The Tax Route

financial information for the long haul

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McGowen, Hurst, Clark & Smith, P.C.

Tax Season Scams

They're everywhere. Are you watching out for you and your business?

Today, it seems like no matter where you turn, there's another scam trying to steal your information, your money and even your identity. Tax filing season offers criminals many opportunities to access our information, and usually, it's by fooling us into handing it right to them. Stay alert when dealing with your financial matters. Here are some popular scams this year:

QuickBooks Software Scam

Victims of this scam receive an email with the subject line "QuickBooks Support: Change Request." The email says that they want to confirm that you have made a change to your business name. Of course, the issue is that you have not requested a change, but they provide a link that you can click on to cancel the request. Your first instinct may be to click on that link and cancel the request. Unfortunately, this is what will cause you trouble – this one click will allow malware into your device, giving scammers access to your information. This may allow them to acquire your passwords or your identification information, leading to identity theft.

W-2 Scam

With this scam, which is making its way across the nation for the second time, a scammer impersonating a corporate officer sends an email to the payroll department or HR department of your company. The email is requesting a list of employees, SSN's or copies of W-2s. This W-2 scam first appeared in 2015. The scammers tricked payroll personnel into disclosing employee names, SSN's and income information. With this information, the scammers were able to create income tax returns and fraudulently file for tax refunds. The email sent in this scam actually contained the name of the CEO and company name, so beware of this type of email and double check to make sure it is authentic.

TurboTax Scam

This one is a new scam that the firm heard of recently. An email is sent – supposedly from TurboTax – saying that you have a refund pending, but you have to submit a tax refund request and to click on the link for the refund. This exposes your personal information to the scammers and can lead to tax fraud or identity theft.

IRS Payment Scam

This scam is not a new one. We have received calls from clients for over a year regarding this scam. However, we still get calls and wanted to remind everyone of it. In an email or phone call, the scammer will tell you that he/she is with the IRS. They may even give you a badge number. They will say that you owe taxes and will demand payment immediately. They may request bank information or want to be paid with prepaid phone or money cards. Do not be intimidated by these messages. The IRS will not email and will not demand payment over the phone. The IRS always corresponds via mail.

These scammers are getting more sophisticated and creative every day. Be especially careful during the tax season as many of these scammers use the information they get from you to file returns and get hefty refunds. Here are a few tips to help spot phishing emails:

1. Check the reply email address. Make sure it is on a company domain rather than a generic address.

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Personal Guarantees

Offer as little collateral as possible.

Most lenders require the individual owner of a small business to personally guarantee loans made to a business. This pledge indicates the owners' commitment and helps ensure that the loan obligation won't be abandoned.

The problem: A personal guarantee means your personal assets are available as collateral. It opens an individual -- or a husband and wife if they both sign -- to personal legal exposure.

Even if it's difficult to avoid giving a guarantee, there may be a few steps you can take to limit exposure:

- If possible, attempt to limit the length of the guarantee in time, or the amount that you are personally responsible for. Try to recover your personal guarantee as soon as the business can carry the debt on its own.

- Limit the amount of the guarantee to a dollar amount or loan percentage, rather than allowing it to be unlimited.

- Refuse to have your spouse guarantee the loan. This limits the assets covered by the guarantee to those solely in your name as the principal -- and not your spouse. Assets held in your spouse's name, such as bank accounts, would be outside of the guarantee.

- A further limitation would be to specifically exclude certain assets from the guarantee -- such as a personal residence, certain securities or funds. Consider pledging the cash value of life insurance as an alternative for other collateral. This is an asset you may not miss as much as others while it is tied up as collateral for a loan.

- Another option is to limit the guarantee solely to any deficiency the lender may have after it has exhausted all remedies against the borrower.

So while personal guarantees are usually required, there might be ways the impact can be minimized. ■

Offer as little collateral as possible.

Here's an example of why you should proceed with caution: An entrepreneur applied for a $1 million loan to modernize his operations. The bank agreed, but asked for a second trust on all of the firm's real estate. In addition, the lender demanded that all other company assets be put up as security and that both the owner and his spouse personally guarantee the note.

