DEANDORTON

NEWSLETTER

FALL 2019

Inside

New Logo

As you can see, we have adopted a new logo design. We hope you like its look.

Lexington Office Relocation

We are planning to move our Lexington office to 250 West Main Street (the Lexington Financial Center, also known as the "Big Blue Building") during November.

Our quarterly newsletter is switching to a new digital format! If you would like to receive our quarterly publication in this new multi-media digital format, please visit:

www.deandorton.com/magazine

This is the last edition of our printed/mailed newsletter.

Health Reimbursement Arrangements Offer Greater Flexibility to Employers

Beginning January 1, 2020, employers will have the option of implementing health reimbursement arrangements, or HRAs, as an alternative to traditional group health plans. HRAs are health plans employers can use to reimburse employees for medical expenses.

HRAs are funded solely by employer contributions and can be used to reimburse employees (up to a certain plan-designated dollar amount for a coverage period) for premiums they pay to individual health insurance plans, as well as other out-of-pocket medical expenses. Employer reimbursements are excludable from employees' income and wages for federal income and employment tax purposes. Thus, HRAs allow employees to select their own individual policies while maintaining the tax advantages of traditional group health plans. An employee must enroll in individual health insurance (or Medicare) for each month the employee, or the employee's family member, is covered by the HRA. Depending on the terms of the plan, amounts remaining in the HRA at the end of the year may be used to reimburse medical expenses incurred in later years.

Employers that offer HRAs must offer them on the same terms to all individuals within a class of employees; however, they can offer HRAs to certain classes of employees and traditional group health plans to other classes. In general, employers cannot offer HRAs to any employees to whom they offer traditional group health plans. The regulations create a limited exception to this rule in the form of an "Excepted Benefit HRA," which can be offered in addition to a traditional group health plan. Excepted Benefit HRAs allow employers to finance additional medical care, such as the cost of copays or deductibles, even if the employee does not enroll in the group health plan. Certain restrictions, including annual contribution limits, apply to Excepted Benefit HRAs.

Small and mid-sized employers for whom traditional group health plans can be cost-prohibitive are expected to be the biggest users of HRAs. However, employers of all sizes may offer HRAs to their employees. Employers that wish to begin offering HRAs to employees on January 1, 2020 must take certain actions before then, including providing notice to eligible employees. Unless they are covered by Medicare, employees seeking to participate in an HRA with a start date of January 1, 2020 must enroll in individual health insurance during the 2019 open enrollment period (i.e., November 1, 2019 through December 15, 2019).

For more information on HRAs and their requirements, please contact your Dean Dorton advisor.

Maddie Schueler, *mschueler@deandorton.com*

Real Estate Property Tax in Kentucky: The Basics

A significant tax for many individual owners is the tax on their real estate. This tax bill normally is received in the fall. Some might wonder: How are these tax dollars used? How is the value of my property determined? And, what is my tax rate?

Valuation is handled by a locally elected official known as the property valuation administrator, or PVA. Every four years, PVAs are required to re-assess the market value of each piece of property in their county. If the value of your property has changed since its last assessment, the PVA must send you a notification in the mail with the opportunity for you to appeal. Appeals dates are set by the PVA and generally are in May.

The tax rate applied to your property is not a single rate; instead, it is composed of smaller rates that are set by different governmental entities, including the state, county, city, school district, and other special purpose governmental entities. Subject to statutory limits, each entity has control over setting its own rate. Fayette County, for example, generally has eight different taxing entities that assess some level of tax that may go into your property tax bill:

- School (63%) – Property taxes provide the primary source of funding for public schools.
- State (10%) – Augments the general fund.
- County (6%) – Augments the general fund.
- City Services (14%) – Such as police and fire protection, refuse and garbage collection, street lights, and street cleaning. Note that this portion of your bill is based on the district in which you live and what services are available to you there.
- Lextran (5%) – Funds public transportation in Fayette County (largely the bus system).
- Health (2%) – Addresses public health issues (such as disease outbreaks), runs local clinics (such as flu immunization), assists with public education (e.g., on tobacco issues) or support (e.g., school nurses).
- Extension Services (0.3%) – Provides assistance and expertise with such things as local crops, pest management, gardening, and landscaping.
- Soil & Water Conservation (0.05%) – Promotes conservation practices and education.

