

# The **FREE STATE** Accountant

A Publication of the Maryland Society of Accounting & Tax Professionals



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Business  
Builders  
ThinkTank

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# CONTRIBUTORS



**Al Giovetti** is a CPA in Maryland with over 35 years of public accounting experience, Accreditation in Business Accounting (ABA, 1989), Tax Advisor (ATA, 1984), Retirement Advisor (ARA, 2007), and Principal, Giovetti and Giovetti Certified Public Accountants (1992 – current). Giovetti and Giovetti Certified Public Accountants is a full-service small CPA firm in Catonsville, Maryland. Al is currently serving as Immediate Past President on the Board of Governors for the National Society of Accountants (NSA).



**Jerry Lotz** is a Senior Savings Advisor at CostSeg Energy Solutions. CostSeg Energy Solutions represents companies whose mission is to help commercial property owners and leaseholders save money. He serves as an agent for Cost Segregation Services Inc. (CSSI), based in Baton Rouge, LA. CSSI is an "independent" company that provides "engineering-based" IRS Approved, Cost Segregation Studies and Tangible Property Regulation Consultation. Other CSSI services include: CAP-EX Reversal Analysis, Engineering-Grade Energy Audits, 179D, 45L and LED Lighting Tax Savings Implementations. Jerry is a Baltimore native and holds a business degree from Towson University. He spent 30 years in various managerial positions in the medical sales industry. Jerry enjoys working to provide "exemplary" service to tax professionals and the clients they serve. When he is not working, he enjoys spending time with his wife, children and grandchildren.



**Mary Lundstedt, Esq.** received her Juris Doctor from Thomas M. Cooley Law School in 2005, graduating magna cum laude. While in law school, Mary served as an editor for the Thomas M. Cooley Journal of Practical and Clinical Law. In 2006, she earned a tax LL.M. from NYU. Prior to joining Frost & Associates, Mary practiced in corporate tax matters where she assisted clients in forming business entities and advised on tax consequences of business ventures. For several years, Mary was also a legal analyst and editor for the business entities, tax and accounting group at a leading legal publishing company.



**Eli S. Noff** utilizes his background as a CPA and attorney to vigorously defend clients before the IRS and state taxing authorities. Mr. Noff is the firm's lead on international tax matters, which involves complex international tax compliance issues, resolving many offshore voluntary disclosures and streamlined filing compliance procedures, as well as preparing complex Passive Foreign Investment Company (PFIC) computations. He also represents clients in a number of tax collection matters, federal and state examinations and appeals, IRS criminal investigations, and matters before the federal and state tax courts. Mr. Noff is a graduate of the University Of Maryland School Of Law where he received his Juris Doctor with honors (cum laude). Mr. Noff is an active member of the American Bar Association and the Maryland State Bar Association. He is admitted to practice law in the State of Maryland and is a licensed Maryland CPA. He is also a Rising Star with Super Lawyers.



**Jonathan Rivlin, CPA**, a Baltimore native now residing outside the beltway near the old Enchanted Forest in Howard County, was born for this profession. His father, David Rivlin, CPA took him to his office one day in 1986 and from there, it was only a matter of time. He graduated from the University of Maryland, College Park in 1997 with a BS in Accounting – in 3 ½ years, becoming a CPA a few months later in 1998. Jonathan started his career at Grant Thornton, but realized that auditing large corporations wasn't his thing and left soon after. Small business is in his family's blood – four generations deep! In 2006, Jonathan opened his own practice, specializing in small businesses and developing a niche in Baltimore's startup community. In 2016, after many years of talking, father and son joined together in their new firm, The Rivlin Group. Along with his brother Joshua, their firm blends wealth management, cloud-based accounting technology, and comprehensive tax advice for their clients — with an emphasis on security of course. Clients come to The Rivlin Group when they have complex and difficult situations; we don't do easy. Jonathan has been a member of MSATP for almost his entire career. He currently serves on the Professional Regulations committee focusing on bringing issues of concern to the membership.

## 2019 Annual Convention

The 2019 MSATP inclusive Annual Convention will be at the Grand Hotel and Spa, Ocean City, MD from Wednesday, May 22 – Friday, May 24, 2019.

As an attendee, you will have an opportunity to attend 24 hours of continuing education, enjoy meeting and networking with your fellow peers in the hospitality suite, enjoy direct ocean front hotel accommodations at the low price of \$114 per night, stroll the boardwalk, have a great time at the 60th Annual Anniversary Beach Bash, and much more.

The Grand Hotel and Spa is located at 2100 Baltimore Blvd and the Boardwalk, Ocean City, MD 21842.

To register, visit our website: [msatp.org/seminars](http://msatp.org/seminars)



\*For additional images, visit page 13.



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# MSATP News

## Are You a Member, Have You joined the private Facebook Community?

If you haven't joined the exclusive, members-only community on Facebook, you're missing out on some great information.

Every week, you have the opportunity to join our live broadcast, where you can interact with MSATP leadership to receive updates on legislation, technology, and ways to advance and grow your practice. The community, comprised of hundreds of members, is also a great place to network and find strategic partnerships.

Simply do the following to join:

1. Simply go to the [Facebook Group](#)
2. Click Join
3. Await your access to weekly Facebook Live updates on MSATPTV with important happenings and helpful tools to implement.

After we verify your membership, you're in and have access to this amazing group of professionals.