If the owner agreed to these terms and needed to borrow additional funds in the future, he would have been out of luck -- and possibly out of business. All of his company and personal assets were tied up to secure the loan. There was no collateral available to obtain additional financing for new opportunities.

With advice from his CPA, the owner balked at the demands and the lender agreed to take only $1.2 million of collateral on the $1 million loan.

Simplified Employee Pensions

Get to know the SEP.

Setting up and maintaining a simplified employee pension (SEP) is probably easier than you think. The sooner you get started saving, the more secure your retirement will be, plus your business can gain tax advantages right away.

SEP Basics

The SEP is a stripped-down retirement plan mainly intended for self-employed individuals (including sole proprietors, partners and LLC members), as well as small corporate employers. If you're self-employed, you can make an annual deductible contribution of up to 20 percent of self-employment income to a SEP account. For this purpose, self-employment income generally equals the net profit shown on your Schedule C, E or F, minus the deduction for 50 percent of self-employment tax from page one of Form 1040.

If you're employed by an S or C corporation, the company must establish the SEP on your behalf. The corporation can then make a deductible contribution of up to 25 percent of your salary to your SEP account.

For 2016, the maximum possible contribution to any participant's SEP account is $53,000 (unchanged from 2015).

The Advantages and Disadvantages

Advantages: You can establish a SEP at just about any brokerage firm or financial institution. Simply fill out Form 5305-SEP, which takes only a few minutes. It doesn't get any easier than this. Even better, you can establish a SEP as late as the extended due date of the federal income tax return for the year the initial deductible contribution will be made.

Here's an example, assuming you are a sole proprietor. You extend your 2016 individual tax return as long as possible, to October 15, 2017. You have until that date to establish your 2016 SEP and make the initial contribution. You can then deduct that contribution on your 2016 return. Contributions for later years can also be deferred until the extended tax return due date.

Employees eligible for SEP inclusion are those who have:

- Reached age 21.
- Worked at least three of the last five years immediately preceding the current year.
- Earned at least $600 in compensation from your company in the year for which contributions are made (unchanged from 2015).

- Nonresident alien employees having no S.E. source income from your firm.
- Employees covered by collective bargaining, if retirement benefits were the subject of good faith bargaining.

If you run your business as a calendar-year corporation, you can extend the 2016 corporate return to as late as September 15, 2017. The corporation has until that date to establish the SEP and make the initial contribution. The company can then deduct that amount on its 2016 Form 1120. Contributions for later years can also be deferred until the extended due date for the corporate return.

If you have a large amount of self-employment income or salary, a SEP allows you to make generous annual deductible contributions to the account, as much as $53,000 for 2016 (unchanged from 2015). However, you always have the flexibility to contribute less than the tax-law maximum, or nothing at all, if cash is tight in your business.

Once your SEP is up and running, there are very few administrative details to worry about.

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Simplified Employee Pensions Continued...

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The government doesn't currently require any annual filings for SEPs, as it does for some other types of retirement plans.

Disadvantages: Depending on your age and income, you might be allowed to make larger annual deductible contributions to a personal retirement account with a different plan, such as a 401(k), a SIMPLE IRA, or a defined benefit pension plan.

If your business has employees, contributions – which are fully deductible to you – are generally required for those who have worked for you during at least three of the past five years (see right-hand box for exceptions). Also, since all contributions to employee SEP accounts vest immediately, an employee can quit at any time without losing any of his or her SEP money. That's great for the employee. But if you have more than a few trusted staff members, you may want to consider a different retirement plan option.

Another potential drawback is that borrowing from a SEP account is prohibited. In contrast, borrowing is allowed under most other types of retirement plans (with the exception of SIMPLE IRAs), assuming the plan document permits loans.