Let’s take a comprehensive Fayette County example: Your home has been valued by the local PVA at $200,000. You receive a property tax bill in October listing eight local entities whose tax rates together amount to $1.28 of tax per $100 of value (1.28%). This means you owe the county sheriff $2,560, to be distributed to the various entities listed on your bill. If you pay the bill before November, you are entitled to a 2% discount, amounting to $51 dollars off your bill. Penalties apply for paying late. In this case, waiting until January would cost you an extra $128 and waiting until the spring would increase the penalty to $538.

As you can see, property taxes contribute mostly to local government and local services. Data published by the Tax Foundation shows the most-recent available effective tax rate on owner-occupied homes to be 1.13% nationally and 0.80% in Kentucky. Fayette County's overall rate across its seven districts is 1.25% and the range by district is 1.10% to 1.28%.

Jon Tennent, *jtennent@deandorton.com*

Kentucky Unclaimed Property and You

We discussed Kentucky’s unclaimed property rules in a previous newsletter article from the perspective of a business owner. This article is meant to remind business owners about their responsibilities regarding these rules and to let individuals and businesses know how to check to see if the state is holding any funds that you may claim.

Common types of unclaimed funds include credit balances, unclaimed wages, dividends, savings and checking accounts, gift certificates, and money orders. After a specific time, referred to as the "dormancy period," a Kentucky business, called a "holder," must turn over its unclaimed funds to the Kentucky State Treasurer.

Businesses 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 it has 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 funds may be claimed and that if they are not, the funds will be forwarded to the Kentucky State Treasurer. Funds not claimed are reported on the Holder Report and remitted to the Treasurer. You may visit the Kentucky State Treasurer’s website (*treasury.ky.gov*) for a booklet that guides you through the reporting process.

To see if you or your business is entitled to any unclaimed property, go to the Kentucky State Treasurer’s website, referenced in the previous paragraph, and click the link called Search for Unclaimed Property. On that screen, you can see the steps involved to search for and claim your funds. Kentucky's Unclaimed Property Fund is managed through Missing Money, a national database of unclaimed property.

Matt Smith, *msmith@deandorton.com*

Recent Firm News

Spotlight on Community Service

Our firm recently conducted multiple community service projects and donation drives. Forty-five of our team members voluntarily assisted three Fayette County elementary schools (William Wells Brown, Russell Cave, and Yates) clean up the inside and outside of the schools to prepare them for the new school year. As part of their volunteer efforts, team members also participated in a school supply drive to support the teachers at these schools.

In addition, the firm's Women's Initiative Committee, whose mission is to promote a firm culture that provides women with support, mentorship, and training in order to fully develop their potential as leaders, hosted a donation drive benefitting Dress for Success Lexington and Dress for Success Louisville. These organizations empower women to achieve economic independence by providing a network of support, professional attire, and development tools to help them succeed.

Going far beyond where our offices are located, our team members and the firm's charitable foundation are providing funding for lunch programs at four primary schools in rural communities in the Central Highlands area of Kenya through Worldwide Hearts and Hands, a Lexington-based charitable organization.

***INSIDE Public Accounting* Top 200**

Dean Dorton has once again been named a Top 200 firm, based on U.S. net revenue, by *INSIDE Public Accounting*. We were ranked #117.

IGNITE Leadership Conference

Earlier this summer, Dean Dorton hosted the IGNITE Leadership Conference, a two-day interactive program for college accounting students looking to become tomorrow's leaders. Twenty-four students from eight colleges in the region gathered in Lexington on July 18-19 to gain hands-on experience through case study simulations, learn CPA exam tips, become acquainted with Dean Dorton's services and industry expertise, and meet members of our team, ranging from interns to partners.

Cryptocurrency and Income Taxes

Cryptocurrency, such as Bitcoin, has been gaining in popularity for years and is now accepted at many retail establishments. We will refer to cryptocurrency, also known as "virtual currency," as VC in this article. In addition to using it as payment for goods and services, many people have chosen to invest/speculate in VC. Traded through various exchanges, VC values have fluctuated tremendously over the last several years. Coinbase, Inc., one of the largest such exchanges, has been ordered by the IRS to disclose trading data of more than 14,000 of its customers.