*Questions? Call 1-800-922-9672 for assistance*



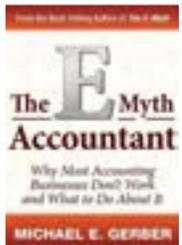
## Introducing BUSINESS BUILDERS THINKTANK Exclusive Peer Groups for MSATP Members

The Business Builders ThinkTank is an inaugural MSATP-sponsored group, similar to Vistage, EO, or other CEO peer groups, designed to create a space where business owners in the accounting and tax profession can connect with each other to discuss and work through challenges as you focus on scalability and development.

We have three groups: Anne Arundel County, Baltimore County, and Montgomery County.

Each group consists of 8-10 participants who are committed to meeting on the third Thursday of every month from 10-11:30am (Anne Arundel County and Montgomery County) and from 8-9:30am (Baltimore County). These meetings will take place in the off-season, between May-November, for a total of seven meetings. ThinkTank Participants are required to attend five out of seven meetings to ensure and maintain integrity in the space and build trust amongst participants.

Each session will focus on a key tenant of the book [The E-Myth Accountant: Why Most Accounting Practices Don't Work and What to Do About It](#). We will review how to integrate these concepts into your firm to create more scalability and efficiencies and future-proof your business.



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# Technology Fun - Buying a Computer

by Al Giovetti

**W**hoever thought a phone could cost \$1,800? A recent (November 19, 2018) Google search yielded a price of \$1,846.79 for a space-gray iPhone XS with 512 GB and dual sim. This price was discounted to \$1,538.99 for Black Friday. A very expensive desktop personal computer (PC) might cost as much as \$1,000 with Windows 10 Professional by comparison.

At a recent (September 2018) Maryland Internal Revenue Service (IRS) Liaison Committee meeting in Owings Mills, MD, an IRS Criminal Investigation Division (CID) Agent (with a gold metal shield) said that his department was going to start making "educational" visits to local tax accounting and tax preparation firms with the intent to penalize local tax accounting professionals for not adequately securing sensitive client information. Attendees attempted to get the CID man to be a bit more specific so that the local tax accounting professionals could prepare for these visits, but to no avail.

One of my favorite types of articles is to recommend specific minimum configurations for computer purchases. I will attempt to explain the technology behind the recommendation, and incorporate the current cyber security recommendations of the IRS Security Summit sub-group of the National Public Liaison Committee in my computer selection. Remember that the IRS has the luxury of changing their opinions at any time. I am reminded of the quote, "No man's life, liberty or property are safe while the Legislature is in session." The quote is actually from Gideon J. Tucker, Surrogate, in an 1866 report of the final accounting in the estate of A. B.—New York Surrogate Reports, 1 Tucker (N. Y. Surr.) 249 (1866), but is often attributed to Samuel Clemens (Mark Twain), and is actually contained in several of his published works.

The configuration of the desktop system that I recently purchased was a system from Costco. If you buy your system from Costco, Costco gives

you two years of "concierge service" on the system for free. If you pay for your computer using Costco's Citibank credit card, Costco will add an additional two years of "concierge service" for a total of four years of "concierge service" at no additional cost (free?). Read free as the cost of the service policy is included in the cost of the system. As accountants we are taught that nothing is "free." When some service or additional item is included "at no additional cost" (or free), we know that the value has really been incorporated into the cost, and we should do a fair market value (FMV) allocation to determine the cost of each component in the transaction, and allocate part of the cost to the service policy.

Moving along – the configuration that I selected included: 8th generation Intel Core i7-8700 processor, clocked at 3.2 GHz; 8GB NVIDIA GTX 1080 Graphics Card; 16GB DDR4 2666MHz RAM + 16GB Intel Optane; 2TB 7200 RPM SATA Hard Disk Drive (HDD); Killer 1535 802.11 Wireless – AC 2x2 WLAN + Bluetooth 4.1; Tray Loading DVD Burner; Killer Networks e2500 Gigabit Ethernet; Internal High-Definition Audio with Creative X-Fi Software; and 1xHDMI. Let's talk about a few of these.

The 8th generation Intel Core i7-8700 processor, clocked at 3.2 GHz is the most recent release of the Intel computer processing unit (CPU). Sometimes referred to simply as the central processor, but more commonly called processor, the CPU is the brains of the computer, where most calculations take place.

There are two major producers of CPUs: Intel and AMD (American Micro Devices). Wherever there are two manufacturers, they tend to leapfrog one another on performance and features in their annual releases of new technology. The current Intel CPU is considered to be the most advanced. Computer processors gain power and speed by adding CPU cores to the chip and by reducing the distances between circuits. The current Intel chip, made with 14 nanometer (nm)

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semiconductor device fabrication, is faster than a 22 nm chip (previous technology). The distance the signal needs to travel is smaller, so the processor takes less time to do a calculation.

The i7-8700 is \$50 cheaper than the i7-8700K processor, and does not have the capacity for over-clocking. Over-clocking means that the processor can be modified to run faster or do more computations in the same time period than the pure i7-8700 processor. GHz is an abbreviation for gigahertz; one GHz represents 1 billion cycles per second. The speed of microprocessors, called the clock speed, often is measured in gigahertz. For example, a microprocessor that runs at 200 GHz executes 200 billion cycles per second. A cycle can more easily be understood as one computation cycle. The higher the GHz, the faster the processor runs. The i7-8700 and i7-8700K processors come with 8 processor cores and 12 threads. A thread means that the processor can cycle 12 computations simultaneously. The more simultaneous computations, the more efficient the CPU and the faster the processor runs.

