits Deductions for Meals and Entertainment Expenses

Among the federal government "revenue raisers" in the Tax Cuts and Jobs Act were provisions which added additional nondeductibility for certain business meals and entertainment expenses. The changes are effective for 2018.

Before 2018, the cost of entertaining a person, such as a client, customer, consultant, or supplier, for legitimate business purposes could be 50% deductible. Now, expenses for business entertaining at such events as theater or sporting venues are fully nondeductible.

Further, some meals that were 100% deductible are now only 50% deductible. These include meals classified as de minimis fringe items (such as coffee, water, snacks, or staff meeting meals provided by the employer on the premises) and meals provided **for the convenience of the employer**, which include meals provided at a company dining room or meals for employees working overtime. These expenses are scheduled to become fully nondeductible after 2025.

In contrast, meals and recreation expenses **for the primary benefit of employees** still are fully deductible. These expenses include employee holiday parties, company picnics, and employee recognition or award events.

For efficiency purposes, businesses were advised to have separate accounts in their accounting systems to separate 50% deductible and 100% deductible meals and entertainment. We now recommend adding appropriate accounts for 100% nondeductible expenses.

Please contact your tax professional if you want assistance in properly categorizing your expenses.

Matthew Smith, [msmith@deandorton.com](mailto:msmith@deandorton.com)

## Kentucky's New Inventory Tax Credit

For Kentucky state and local property tax on business inventories, new Kentucky tax law provides a state income tax credit. The credit, to the extent allowable, applies beginning with 2018 taxes and increases according to this schedule:

Tax Year	Credit for Property Tax Paid
2018	25%
2019	50%
2020	75%
2021 and after	100%

The inventory tax credit is available to C-corporations, pass-through entities (and their owners), and individuals. Notable limitations regarding the credit include:

- It can only reduce tax on income from the business.
- It cannot offset the \$175 minimum LLET.
- It only is available if the property tax is timely paid.
- It is not refundable, and any unused amount does not carry over.
- It is not transferable.
- It can only be used after other credits are applied.

The Kentucky Department of Revenue's website has a recently-released inventory tax credit calculator: <https://revenue.ky.gov/Business/Pages/Inventory-Tax-Credit-Calculator.aspx>.

Jon Tennent, [jtennent@deandorton.com](mailto:jtennent@deandorton.com)

## Jury Finds Overstock.com Guilty of \$3 Million Escheat Holdback

A Delaware jury took little more than an hour to find Overstock.com guilty of concealing from the State of Delaware nearly \$3 million in abandoned gift card balances. While this is a large case involving a huge retailer, the case presents a good opportunity to review the responsibilities of Kentucky businesses regarding funds that go unclaimed.

You may be familiar with the concept of needing to "escheat" certain monies to the state. "Unclaimed funds" are the monies to be escheated, i.e., sent to the state. Common types of unclaimed funds include credit balances, uncashed checks, unclaimed wages, dividends, savings and checking accounts, gift certificates, and money orders. After a specific amount of time, referred to as the "dormancy period," a Kentucky business, called a "holder," must turn over its unclaimed funds to the Kentucky State Treasurer. Some states have begun auditing businesses to determine whether all unclaimed funds have been submitted. To avoid a potentially large liability at the end of an audit, businesses should file an annual Holder's Report and remit any unclaimed funds.

Businesses with two or more owners are required by Kentucky law to file a Holder's Report and remit any unclaimed funds on November 1 of each year. Prior to filing the report, a holder must determine whether it has funds that have been held for the duration of the dormancy period, generally, three years. Between July 1 and September 1, the holder must notify the property's owner that the owner may claim the property, and that if the owner does not claim it, the property will be forwarded to the Kentucky State Treasurer. Funds that are not claimed are reported on the Holder Report and remitted to the Treasurer. Visit the Kentucky State Treasurer's website ([treasury.ky.gov](http://treasury.ky.gov)) for an excellent booklet that will guide you through the unclaimed reporting process step-by-step.