In 2014, the IRS issued a notice outlining its position on tax treatment of VC transactions. As a fundamental principle, the IRS says VC is to be treated as property, not as currency. As a result, VC purchasers must track their basis in VC to calculate a gain or loss when the VC is sold or used. Although the IRS does not indicate a specific method for tracking basis, the most commonly used methods dealing with corporate stock are:

- FIFO (first in, first out),
- LIFO (last-in, first-out), or
- Specific Identification

Mutual fund owners also may use average cost.

Here is a very basic example of computing gain/loss while using FIFO:

- Person A acquires four bitcoins for $40,000 in July 2018
- Person A acquires two additional bitcoins for $22,000 in October 2018
- Person A sells six bitcoins for $72,000 in September 2019
- Person A would report a 2019 long-term capital gain of $8,000 from the first purchase and a 2019 short-term capital gain of $2,000 from the second purchase

When a person receives VC as payment for (or uses it to acquire) goods or services, complexity results. Income from receiving VC in exchange for goods or services is fair market value (FMV) on the date it was received, and that receipt is treated as a purchase. If the person subsequently exchanges the VC for goods or services, a gain or loss must be recognized on the change in FMV from the deemed acquisition date to the date the VC is used, a deemed sale. VC payments by employers to employees are subject to tax withholdings and payroll taxes, and payments to non-employees are subject to the same 1099 reporting and back-up withholding rules that apply to payments made with US dollars.

As you can imagine, a person engaging in many VC transactions will need to have an accounting system capable of tracking all the VC transactions.

A few unresolved tax issues regarding VC are:

1. Do the Section 1031 like-kind exchange rules apply to VC exchanged for a different kind of VC?
2. How do you handle "hard forks," which is when a VC is split into two or more different VCs?
3. How do you account for lost or stolen VC?
4. May VC sellers account for gains and losses using FIFO, LIFO, specific identification, or average cost methods?

Please let us know if you wish to discuss the tax consequences of VC transactions.

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Could Your Business Qualify for Kentucky Tax Incentives?

No one likes leaving money on the table. If you're thinking of starting or expanding a business in Kentucky, it's a good idea to educate yourself on the various tax incentives the state offers. This article discusses three important tax incentive programs available to Kentucky businesses—the Kentucky Business Investment (KBI) program, the Kentucky Enterprise Initiative Act (KEIA), and the Kentucky Small Business Tax Credit (KSBTC) program. All three programs are administered by the Cabinet for Economic Development (the Cabinet) and the Kentucky Economic Development Finance Authority (KEDFA).

The Kentucky Business Investment Program

Under the KBI program, businesses meeting certain criteria may be eligible for tax credits of up to 100% of their corporate income or limited liability entity tax (LLET) liability and wage assessment incentives of up to 4% of taxable wages of each employee. Wage assessment incentives permit an employer to keep a certain percentage of the taxes withheld from employees' pay. Participation in the KBI program is open to businesses engaged in the following activities: manufacturing; agribusiness; national or regional headquarters; non-retail service or technology; alternative fuel, gasification, energy-efficient alternative fuels, or renewable energy production; and carbon dioxide transmission pipeline.

To be eligible, a business must create a minimum of 10 new, full-time jobs for Kentucky residents and maintain an annual average of at least 10 new, full-time jobs for Kentucky residents during the term of the incentive agreement. These new employees must receive hourly wages of at least $10.88 and total hourly compensation (hourly wages plus benefits) of at least $12.51. In addition, the business must incur eligible costs (defined by statute) of at least $100,000.

The Cabinet negotiates incentive agreements, which are approved by KEDFA and can last up to 10 years, with eligible businesses. In certain circumstances, enhanced incentives are available.

The Kentucky Enterprise Initiative Act

The KEIA program is similar to the KBI program in terms of the types of businesses that are eligible to participate. In addition, businesses engaged in operating or developing a tourism attraction in Kentucky may qualify for KEIA incentives. Eligible companies must make a minimum investment of $500,000 in an economic development project, which is defined as the acquisition or construction of a new facility, the expansion or rehabilitation of an existing facility, or the installation and equipping of a facility at a site in the state.