Another problem with microprocessors is heat. Heat is generated when electrical current passes through the circuits in a microprocessor. If the microprocessor gets too hot, the performance suffers. The microprocessor slows down to lower the heat, and the slow-down reduces speed (performance). The i7-8700 and i7-8700K chips have heat problems, requiring very aggressive and high-quality cooling systems to maintain performance by keeping the microprocessor chips cool.

On October 8, 2018, Intel announced the i5-9600K with 6 cores, 6 threads and 3.7GHz overclocked (maximum 4.6 GHz), i7-9700K with 8 cores, 8 threads and 3.6 GHz (up to 4.9 GHz) and i9-9900K with 8 cores, 16 threads and 3.6 GHz (up to 5.0 GHz) Intel Chips. These new chips are the next generation of microprocessor CPU, and started appearing on computers sometime in December of 2018. Some other very expensive (up to \$2000 per chip) chips of this series were also released.

As for the 8GB NVIDIA GTX 1080 Graphics Card – there are only two

major video card manufacturers: NVIDIA and AMD. Currently NVIDIA has the fastest video card available with the highest quality. The 8 GB is Video Random-Access Memory. Video random access memory (VRAM or video RAM) is a high-speed array of dynamic random-access memory (DRAM) used to store the image and video data that a computer displays. VRAM is an integrated circuit that serves as a buffer between the CPU and video card. Basically, the more VRAM a card has, the more complex textures or 3D meshes it can load. The higher the resolution of the image you're attempting to render, the more VRAM required. If the texture and images you're attempting to run overload your graphics processor unit's VRAM, the overflow goes to system RAM, significantly impacting performance in a negative way.

The VRAM on the NVIDIA 1080 is GDDR5. GDDR5, an abbreviation for graphics double data rate type five synchronous random-access memory, is a modern type of synchronous graphics random-access memory with a high bandwidth interface designed for use in graphics cards, game consoles, and high-performance computation. A higher bandwidth allows users to upload and download larger amounts of data to your website. A higher bandwidth results in significantly faster transfer speeds resulting in less frustration and greater computer user satisfaction. Data rates are often measured in megabits (million bits) or megabytes (million bytes) per second. These are usually abbreviated as Mbps and MBps, respectively. Another term for data transfer rate is throughput.

Each video card is a small computer. It has a GPU, or a graphics processor unit, like a CPU; VRAM is a type of RAM specifically designed to process graphics for video. VRAM is significantly faster than RAM – graphics must be processed faster than data so that the process of displaying the graphics requires more processing power and speed. Other components can have their own processing unit and RAM.

The next component is the 16GB DDR4 2666MHz RAM. DDR4 (double data rate type 4 synchronous random-access memory) is slower than DDR5 memory. The system RAM need not be as quick as the video RAM. The higher the number that follows the DDR, the faster the RAM. Another way to tell

speed is to read the specific speed of the RAM being sold, usually found printed on the box. At least 16GB of RAM is necessary for the encryption techniques required to secure client data.

Encryption is achieved using Windows 10 Pro and an included program Bit locker. More information on how to encrypt your files and folders can be found at <https://www.comparitech.com/blog/vpn-privacy/encrypt-windows-files/> and <https://en.wikipedia.org/wiki/Encryption>. Remember to type this information into your computer internet browser – **NEVER** click on links in articles or emails.

Should you purchase a DVD burner? I did, because they are very inexpensive (less than \$100). A blu-ray DVD burner will let you watch blu-ray movies and videos, including continuing professional education videos that may come on blu-ray. Most people stream this information from an online server of the CPE provider.

**Streaming media** is multimedia that is constantly received by and presented to an end-user while being delivered by a provider. The verb "to stream" refers to the process of

delivering or obtaining media in this manner. As the multimedia file is received it is presented on the monitor, saving the user the time needed to download these large files. Meanwhile the file is loading onto your computer in the background. Streaming media refers to the delivery method of the medium, rather than the medium itself, and is an alternative to file downloading, a process in which the end-user obtains the entire file for the content before watching or listening to it. ([https://en.wikipedia.org/wiki/Streaming\\_media](https://en.wikipedia.org/wiki/Streaming_media)). Multimedia refers to sound and video and/or graphic animation which is presented at the same time, such as a video, a movie or audio video presentation.

I strongly recommend purchasing multiple keyboards and mice and keeping the extras on the shelf in the office. You never know when a keyboard or mouse will break or malfunction; having extras on hand gets you up and running in a matter of minutes. Wired mice and wired keyboards which require no batteries also are more readily replaceable than battery-powered Bluetooth devices that require synching with the computer and charged batteries to work. Wired keyboards and mice are

ready to go as soon as you plug them in, with few incompatibility issues.

Extra monitors should also be kept so that a bad monitor can be replaced in minutes as well. I have several monitors that are 24 inches on the diagonal so that it is easy to see the information and the forms that I am filling out. It does not hurt to have multiple monitors so that forms can be displayed on one monitor and filled out on another. Most computers with the proper video cards can handle as many as four monitors. Make sure you talk to the sales person if you need this kind of video card.

Multiple monitors require stands. Bob Jennings, in his 2018 Technology Seminar, recommended several reliable monitor stands at reasonable prices. Bob says it is important to him to have a monitor stand that freed up valuable desk "real estate."

The preceding computer recommendation is designed for a principal in a tax accounting firm. One might wish to choose a less expensive configuration for an employee, who may not require the same resources. Should you need more information, or want to discuss anything, contact me at [Alfred@giovetti.com](mailto:Alfred@giovetti.com), or grab my elbow at a local seminar.