Erica Horn, [ehorn@deandorton.com](mailto:ehorn@deandorton.com)

## Dean Dorton Grows in Louisville and North Carolina

### Massey Consulting

We expanded our presence outside Kentucky by merging with Massey Consulting, a full-service consulting firm with six team members specializing in accounting software products and services, in Raleigh, North Carolina. Massey Consulting joined our technology consulting practice, expanding our accounting software expertise, implementations, and integrations. We welcome the following Massey Consulting staff to the Dean Dorton team:

- **Philip Massey**, a CPA and President and founder of Massey Consulting. For about 20 years, Philip has focused his work on accounting software systems. He has a Bachelor degree from the University of North Carolina at Chapel Hill.
- **Jim Stubanas**, who has worked with Massey Consulting since 2012. Jim graduated from the University of Pittsburgh.
- **Ian D'Amelio**, who has worked with Massey Consulting as a Sage Intacct consultant and developer. Ian earned his Bachelor degree from Belmont Abbey College in North Carolina.
- **David Dery**, who has 15 years of accounting experience. David has Bachelor degrees from St. Leo University in Florida and a Master degree from Auburn University.
- **Jelena Subasic**, who joins our marketing team. Jelena earned Bachelor degrees from the University of North Carolina at Wilmington.
- **Kimberly Denton**, who also will focus on marketing and business development. Kim holds a Bachelor degree from East Carolina University.

### Buetow, LeMastus, and Dick, PLLC

We expanded our presence in Kentucky by acquiring Buetow, LeMastus, and Dick, PLLC (BLD), a longstanding CPA and advisory firm with 15 team members located in Louisville. BLD's talented professionals bolster our firm's capabilities in tax and assurance services. We welcome the following BLD staff to the Dean Dorton team:

- **Tom Buetow**, a CPA and founding BLD member with over 40 years of public accounting experience, mainly in tax services, including 23 years with an international firm. Tom earned his Bachelor degrees from Western Michigan University.
- **David Dick**, a CPA and another founding BLD member with 40 years of public accounting experience in tax services, including 20 years with an international firm. David earned his Bachelor degree at Jacksonville University.
- **Kristen Taylor**, a CPA with over 14 years of public accounting experience, who works in assurance services. Kristen earned Bachelor and Master degrees from Bellarmine University.
- **Susan Howard**, a CPA with over 30 years of public accounting experience in tax services. She earned a Bachelor degree from Murray State University and her law degree from the University of Louisville.
- **Greta Gudmundsson**, a CPA with over 20 years of public accounting experience in tax services. Greta earned her Bachelor degrees from St. Olaf College in Minnesota.
- **Betty Howell**, a CPA with over 30 years of public accounting experience, mainly in tax services. Betty earned her Bachelor degree from Eastern Kentucky University.
- **Tiffany Hughes**, who has over 12 years of public accounting experience, mainly in tax services. She earned Bachelor and Master degrees from Morehead State University.
- **Murphy Frankhouser**, who joins our Tax Services group. Murphy earned his Bachelor degree from Presbyterian College in South Carolina his Master degree from Clemson University.
- **Stephanie Hankins**, a CPA who joins our Assurance Services group. She holds Bachelor and Master degrees from Trinity University in Texas.
- **Austen Dockens**, a CPA who joins our Assurance Services group. Austen earned his Bachelor degree from Northwestern State University in Louisiana.
- **Joanna Dennis**, a CPA who joins our Assurance Services group. Joanna earned her Bachelor degree from Hillsdale College in Michigan and a Certificate of Accountancy from Bellarmine University.
- **Jim Head**, who has worked in public accounting for 60 years! Jim is a Bellarmine University graduate.
- **Evan Dosch, Linda Schreck, and Cathy Sharman** have become valued members of our firm administration team.

## More on Cybersecurity

Business owners, managers, and IT professionals attended a two-day Cybersecurity Conference organized by the Kentucky Chamber of Commerce in January. Those attending shared a strong interest in learning more about cybersecurity and privacy amid an ever-growing concern about cyber threats and their impact on organizations of all sizes.