Businesses approved for KEIA incentives are eligible to receive a refund of sales and use taxes paid on the following items purchased during the term of the agreement (which is negotiated with the Cabinet): building and construction materials; research and development equipment; electronic processing equipment; and flight simulation equipment.

The Kentucky Small Business Tax Credit Program

As its name suggests, the KSBTC program is for small businesses; only businesses with 50 or fewer full-time employees are eligible to apply. Qualified applicants receive a non-refundable tax credit against the individual income tax, corporate income tax, or LLET. To qualify, a business must fill one or more eligible positions and invest at least $5,000 in qualifying equipment or technology.

An "eligible position" is a full-time position that increases the base employment of the business. The position must be filled for 12 months and pay at least 150% of the federal minimum wage, and the employee filling the position must be subject to Kentucky individual income tax. Qualifying equipment and technology includes tangible personal property purchased for use by the business in Kentucky with an expected useful life of at least one year.

Businesses must apply within 24 months of meeting the first program requirement (i.e., the hire date of the initial eligible position or purchase of the initial qualifying equipment or technology). If program requirements are met, a business is eligible for a tax credit of the lesser of: (1) $3,500 per eligible position; or (2) the rounded eligible dollar amount invested in qualifying equipment and technology. The maximum credit that can be awarded to a business in a calendar year is $25,000. Further, the total credits awarded by the KEDFA per state fiscal year may not exceed $3 million.

Beginning January 1, 2020, farmers who sell agricultural land to beginning farmers are eligible to apply for a Farmer Small Business Tax Credit (FSBTC) of up to $25,000 per calendar year (subject to a lifetime limit of $100,000). The $3 million fiscal year allocation will be shared between the KSBTC program and the FSBTC program.

The Cabinet processes KSBTC applications year-round and encourages businesses to apply as they meet the eligibility requirements. The Cabinet recommends that businesses seeking calendar year-end approval apply by November 1.

This article provides an overview of the KBI, KEIA, and KSBTC programs. For a more detailed discussion of program requirements or further information on Kentucky tax credits and incentives, please contact your Dean Dorton advisor.

Maddie Schueler, *mschueler@deandorton.com*

New IRS Impersonation Email Scam

The IRS recently issued a warning about a new email scam. The new scam involves an email which appears to come from the IRS. The subject line may vary, but a couple of examples are "Automatic Income Tax Reminder" and "Electronic Tax Return Reminder."

The key thing to know is the IRS does not send emails about your tax refund or sensitive financial information, so do not open an email which appears to have been sent to you by the IRS. If you make a mistake and open such an email, do not use any links in the message. Failure to be alert to this and similar scams risks theft of your identity, a problem you don't want or need.

People News

We welcome the following new team members:

Maggie Belt joined our Office Services team in Louisville. She has eight years of experience in various administrative and office support roles.

Brett Bibb joined our Marketing team in Lexington. He has three years of experience in public relations and marketing, most recently serving as the Marketing Coordinator for Downtown Lexington Partnership. Brett earned his bachelor's degree in integrated strategic communication from the University of Kentucky.

Linda Boals joined our Technology team, working remotely from Minnesota. She has more than 22 years of experience in technology and software consulting. Linda earned her bachelor's degree in accounting from the University of Minnesota.

Beth Cooney joined our Lexington office as an Associate in Business Services. She will work with clients on tax, litigation support, and forensic accounting matters. Beth recently earned her Juris Doctor from the University of Kentucky. In addition, she holds a Master of Business Administration, with a forensic accounting specialty, and a bachelor's degree in accounting from the University of South Florida.

Alex Crawford rejoined the firm after having relocated to South Carolina for about one year. He is a member of our Assurance team in Lexington. Alex earned his bachelor's degree in accounting from the University of Kentucky.

Chip Dalton rejoined the firm's Healthcare team in our Lexington office. He previously served as a Senior Healthcare Consultant in our Louisville office before working as a Senior Data Analyst with Lexington Clinic. Chip earned his bachelor's degree in health sciences and master's degree in health administration from Western Kentucky University.

Stephanie Gray, a CPA, rejoined the firm's Tax team in Lexington. She earned her bachelor's degree in accounting from the University of Kentucky.

Chris Howlett joined our Technology team in Louisville. He has held various technology security and audit roles with Trilogy Health Services, Humana, and Hosting since 2016. Chris earned his bachelor's degree in political science from the University of Louisville.