# Updated Guidance for IRS Voluntary Disclosure Practice

by Eli S. Noff, Esq., CPA, Partner. Mary Lundstedt, Esq., Associate

The objective of the recently expired Offshore Voluntary Disclosure Program (OVDP) enabled willful U.S. taxpayers with undisclosed foreign assets to become compliant with U.S. tax laws, while concurrently avoiding serious statutory civil penalties and

practically removing any risk of criminal prosecution. On November 29, 2018, the Internal Revenue Service (IRS) posted Internal Revenue Manual (I.R.M.) §9.5 interim guidance in a memorandum (the "memo") addressing the process for all domestic and offshore voluntary

disclosures since the closing of the OVDP on September 28, 2018<sup>1</sup>. Generally, the voluntary disclosure process maintains some similarity to the OVDP, but taxpayers and practitioners should note the revisions highlighted here, including the higher penalties for unreported

taxes due and delinquent informational reporting.

For tax purposes, a non-U.S. citizen is either a nonresident alien or a resident alien. All aliens are considered nonresident aliens, unless they pass the green card test or the substantial presence test. A person meeting either of these tests is considered a resident alien. Since aliens are taxed differently depending on their status, it is important to carefully consider what is involved.

The memo clarifies that the IRS Criminal Investigation (CI) will be responsible for screening all domestic and offshore voluntary disclosure requests to determine taxpayer's eligibility to make such disclosure. As such, the IRS stated that "CI will require all taxpayers wishing to make a voluntary disclosure to submit a preclearance request on a forthcoming revision of Form 14457<sup>2</sup>." The Form 14457 will require taxpayer-specific information, including "a narrative providing the facts and circumstances, assets, entities, related parties and any professional advisors involved in the noncompliance."<sup>3</sup>

Also, for all voluntary disclosures received after September 28, 2018, the memo provides that, unlike the OVDP's eight-year disclosure period, in disclosures resolved by an agreement, only the most recent six tax years are required to be disclosed under the new procedures. Upon the IRS's review and consent, a "cooperative" taxpayer may be allowed to submit for prior years. Expansion of the disclosure period may be desirable when rectifying tax issues involving unreported taxable gifts, correcting tax problems before entity sale or acquisition, and other circumstances.

Significantly, under the interim guidance, taxpayers making a voluntary disclosure are subject to a much larger penalty for evasion. While the OVDP imposed a 20% annual accuracy-related penalty on unreported taxes due, the interim guidance provides for a 75% fraud penalty on the year with the highest tax liability. Specifically, the IRS states in the memo that:

*Except as set forth below, the civil penalty under I.R.C. §6663 for fraud or the civil penalty under I.R.C. §6651(f) for the fraudulent failure to file income tax returns will apply to the one tax year with the highest tax liability. For purposes of this memorandum, both penalties are referred to as the civil fraud penalty.*

Note that, based on an analysis of the facts and circumstances of each case, the IRS may in "limited circumstances" apply the civil fraud penalty to other years. Obviously, many practitioners see the increased penalty as potentially having a chilling effect on voluntary disclosures; however, all things considered, the primary objective of a voluntary disclosure should be to receive the protection from criminal prosecution.

The memo addresses other penalties, as well. As for the penalties for willfully failing to file FinCEN Form 114, Report of Foreign Bank Accounts (FBAR), the memo explains that the IRS will assert such penalties per the existing IRS penalty guidelines under I.R.M. 4.26.16 and 4.26.17. Generally, willful FBAR violations result in a penalty of up to the greater of \$100,000 or 50% of the maximum account value. The memo goes on to state that although a taxpayer is not precluded from requesting the lesser non-willful FBAR penalty, "granting requests for the imposition of lesser penalties is expected to be exceptional."<sup>4</sup>

Interestingly, the IRS states in the memo that "[p]enalties for the failure to file information returns will not be automatically imposed."<sup>5</sup> Rather, IRS agents have the discretion to assess such penalties. In making their determination, the memo clarifies that an agent's discretion will take into

consideration other penalties already proposed, like the willful FBAR penalty and civil fraud penalty. Presumably, one may expect that if steep FBAR penalties were imposed, the agent may withhold informational return penalties in his or her discretion.

The memo indicates that all impacted I.R.M. sections will be updated within 2 years of the date of the memo. Furthermore, the memo's procedures will be effective for all voluntary disclosures received after September 28, 2018.<sup>6</sup>

While the updated process continues to allow taxpayers to escape criminal prosecution by voluntary disclosure, taxpayers face a higher penalty for unpaid taxes and delinquent informational reports and an array of new rules for the disclosure itself. An experienced tax professional's guidance should be sought to navigate the new process.

*If you have questions regarding international tax issues, please contact Eli S. Noff of Frost & Associates, LLC at 410-497-5947.*

#### **IMPORTANT UPDATES TO THE MARYLAND PERSONAL INFORMATION PROTECTION ACT**

by Jim Arnie

At the CPR meeting on Wednesday, December 12, 2018, there was mention of a bill that passed during the 2017 session of the Maryland General Assembly that impacted small businesses dealing with security of information. It was also stated that every member of MSATP should review the bill in its entirety to ensure they were in compliance with all requirements contained in the legislation. This was an enrolled bill meaning amendments were submitted by the opposite house (in this case Senate), therefore, a committee made up of House and Senate representatives discussed and came to a final agreement on the contents of the bill.