Here are some of the takeaways from the conference that organizations in all industries should be doing:

- Perform regular security assessments to understand your vulnerabilities, and engage a third party to do an Adversarial Threat Simulation (or Penetration Testing) to gauge the effectiveness of your controls against a realistic simulated attack.
- Make sure you have controls in place to protect your organizations against phishing and ransomware attacks, as these remain common approaches to launch cyber attacks against organizations. Implement controls, such as advanced email protection, endpoint detection and response technology, tiered administrative privileges, and Local Administrator Password Solution (LAPS), to mitigate these risks.
- If you are using Office 365 or are planning to use it, make sure you understand the security best practices (<http://bit.ly/2EpEKPC>), including multifactor authentication, logging monitoring, and risk-based access policies.

- Have a Cyber Incident Response plan ready with specific playbooks that are relevant to the threats your organization is facing.
- Discuss your cyber risks at board and management meetings on a regular basis, as you would do with any serious business risks.

Dean Dorton was an event sponsor, and several of our team members presented:

- Jason Miller, Director of Business Consulting Services, moderated a panel on Incident Response.
- Gui Cozzi, Cybersecurity Practice Lead, co-presented the Anatomy of an Attack and was part of an expert panel.
- Kevin Cornwell, Associate Director of Technology Consulting, presented on key IT policies and their impact on cybersecurity.

Dean Dorton has a strong cybersecurity practice and is working with many organizations to identify, manage, and remediate their cybersecurity risks. Visit [deandortontech.com/cybersecurity-services](http://deandortontech.com/cybersecurity-services) to learn more, or contact Gui Cozzi, Cybersecurity Practice Lead, at [gcozzi@ddaftech.com](mailto:gcozzi@ddaftech.com) or 859.425.7649.

## Firm Recognition, Events, and Publications

### 2019 Best Places to Work

For the fifteenth 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. This competition, which is based on confidential survey results, is a multi-year initiative designed to motivate companies in the Commonwealth to improve their workplace environments. We are pleased to be one of only three companies on the list every year of the program’s existence.

### Higher Education: Current Issues and Trends

Our Higher Education Industry Team is holding its fifth annual Higher Education: Current Issues and Trends program on March 19 at Gheens Foundation Lodge in Louisville. The program, which will provide up to six hours of complimentary CPE, focuses on regulatory, financial management, and technology issues. To register, visit [deandorton.com/higher-education-registration](http://deandorton.com/higher-education-registration).

### Thoroughbred Business Year in Review

Our Equine Industry Team’s annual Thoroughbred Business Year in Review for 2018 compares broodmare, yearling, and weanling sale prices, stud fees, sales proceeds, cost of ownership, and more to data from previous years, analyzing industry trends. Visit [deandorton.com/publications](http://deandorton.com/publications) to access this publication online. If you would like a hard copy, please email Shannon Abbott at [sabbott@deandorton.com](mailto:sabbott@deandorton.com).

## Check Your Connections: Three Things You Might Not Know About Nexus

Most multi-state businesses are familiar with the concept of “nexus”—the minimum connection necessary before a state can exercise its taxing authority over a taxpayer. Traditionally, nexus was synonymous with “people” and “property,” that is, having the business’ employees or property physically in the state. However, as the economy has evolved, so too have state nexus laws. Many states have adopted economic nexus standards for both income and sales tax, subjecting a business to tax even when the business lacks any type of physical presence in the state. Here are three things you may not know about nexus:

- 1. For the most part, physical presence is a thing of the past.** Last summer, the United States Supreme Court’s decision in *South Dakota v. Wayfair* ushered in a new era for sales tax nexus. The Court discarded the “physical presence” standard that had been the law since 1967. In the wake of *Wayfair*, more than 30 states and the District of Columbia now have economic nexus laws in place for sales tax. This means if a business exceeds a certain dollar threshold in sales or transactions in a state, the business could be responsible for collecting and remitting that state’s sales tax. Nearly all states also employ an economic nexus standard in the income tax context. The bottom line: nearly every business that makes sales into other states needs to track those sales and re-evaluate its sales and income tax obligations.
- 2. You could have property in a state without knowing it.** Attention all Amazon FBA sellers—you could have property in a state and not know it. Through the popular “Fulfillment by Amazon” program, Amazon sellers store their inventory in Amazon fulfillment centers across the country. When a customer places an order, Amazon then packs and ships the product on behalf of the seller. In most states, the presence of property in the state (even temporarily) creates nexus for income and sales tax. Thus, the FBA program can have the unintended effect of creating nexus for sellers in states where their inventory is stored, which likely will differ from the state to which the seller originally sent its inventory to Amazon.
- 3. Independent contractors are people, too.** Finally, state laws are very broad when it comes to the definition of “people.” Generally, any type of representative, including sales representatives and independent contractors, in the state on behalf of the business could create nexus. In an age where many employees work remotely and independent contractors provide services traditionally performed by employees, it can be difficult for a business to keep track of all its “people.” However, tracking this information is necessary for a business to comply with its state tax obligations.

Keeping up with state tax nexus laws is no easy feat. For further information or assistance, please contact your tax advisor.

Maddie Schueler, [mschueler@deandorton.com](mailto:mschueler@deandorton.com)

## 2019 Deduction Rates for Automobile Use

The **standard mileage rate** for business travel is \$0.58 per mile in 2019 (up from \$0.545 in 2018). For medical or moving use, this rate is now \$0.20 per mile, and for charitable use, it remains \$0.14 per mile.

## Charitable Donation Tool

Have you ever been inclined to make a charitable donation, but you’re not sure the intended donee is a qualified charitable organization? If this happens, you may want to go to *Tax Exempt Organization Search* on [www.irs.gov](http://www.irs.gov). At this site, you can confirm an organization is tax exempt and eligible for receive tax-deductible charitable contributions. You also can learn if the organization has had its tax-exempt status revoked.

Note that this tool does not list certain organizations that may be eligible to receive tax-deductible contributions, such as churches and governmental entities. Organizations are listed under their legal name or a “doing business as” name on file with the IRS. Other common or popular names are not listed.

## People News

### *We welcome the following new team members:*

**Wes Akers**, a CPA, joined our Tax Services team in Lexington. He has seven years of accounting experience working in public accounting, private industry, and state government. Wes earned his Bachelor and Master degrees in Business Administration from Morehead State University.

**Kseniya Buck**, J.D., joined our Tax Services team in Louisville. Her legal experience includes consulting in the areas of commercial transactions, mergers and acquisitions, tax, real estate, estate planning for individuals, and retirement plans administration. Kseniya earned her Master degree in Business Administration from Russian University of Economics in Moscow and her Juris Doctor degree and Accounting Certificate from the University of Louisville.

**Kevin Graham**, a CPA, joined our Assurance Services team in Louisville. He has over four years of audit experience. Kevin earned his Bachelor degrees in Accounting and Finance from the University of Louisville.

**Angeliki Kourelis**, a CPA originally from Athens, Greece, joined our Tax Services team in Louisville. Her work experience includes four seasons of tax compliance services, three years of teaching economics at the University of Louisville, two years as a bank examiner, and over two years as an economist with the International Monetary Fund. Angeliki earned Bachelor degrees in Economics and Chemistry and a Ph.D. in Economics from the University of Pennsylvania and a Certificate of Accounting from the University of Louisville.

**Jim Norton**, a CPA, joined our Technology team in Raleigh, North Carolina. He has eight years of public and private accounting and financial management experience and is proficient in many financial management software systems. Jim earned his Bachelor degree in Business Administration from Southern Connecticut State University.

**Meagan Parker** joined our Healthcare Consulting team in Lexington. She has 15 years of experience in healthcare management and administration. Meagan earned her Bachelor degree in Medical Practice Management and Healthcare

Administration from Eastern Kentucky University and Master degree in Health Administration from the University of Kentucky.