Rebecca Johnson, a CPA, joined our Tax team in Louisville. She has over six years of tax services experience. Rebecca earned her bachelor's degree in public accounting from Gustavas Adolphus College in Minnesota.

Joe Johnston, a CPA, joined our Tax team in Louisville as a Tax Director. He has over 25 years of experience in public accounting, mainly in tax services. In addition to being a CPA, Joe has earned a specialty credential as a Personal Financial Specialist. He earned his bachelor's degree in business administration from the University of Louisville.

Kristin Linzmeier, a CPA, joined our Technology team, working remotely from Wisconsin. She has six years of public accounting and IT work experience. Kristin earned her bachelor's degree in accounting from Carroll University in Wisconsin.

Namrita Lohani joined our Technology team in Raleigh. She has more than 15 years of experience in various technology and accounting roles. Namrita earned her bachelor's degree in computer science, with a minor in accounting, from the University of Nebraska-Lincoln. She also holds a master's degree in Management Information Systems from Bellevue University in Nebraska.

Matt Parks, a CPA, joined Dean Dorton Wealth Management. He has six years of experience as a tax accountant and investment analyst. Matt earned his bachelor's degree in accounting and finance from the University of Kentucky and recently returned to Lexington from Nashville, Tennessee.

Fawn Pate joined our Dean Dorton Healthcare Solutions medical billing services team in Louisville. She has more than 25 years of experience in various accounts receivable and billing roles.

Tyler Stiebling, a CPA, joined our Technology team in Louisville, focusing on marketing our technology consulting services. He has four years of experience in marketing roles. Tyler earned his bachelor's degree in business marketing from Western Kentucky University and his Certificate of Accounting from Indiana University Southeast.

Glenn Williams joined our Technology team, working remotely in Charlotte, North Carolina. He has over 25 years of experience in business development positions. Glenn earned his bachelor's degree in business management from Virginia Tech and has earned a number of professional certifications.

Joan Wisniewski joined our Office Services team in Lexington, serving the firm in a part-time capacity during peak workloads.

Dreidre Witt joined our Office Services team in Lexington. She formerly was Executive Assistant to the President and Assistant Secretary to the Board of Eastern Kentucky University.

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People News (continued)

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

Congratulations to **Julianne Kramer** for successfully completing the CPA exam.

Danielle Langdon passed her Certified Professional Medical Auditor certification exam through the AAPC (previously the American Academy of Professional Coders).

David Rice passed his Cisco CCNP Wireless exam, making this his third CCNP certification.

Kathy Jaeger joined the United Way of the Bluegrass Board of Directors, serving as Chair of the Finance Committee.

Allison Carter joined the Leadership Lexington Class of 2019-2020. She also was elected Treasurer of Women Leading Kentucky.

David Smith joined the Bluegrass Community Foundation's Finance Committee.

Susan Howard joined the Board of Waterfront Botanical Gardens, and also is serving on the Finance Committee.

Mike Harbold was recently named Treasurer of Tom Sawyer State Park Foundation.

Jon Tennent joined the Board of Isaiah House, a residential recovery program for people struggling with addiction or substance abuse.

Doug Dean joined the Board, Executive Committee, Finance Committee, and Audit Committee of Kentucky United Methodist Children's Homes.

Mike Harbold and **Erica Horn** presented at the Kentucky Chamber of Commerce's sixth annual Navigating Sales and Use Tax in Kentucky seminars in Louisville and Lexington.

Missy DeArk presented on personal versus enterprise goodwill at the KyCPA Forensic Accounting and Business Valuation Conference. **Elizabeth Woodward** presented professional ethics at the same conference.

Missy DeArk presented on mediation strategies at various Kentucky Bar Association Kentucky Law Updates.

Jen Shah participated on the "Before the Starting Gate" panel in Saratoga Springs, New York which addressed Thoroughbred market data trends and any potential correlation between changes in yearling sale prices and financial and commodity markets.

Gui Cozzi presented at Techfest Louisville, a biennial summit designed to bring together technology professionals for learning and networking.

Matt Smith presented on the financial and tax aspects of owning a dental practice to dental students at an event organized by the Student Dental Business Organization in Lexington.