Attached, you'll find a copy of the enrolled bill, HB0974, a copy of the fiscal note since that gives an explanation of each provision of the requirements of the bill, in layman's language, and the last page of my report with the IMPORTANT paragraph about each member reviewing the bill. [CLICK HERE](#) to read and review the bill.

<sup>1</sup> LB&I-09-1118-014 (Nov. 20, 2018). We discussed the end of the OVDP in an earlier article, End of Offshore Voluntary Disclosure Program Imminent, at: <https://www.districtofcolumbiataxattorney.com/Articles/End-of-Offshore-Voluntary-Disclosure-Program-Imminent.shtml>.

<sup>2</sup> LB&I-09-1118-014.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> Id. Informational returns include forms such as Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, and the Form 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships.

<sup>6</sup> Note that the memo also provides that "[a]ll offshore voluntary disclosures conforming to the requirements of "Closing the 2014 Offshore Voluntary Disclosure Program Frequently Asked Questions and Answers" FAQ 3 received or postmarked by September 28, 2018 will be handled under the procedures of the 2014 OVDP. For all other voluntary disclosures (non-offshore) received on or before September 28, 2018, the Service has the discretion to apply the procedures outlined in this memorandum."

# Get Organized in 2019 with a Document Management System

by Doceo

**A**s trained accountants and tax professionals, it is no secret that being highly organized and accurate is crucial to running your business smoothly. In order to achieve this, a customized document management system built for modern finance is the key to making 2019 a success.

## Why DocuWare?

Doceo is an authorized partner of DocuWare, a nationally recognized, industry leader in document management and workflow automation solutions. With hundreds of software companies that specialize in document management systems, we have chosen to partner with DocuWare because their solutions are tailored to fit the unique processes of any size business.

DocuWare is the complete solution for finance and accounting teams looking to remove manual tasks, embrace digital transformation and refocus their energy to profit-driven projects for themselves and for their clients.

At a moment's notice, finance must deliver key figures that show the company's market position as well as profitability and liquidity. This is only possible if the core processes of accounts payable and accounts receivable are executed securely and error-free.

Often, outdated paper and manual operations mean costs are recorded too late, approvals take too long, information must be pieced together from disconnected sources, and bookings cannot be completed.

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# Our Clients Deserve Better

by Jonathan Rivlin



**A**s tax preparers and accountants, it's our job to stay informed of all manner of changes in society. Tax and regulation for sure, but also technology, security, and the shifting expectations of our clients. With some MSATP members finding their practices under threat by the new tax law, I wanted to suggest an action that may augment some of the lost revenue. But really, this article is geared towards any practitioner that cares about their clients and wants to ensure they are in a position to advocate for their clients - this article is for all of us!

Don't worry, this article will not be yet another post about cloud accounting! (That's what Tech Tips is for.)

In reference to the notion that our client's expectations of who we are (to them) and what we do (from their perspective) have shifted, radically, we should consider adding service lines to our practice that our clients need and demand.

What I'm about to suggest may be controversial to some and old hat to others. I'd like to suggest that practitioners add wealth management services to their practices. What follows in this article will be a series of reasons for why to do this, a look at what the potential burdens are, and the logistics of how to get started.

Before going further though, please understand that this isn't a quick fix or an overnight ticket to easy town. Adding wealth management services to your practice will take a considerable investment of your time and some money. But in our practice's experience, it was worth

it.

If any of these scenarios spark a pause in your thinking, there may be an opportunity for you to help your clients save additional monies! Whether a building is newly occupied, newly bought, newly built, or even if it has been owned for a number of years, there is likely an opportunity for significant tax savings!

The primary reason to consider adding this service line to our practices is about trust. Mainly the trust that we worked hard to cultivate with our clients. This is exactly the trust that non-tax financial professionals seek to exploit when they approach us to refer our clients to them.

We've all been there. A well-dressed person saddles up to us and explains what they do for businesses and individuals (set up retirement accounts, college savings plans, etc), but that even though the client knows it's a good thing to do, these professionals have a difficult time getting the client to buy in without their trusted tax adviser giving them our blessing.

**There are several problems with this situation!**

1) We have no control over these professionals and could be putting ourselves in a malpractice situation for making such a referral. Further, a savvy plaintiff's attorney could argue that by recommending the investment advisor in question that it's as if we're giving investment advice - without a license. (While that is a tough argument to make,

the US legal system is notorious for such ridiculous arguments being given more weight than they deserve.)

2) The person we're referring the client to is not qualified or even allowed to discuss the tax ramifications of their investment recommendations. In many ways we're not qualified to ascertain the viability of their recommendations - yet the client is trusting us to know ALL of this stuff!

3) Many people within the financial management community have fought the proposed Dept of Labor "fiduciary rule." And while there may be problems with the proposed rule, the reality is that many members of the MSATP already have a fiduciary standard towards our clients. Why would we refer our clients to an industry that fought for the right to NOT put their clients first?

It was in that vein that we added wealth management services to our practice. (And as an aside, opening investment accounts involves filling out forms - this is something we already do for a living!)

In our tenure as wealth management advisers, we've seen some situations that shock the conscience. Recent widows taken advantage of at the most vulnerable time in their lives. Individuals that trade in securities that are completely mismatched with their risk tolerance and financial literacy. Businesses that made a critical mistake in setting up their company's retirement plan and are in jeopardy with the IRS - all because the advisor that set them up needed to make their commission for that month.

While it is true that many, many wounds that investors face are self-inflicted, it's also true that many wounds investors face or inflicted by either naive but incompetent advisors or deceitful advisors that haven't been thrown out of the industry.