Conclusion

If you want maximum simplicity from a tax-favored retirement plan, a SEP may be the best choice. Of course, that is, assuming you don't mind covering your employees. A SEP is your only choice if you want to make a deductible contribution for last year, even though no plan was actually in existence at the end of last year. Contact with your tax advisor to learn more about SEPs or to hear about other retirement plan alternatives for your business. ■

State Tax Alerts

IOWA. As of the date of this publication, Iowa will "not couple" with the federal code for the 2016 tax year. Here are just a few of the many taxable items impacted by Iowa's decision not to couple:

- Section 179 decreased for Iowa to $25,000 with phase-out beginning at $200,000 and complete phase-out at $225,000. Software is also eligible for Iowa Section 179 treatment.
- As in past years, Iowa will not couple with 50% bonus depreciation.
- 179D, Energy Efficient Building Deduction, is not eligible for Iowa.
- The built-in gain rule goes back to a ten-year recognition period instead of 5 years for Iowa purposes.

PENNSYLVANIA. The Pennsylvania Department of Revenue established a 60-day amnesty program beginning April 21, 2017, and ending no later than June 30, 2017. The program applies to all taxes delinquent as of December 15, 2015, whether known or unknown by the Department of Revenue. Amnesty will be granted for potentially 100% of the penalties and 50% of the underlying interest; however, there is a 5% non-participation penalty for any tax liabilities, penalties and interest. This creates an opportunity for taxpayers who have had a filing requirement in Pennsylvania but have not filed a tax return.

OHIO. The Ohio Supreme Court issued a favorable decision to the Ohio Department of Revenue regarding the Commercial Activity (CAT) tax imposed on out-of-state businesses with taxable receipts $500,000 or greater in Ohio. The ruling affirmed physical presence within the state in not required to impose the CAT tax on any Ohio receipts.

OKLAHOMA. Oklahoma has proposed fuel tax hikes of seven cents per gallon on gas and ten cents per gallon on diesel. The additional revenue from the tax increase is expected to be used toward the maintenance of roads and bridges. Oklahoma is not the only state considering a fuel tax increase. Alaska has proposed tripling its fuel tax from eight cents per gallon to twenty-four cents over the next year. ■

Tax Season Scams Continued...

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2. Consider how the organization/individual normally contacts you. For instance, the IRS does not use email. Do not reply to any email saying it is from the IRS.

3. Read the message carefully. If the message does not sound like the person they claim to be, check with that person independently before clicking on any link or sending personal information with a reply. We have seen several scam emails with the correct email address, but could tell they were not legitimate by the language used in the email.

4. Check the destination of links before actually clicking on them. Hover over them to see where they lead. Be sure the link points to the correct domain for the company name, not a variation. Scammers are becoming more creative. For instance, using IRS.com rather than IRS.gov or a slight variation of a company name.

5. Be very cautious of any email asking for your personal information or wanting you to click on a link. Be sure to have company procedures informing employees not to clink on links from unexpected sources and who to contact to verify an email if they are uncertain about it.

Always remember: if you aren't sure about something, contact your tax preparer. He or she will know right away whether something you've received is legitimate or not. Taking extra precautionary steps now can save you many hours of trouble down the road. ■

Excise Tax Refunds

If you have recently purchased a truck, you may be entitled to an excise tax refund related to the mandated diesel regeneration units installed on the truck. It is argued that the equipment should not be subject to the federal excise tax since this equipment included with the truck does not contribute to the highway transportation function of the vehicle. As a result, some companies have started filing excise tax refund claims equal to the excise tax paid on the equipment included with the purchase of a truck.

The federal government has argued this stance, and recently a company in Iowa sued the federal government regarding the refund claim. This trial is currently being held in the Iowa Northern District court and is expected to be resolved later in 2017.

Since the issue has become a hot button topic, the IRS issued Notice 2017-5 which provides interim guidance on the excise tax charged on heavy duty trucks, trailers, and tractors. The notice states that the federal excise tax is charged on the chassis and body of a vehicle. The chassis is defined as vehicle's frame, supporting structure, and all components attached to it, except those items that are explicitly exempt, such as certain idling reduction devices. The chassis components include:

- engine
- axles
- transmission
- drive train
- suspension
- exhaust after treatment system (including, but not limited to, a diesel particulate filter)
- cab

The body is the cargo or load carrying structure of a truck, trailer or semitrailer. Examples of a body include, but are not limited to, a flatbed body, a tanker body and a box body.