**Roberto Rivera** joined our Technology team in Louisville. He most recently served as a security analyst at consulting firms in Louisville. Roberto earned his Bachelor degree in Accounting from the University of Kentucky.

**Missy Schmitt** joined our Healthcare Solutions team in Louisville. She has 20 years of experience in various accounting, medical coding and claims, and billing roles. Missy earned her Medical Coding Specialist Diploma from Spencerian College.

**Becky Turnbull** joined our Human Resources team in Louisville. She has more than 12 years of payroll and benefits experience and is pursuing her SHRM-CP certification by the Society for Human Resources Management.

### *We welcome the following team members who are starting their professional accounting careers with us:*

**Curtis Applebaum** earned his Bachelor degree in Accounting from the University of Louisville; **Isaac Draper** earned his Bachelor degrees in Accounting and Finance from the University of Kentucky; **Amy Heckenberger** earned her Bachelor degrees in Business and Accounting/Finance from Murray State University; **Julianne Kramer** (a past intern with us) earned her Bachelor degree in Business with a concentration in Accounting from Indiana University Southeast; **Allison Ratliff** earned her Bachelor degree in Accounting from Georgetown College and Master degree in Accounting from the University of Kentucky; **Molly Rodgers** earned her Bachelor degree in Accounting from Northern Kentucky University and Master degree in Accountancy from the University of Louisville; and **Jessica Rounce** earned her Bachelor degrees in Accounting and Spanish from Georgetown College.

Interns working with us this season are University of Kentucky students **Dylan Boone**, **Samuel Burkhart**, **Aria Duan**, **Bruce Ly**, **Ben Nichols**, **Nick Strakhov**, and **Samson Yang**; University of Louisville students **David Karem** and **Holden Kramer**; and Eastern Kentucky University student **Emilie Overby**.

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### Go digital!

If you're interested in receiving our quarterly newsletters digitally via email, please contact Carrie Asalon at:  
[casalon@deandorton.com](mailto:casalon@deandorton.com)

## People News (continued)

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

Congratulations to **Emily Anderson, Michael Dilly, Katie Durham, Molly Rodgers,** and **Matthew Schwartz** for successfully completing the CPA exam.

Congratulations to **Joey George, Jon Tennent,** and **Dome Vongvises** for receiving their CPA licenses.

**Philip Blakely** successfully completed the Certified Internal Auditors exam and earned his CIA designation.

**Erica Horn** presented "Behind the Brews: Taxes? What Taxes?" at the Kentucky Guild of Brewers' Brewer Bootcamp. Also, Erica discussed state tax changes in a televised interview on television channel LEX18's "Hey Kentucky."

**Kevin Cornwell** presented on IT policies and cybersecurity at the Kentucky Chamber Cybersecurity Conference.

**Gui Cozzi** presented on the anatomy of a cybersecurity attack and participated on an expert panel at the Kentucky Chamber of Commerce's Cyber Security Conference.

**Simon Keemer** and **Ryan Walker** conducted Dean Dorton's Revenue Recognition Roundtable for accounting and financial professionals in Louisville.

**Nick Lynch** provided fraud prevention and detection training to a Lexington-based bank's annual leadership class.

**Joe Daugherty** joined the Lexington Humane Society Board of Directors.

**Carrie Asalon** joined the High Street YMCA Board of Directors.

**Jelena Subasic** earned her Social Media Marketing Certification from Hootsuite Academy.

**David Richard** joined the CHI Saint Joseph Health System Audit Committee.

**Laban Miller** joined the Common Good Community Development Corporation Board of Directors, serving as treasurer.

**Danielle Adair, Allison Carter, Gui Cozzi, Erica Horn, Simon Keemer, Bill Kohm, Bert Layne, Elizabeth Leatherman, Mike McCreary, Jason Miller, David Richard, Maddie Schueler, Jim Tencza, Ryan Walker,** and **Elizabeth Woodward** presented at Dean Dorton's annual Accounting & Ethics Updates in Lexington and Owensboro.