These are your clients - the people and families that you have served for a long time. If you care about what happens to them beyond preparing a tax return, then adding wealth management services to your practice is an imperative, not an option.

In preparing for this article, I was given a bit of MSATP history about this matter. In the past, the thought was that offering wealth management services represented a conflict of interest. For those MSATP members that are CPAs and attorneys, you're already held to a fiduciary standard. At the fiduciary level, one must put the client ahead of one's self.

For those Society members that are not CPAs or attorneys, it's a matter of how you present yourself to the community. You have a position of trust with your clients. If you make the commitment to put your clients ahead of yourself, and operate in an above board fashion with full transparency, then the benefit you bring to your clients by offering these services outweigh any potential for conflict. Additionally, to reduce the potential for a conflict, you can operate as a fee only advisor. However, in practice, we've found that there are some instances where it is less expensive for the client on a commission basis.

If this article motivates you to consider adding wealth management services to your practice - Great! There's a tremendous void out there and your presence is needed.

#### Here's what you need to do:

1) Find a Broker/Dealer to affiliate with. A Broker/Dealer is an institution that will manage the administration and compliance portion of your wealth management services. The Broker/Dealer will help you get licensed, keep up to date with continuing education (investment specific), and will facilitate your trades.

Here are some things to consider when looking into Broker/Dealers:

- What support do they give their affiliated advisors?
- How efficient and secure is their

technology platform?

- Where are they located?
- Will you have a local OSJ (Office of Supervisory Jurisdiction) or will you be under home office supervision.
- What sales support and training will you be given?
- What fees and commissions do they charge?
- What is the nature of your contract with the Broker/Dealer and/or the OSJ? Can they force you to leave (for non-disciplinary reasons?)
- Do they understand your role as a tax advisor?
- How stable is their corporate governance?
- Are they losing advisors or growing?
- How much leeway do they give in how you run your practice?

There are many Broker/Dealers out there. Your humble author has direct experience with three different Broker/Dealer firms. One firm positioned itself as specifically for CPAs adding wealth management services to their practices. This firm was great (on the surface) in that they understood the unique situation we have, however, their commitment to our success coupled with their high fees and poor technology made this firm a bad fit.

We next worked with a large publicly traded Broker/Dealer. While their technology was better and their rates were lower, their questionable corporate governance, severity of their contract, and limitations on our practice became untenable.

We since moved to a different Broker/Dealer, Cambridge Investment Research, Inc., that has the right mix of supervision and compliance with support, training, and technology. The OSJ we work with serves as our advocate. The Cambridge's executive board is responsible and committed to the success of their affiliates. And other advisors have been moving to this firm because of its reputation.

It is imperative that you do your own due diligence on which firm to affiliate with. However, you can contact me through the MSATP and I'll be happy to discuss matters further for those who are interested.

2) Open your exam window and study for the licensing exams. There are several designations to consider. However, if you want to be able to provide the most comprehensive set of services for your clients, you should look at taking the Series 7, Series 66, and

Insurance exams.

The Series 7 is by far the longest, but you'll find that your experience as a tax preparer will give you "running start". None of these exams are easy, but with a commitment to study, they can all be taken within a few months.

It was intimidating; taking a professional certification some 18 years after sitting for the CPA exam. However, it was all doable, and it made me a better professional overall.

3) Once you pass the exams, you'll need to learn about the various products available, i.e. mutual funds, ETF's, index funds, non-traded securities, and etc - what they are and when they are appropriate for a given situation. You'll also need to learn the Broker/Dealer's platform and process for submitting trades. Here again, although there is a learning curve in the beginning, it's nothing like the unending morass of our tax code.

4) Tell your clients that you added wealth management services to your practice and that you can assist them with establishing accounts, calculating RMDs & SEP contributions, and establishing plans to withdraw funds upon retirement. Have these conversations as your clients come in for tax work.

**Bottom line:** This is not an easy road. There are exams, regulations, additional CPE, and new skills to learn. It's not without cost - both in time and money. But, as long as you focus on the end result: a well advised client making smart financial decisions, you'll be a better professional for it and the compensation will follow.

**Caveat:** Insurance as described in this article means life insurance and complex products that are part of a comprehensive wealth management plan. These products are not meant to compete with sponsors of the MSATP that sell other insurance products that aren't associated with wealth management plans.

**Definition:** OSJ = Office of Supervisory Jurisdiction—an organization that assists affiliates with compliance matters as well as provide training and support.

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## Happy 2019!

The new year is an exciting time for MSATP. Not only does it mark a lot of exciting new changes for the Society (stay tuned), but it's also our 60th anniversary!

Look for our commemorative 60th-anniversary logo this year, and thank you to all for your support over the years!



# Education Opportunity - Real Estate Depreciation Webinar Replay

by Jerry Lotz

It's been a pleasure and an honor to share pertinent information with you every quarter regarding the latest in tax savings as it relates to residential rental, multi-family, commercial property and leasehold improvements to those properties. The company I represent; Cost Segregation Services, Inc. in Baton Rouge, has helped owners of over 20,000 properties across all fifty states to save on Federal income taxes. CSSI is partnered with Eric Wallace, nations leader on the Tangible Property Regulations, TCJA and real estate depreciation. A few weeks ago, CSSI and Eric offered a 2 hour webinar on depreciation.