McGowen, Hurst, Clark & Smith will continue to monitor the newest developments on this topic and will provide guidance on any refund opportunities once a resolution has been made in the aforementioned case. Please contact us if you have any questions. ■

Our Trucking Team

Dan Schwarz, CPA/ABV

Co-Managing Partner

Dan earned as Associate of Applied Science degree from Hawkeye Institute of Technology. In 1990, he joined McGowen, Hurst, Clark & Smith, P.C., and began work in the Business Advisory and Tax Services Division. Dan's area of expertise includes transportation, business valuation, family-held businesses and corporate finance. He has conducted presentations on valuation of closely-held business, business transition and corporate governance.

Dan is an Accredited Business Valuator (ABV). He is a member of the American Institute of Certified Public Accountants and the Iowa Society of Certified Public Accountants. He is a board member of the Iowa Motor Truck Association Allied Division.

Nick Finkenauer, CPA

Senior Manager

Nick graduated from University of Northern Iowa with a Bachelor of Arts degree in Accounting and joined McGowen, Hurst, Clark & Smith, P.C., in 2012. Prior to joining MHC&S in 2012, Nick worked for a Big 4 firm and specialized with closely held companies and state and local taxes. Nick's area of expertise includes corporate and individual taxation, multi-state tax issues and business consulting, providing clients with top quality service to help them reduce their tax liability and achieve their business and personal goals.

Nick is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where he has served on the Taxation Committee. Nick is a past graduate of the West Des Moines Leadership Academy and IMTA Leadership Academy. Nick is also the treasurer of Morsel Combat, a non-profit organization that benefits Meals from the Heartland.

Ashley Sly, CPA

Supervisor

Ashley is a 2009 graduate of Buena Vista University with Bachelor of Arts degrees in both Accounting and Finance. Prior to joining McGowen, Hurst, Clark & Smith, P.C., in 2013, she had three years of experience at a national accounting firm and one year at a large law firm. Ashley is experienced in tax, providing expertise for small to mid-size businesses, especially those with a multi-state presence and in the industries of transportation, manufacturing and distribution.

Ashley is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where she currently chairs the young professionals committee, LEAP.

In addition, Ashley is the current treasurer of the West Des Moines' Library Friends Foundation and a past graduate of the West Des Moines Leadership Academy. Outside of work, she enjoys spending time with her husband and young son.

About McGowen, Hurst, Clark & Smith, P.C.

With offices in West Des Moines and Winterset, McGowen, Hurst, Clark & Smith, P.C. is one of the oldest and largest local firms in Central Iowa. Founded in 1946, we celebrate over 70 years of providing our clients with accounting, auditing and business consulting expertise.

McGowen, Hurst, Clark & Smith is proud to be a member of CPAmerica International, an exclusive association of leading independent accounting firms. CPAmerica offers a wide pool of additional technical expertise to its member firms, allowing us to offer you big firm opportunity with a small firm feel.

Mission: Providing outstanding, professional services while acting as proactive business partners with our clients. Providing a work environment that enables our firm members to achieve their personal and professional goals.

Values: Integrity. Excellence. Respect. Teamwork. Family. Fun.

In Trucking Territory this Quarter...

Dan Schwarz, **Nick Finkenauer** and **Ashley Sly** presented a webinar titled "Taxes: Where We Are and Where We Are Going" to the Iowa Motor Trucking Association on January 17. The webinar focused on Federal and Iowa tax issues for the 2016 tax year along with a discussion on the potential tax changes that may occur in the upcoming year under President Trump and a Republican controlled House and Senate. If you are interested in viewing the webinar's slides, please contact us.

Dan Schwarz, **Nick Finkenauer** and **Ashley Sly** will be attending the IMTA's "Truck PAC Iowa Golf Outing" on May 25 at Legacy Golf Club in Norwalk. Hope to see you there!

Tax season is well underway at our firm, but we're never too busy to help with your tax and accounting concerns. We like to keep up-to-date on your business throughout the year to maximize any tax saving opportunities.

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