## Topics included:

- Bonus, section 168(k) rules, latest

changes

- Qualified Improvement Property rules and TCJA changes
- Section 179 current and updated rules
- TCJA ADS class life changes
- Vehicle depreciation rules, issues, latest changes
- Form 4562 preparation and update
- Depreciation "action items" for 2018

There is none better than Eric as a resource to help tax professionals maximize depreciation elections. During my 30 plus days this year of attending MSATP live events and interacting with many of you, I've enjoyed the numerous

conversations about maximizing tax savings. While there is NO CPE offered with this replay of Eric's call, there is invaluable information contained therein. If you have clients who have owned property for a number of years, recently bought, recently built or improved property, it would be well worth your two hour time investment to take a listen/look at the replay. Iargployee relationship to an apprenticeship and opening your minds to the way the upcoming practitioners think and what they care about are the steps we need to take as we work to pass that torch, both for our practices and for the profession.

Just cut and paste or click [this link](#) to review.

# Itemized Deductions - A Layman's Summary

by TaxSpeaker

When Congress initiated our modern income tax system with the 16th Amendment to the Constitution in 1913, no one envisioned the massive system of red tape and intricate rules that we have today. As our system grew after World War II, Congress realized that they could use the income tax system to

not only raise revenues to run the Federal government, but to also promote various moral, ethical or political themes. Contrary to popular belief however, the home mortgage interest deduction was not one of those politically or ethically motivated deductions, it was just one of those things that was allowed at the beginning of the income tax system through the deduction

of any form of interest. It was never changed over the years because in the early years few Americans had mortgages, and after World War II the huge number of returning service men and women that needed mortgages essentially forced Congress to leave the deduction alone!

So what are the normal deductions available to all Americans? When we

prepare our annual tax returns the IRS tells us that this year about 15% of us will be able to “itemize” deductions. Years ago when we still prepared our tax returns by hand at the kitchen table, the use of itemized deductions required people to prepare the “long form”, so some folks still call it the long form today. Let’s discuss these itemized deductions, what they are, when to use them, and how to maximize their value.

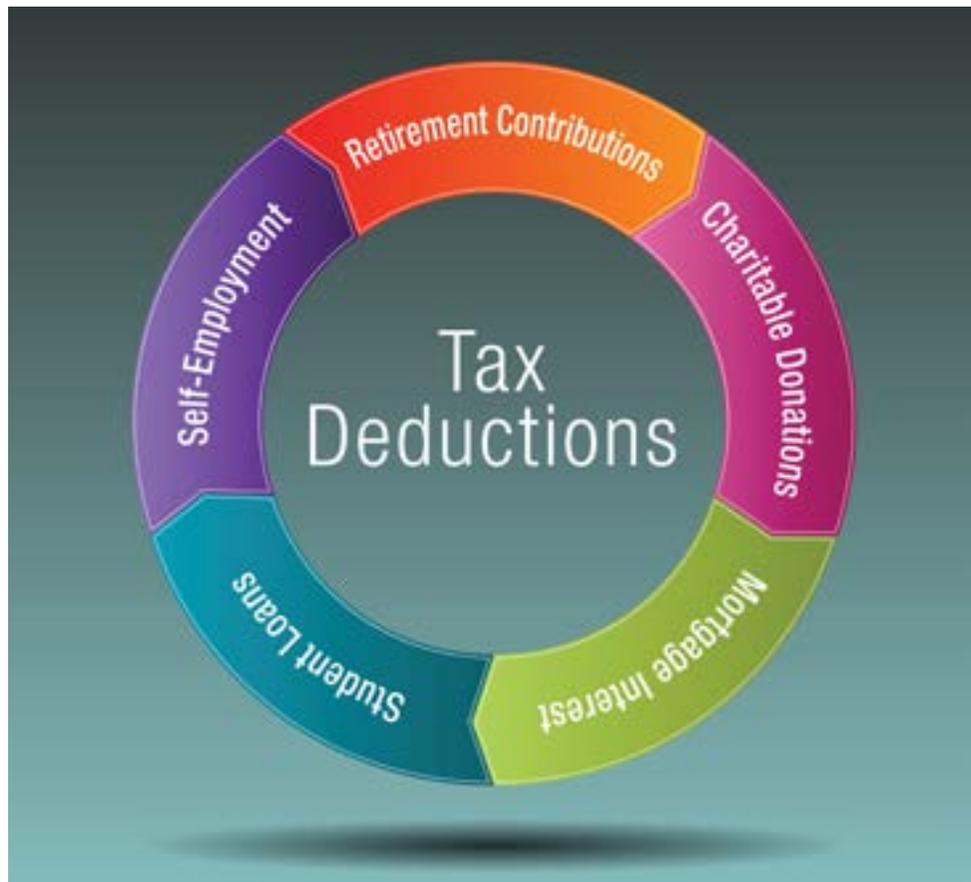
Congress provides taxpayers with a “standard deduction” that they are allowed to subtract from income to determine their net taxable income. In 2018 the standard deduction for a married couple is \$24,000, and \$12,000 for single taxpayers. Additionally for most taxpayers Congress allows them to deduct individual “itemized” deductions on Schedule A if they add up to more than the standard deduction. Of course this usually results in less income tax for people who have more itemized deductions than the standard deduction. So either way everyone is allowed to deduct either the standard deduction or itemized deductions, whichever is higher.

Even if your itemized deductions are less than the amount of your standard deduction, you can elect to itemize deductions on your federal return rather than take the standard deduction. You may want to do this, for example, if the tax benefit of being able to itemize your deductions on your state tax return is greater than the tax benefit you lose on your federal return by not taking the standard deduction. To make this election, you must check the box on line 18 of Schedule A.

If you do not itemize your deductions and later find that you should have itemized — or if you itemize your deductions and later find you should not have — you can change your return by filing Form 1040X to amend the return.

You and your spouse may use the method that gives you the lower total tax, even though one of you may pay more tax than you would have paid by using the other method. You both must use the same method of claiming deductions. If one itemizes deductions, the other should itemize because he or she will not qualify for the standard deduction.

So what are these itemized deductions? There are 5 main categories, and they are added up on IRS Form 1040, Schedule A. Surprisingly only 2 or 3 categories provide any real deductions for most people. Let’s do a short review of all of the main categories and point out some planning ideas as we go



through them.

#### Medical Expenses

Congress allows you to add up all of your medical costs for the “diagnosis, cure, mitigation, treatment or prevention of disease” within certain guidelines. Medical care expenses must be primarily to alleviate or prevent a physical or mental defect or illness. They do not include expenses that are merely beneficial to general health, such as vitamins, joining a fitness club or a vacation. An easy way to summarize whether a medical bill is deductible or not is to ask whether it was prescribed by a doctor—if so it is probably deductible, if not, sorry it is probably not deductible, except for health insurance.

The tax problem with medical expenses is that they actually provide no deduction for most people! Why? Medical costs get to be included in the list of itemized deductions only if they are more than a percentage of income, which is 7.5%. So if your family income is \$100,000 and you spend \$7,000 for medical costs, you get no deduction. Even if you have more than 7.5% of income in medical costs, you are only allowed to deduct the amount that is more than 7.5%. Again, if your family income is \$100,000 and you spend

\$10,500 on medical bills, you can only include \$3,000 in your list of itemized deductions.

So what can we do to plan for medical costs—it sounds like a waste of time? Well for most of us, it is a waste of time. However, if you have kids needing braces, or you have major dental, eye or medical expenses coming soon, about the only way to plan for deducting medical costs is to try and bunch all of your costs in one year. If you have had little medical expenses this year, you might want to hold off and get things done the first of next year, with the opposite being true if you already have spent a lot of money this year on medical costs, glasses, dentists and health insurance, the main categories of expenses.

#### Taxes

The list of deductible taxes includes state and local income tax and property tax. It does not include Federal tax. This deduction includes state tax withheld from your paycheck, which is commonly overlooked by people preparing their own returns. Sales tax may be deductible instead of state income tax based upon the year and the whims of Congress. This deduction is one of the very few itemized deductions that all Americans get to

include in the Schedule A list.

The total deduction for taxes paid this year is limited to \$10,000, regardless of the type. For most people that are home owners there is not a lot of planning opportunity here however because their property tax and state income tax will often exceed the \$10,000 limit. About the only option is to move to a low income tax state.

#### Interest

The home mortgage interest deduction is the thing that usually allows people to accumulate enough itemized deductions to exceed the standard deduction. As a general rule if you don't have a home mortgage you won't be able to itemize. Congress allows you to include home mortgage interest in your list of itemized deductions within certain guidelines. You must own the home, the mortgagee must have a lien against your property, you have to actually pay the interest, and you are limited to interest on a loan for the first \$1 million dollars (or a lower limit of \$750,000 on new loans after 12/15/2017) of debt. These rules are pretty intricate, so we will leave their discussion to our office, but the simple thing to remember is to always retain IRS Form 1098 each year, because that is where the amount of interest you paid is reported.

Is there any planning you can do with home mortgage interest?

Actually yes there is. First time homebuyers should always buy a home early in the year so that they get a full year of interest deductions to add in to the itemized list and possibly exceed the standard deduction. Existing homeowners should always go to their mortgagor near the end of the year and make an extra payment to pay any interest that has accrued since the last payment-this makes sense for both income tax and financial planning purposes.

There is no longer ANY deduction for equity lines, 2nd mortgages, HELOC's or similar items unless the borrowed money was used to improve your home.

Finally, let's shoot down the myth that paying home mortgage interest is a good thing, tax-wise. If you pay \$10,000 in mortgage interest, it does not save you \$10,000-it saves you \$10,000 times your tax rate, so if you are in the 25% tax bracket paying \$10,000 in interest saves

you \$2,500 in income tax, but you are still "out of pocket" the other \$7,500. We don't have a 100% tax rate in America, so reducing the amount of interest you pay is a worthy planning goal.

#### Charity

You are allowed to deduct contributions to an IRS approved not for profit institution such as a charity or church in the United States. Since an individual is not an IRS approved institution there is no deduction for money given to them. The best planning ideas for charity involve trying to make contributions in one year. If you have given quite a bit this year, consider going ahead and paying next year's amount in this year as well. If you are going to make a special gift, do it in a year that you already know you will have enough itemized deductions to exceed the standard deduction. The other thing to remember for charities is that you must have a receipt.

#### Other Deductions

This list is short, sweet and gone. There are no longer any deductions allowed for work boots, dues, uniforms, lock boxes, mileage or similar miscellaneous expenses. Bluntly, your employer should be reimbursing these amounts if they are work related.

#### Summary

This discussion of one of the most basic tax planning concepts of itemizing deductions rather than using the standard deduction includes many summaries that overlook the intricate rules involved. At our office we make sure to closely examine the rules every year for you to try and get the best treatment possible when it comes to this issue, and we are always happy to answer any questions you may have on any of the individual items in this newsletter.

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