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CONTRIBUTORS

Robert Boehner, PC, CPA, graduated from Grove City College in 1980 with a Bachelor of Arts degree in Accounting and returned to Gettysburg to become the third generation of accountants in his family. Bob lives in Gettysburg, PA with his wife and two daughters. He currently serves as a delegate on the MSATP Board of Directors.

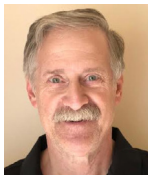
Jerry Lotz is a Senior Savings Advisor at CostSeg Energy Solutions. CostSeg Energy Solutions represents companies whose mission is to help commercial property owners and leaseholders save money. He serves as an agent for Cost Segregation Services Inc. (CSSI), based in Baton Rouge, LA. CSSI is an "independent" 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 F. 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 editorforthebusinessentities,taxandaccounting group at a leading legal publishing company.

Patricia A. Mager, CPA is President of WHBG, Inc., a full-service CPA firm that has been providing accounting and financial services to an array of industries for over 25 years. A graduate of Towson University, Pat became a CPA in 1992 and started her CPA practice in 1995. In 1999, she merged with WHBG and has since been instrumental in developing WHBG into a multi-faceted firm offering services to clients around the world. Pat is a past Board Member of the Queen Anne County Chamber of Commerce. In addition, she is a member of the Bosom Buddies Ball, Inc. Committee which is a major breast cancer fund raising entity on the mid-shore. Currently, Pat is serving on the Education and Professional Development Committee, Finance Committee, the Committee on Professional Regulations and is a Trustee of the Scholarship Foundation.

Eli S. Noff, Esq., CPA 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 Pocius is the President of Payroll Services LLC and the President of HELP Insurance Group LLC. He is a graduate of Linganore High School, Class of 2003. He graduated from Frederick Community College with an Associates in Business Administration and graduated from University of Maryland University College with a Bachelors in Marketing and a Minor in Accounting. He is a licensed insurance broker for Health, Life, Disability as well as Property and Casualty. He started Payroll Services LLC in 2006 while attending full time college. Today Payroll Services LLC serves thousands of employees nationwide and provides a complete workforce management solution. When he is not focusing on the business Jonathan enjoys working with his hands and spending time with his 4 children and wife.



Cliff Reiter is the owner of Professional Accounting Sales. He holds a Bachelor's in Engineering from New York University and a Master's of Business Administration from Pace University and Fairleigh Dickinson University.

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.

Carl Schwartz is a Vice President and Financial Advisor with Bernstein Private Wealth Management and is located in the firm's Washington, DC, office. Carl provides guidance and counsel to high-net-worth individuals and families, trusts, estates, foundations and retirement plans. He works closely with his clients and their other professional advisors to craft comprehensive investment strategies that will help them address critical planning issues and make investment decisions optimized to meet their goals.

Alverta "Sandy" Steinwedel was born in Baltimore, Maryland. After graduating in 1979 she was hired by the Federal Bureau of Investigation (FBI) in Washington, DC. At the FBI, Sandy held the position of Administrative Assistant to the Director and Exhibit Specialist for the Laboratory Division. After nine years she resigned to start a family. In 1987, Sandy was hired by Hull Company Accountants, Inc as the evening receptionist during tax season. At this point, Sandy realized she enjoyed tax work and started attending night classes at Carroll Community College. In 1991, she was promoted to a tax preparer for Hull Company Accountants and to assist in the educational seminars for the Maryland Society of Accounting and Tax Professionals. Sandy decided to work full-time for MSATP in 1994. Under the mentoring of Donald Hull, Sandy was appointed to Executive Director in 2010. Sandy resides in Westminster with her husband, Gene. Sandy and Gene enjoy going to sporting events and traveling with their two grown sons, Bill and Nate.

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Highlights Of Annual Reports From MSATP Committee Volunteers

by Alverta Steinwedel

Each year at MSATP's Annual meeting, the Committee Chairs report on the activities of their committee. Here are some highlights of the great work our volunteers – your fellow members, did during the past year.

Annual Meeting – Chair William Feehley of Ocean City, MD

The 60th Anniversary Convention combined fun, education, great food, networking and beach activities. Each year, the committee works hard to develop a great event for the members. This year, we enjoyed presentations on Cyber Security, Medicare, Retirement Planning and Accounting. The all-inclusive three-day event was enjoyed by all.

Assistance Committee – Chair Robert Boehner of Gettysburg, PA

The Assistance Committee only had one request for the Fiscal Year ending June 30, 2019. An Annapolis tax preparer needed surgery on her broken arm – her writing hand. The Committee was able to find a retired member and scholarship recipient to assist the member while she was recovering.

By Laws Committee – Chair Christine Giovetti of Catonsville, MD

The 2019 -2020 Ballot included a by law change which provided a clearer description of a Student Member. Each year the By Law Committee reviews the bi-monthly Board minutes, Administrative Policies and By Laws to validate that the Society documents are in order and reflect the proper activities of MSATP.

Committee on Professional Regulations (CPR) – Chair Tom Bray of Parkville, MD

The purpose of the CPR Committee is to keep a watchful eye on agencies, organizations, and governmental authorities which can affect our members' rights and abilities to practice their profession.

This year 2,481 bills were introduced during the 2019 Legislative session. The Committee focused on all tax, health and regulatory bills. Many bills were put on our radar to track and the committee testified (written and oral) on 12 of the bills. The committee focused on three key bills 1) standard deduction 2) pension exclusion and 3) Firm Mobility.

Out of session, the Committee volunteers attended the monthly meetings of the Board of Public Accountancy and the Individual Tax Preparer Board. The information learned during the meetings is shared with the membership on the weekly FaceBook Live program.

It was a good year for the CPR Committee. Many of our newer volunteers assumed leadership roles and excelled. Tom Bray will be stepping down as Chair. The new Chair will be Ron Grafman. Tom, thanks for an outstanding job!

Education Committee – Chair Bob Medbery of Silver Spring, MD

Education continues to be the focus of MSATP. The Committee put together a great line up of topics. The offerings

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Alverta "Sandy" Steinwedel
Executive Director

included 26 Full Day events and 34 Part-Day events. This year the Committee expanded the webinar offerings to 17 which is a 20% increase from the prior year.

MSATP understands our membership enjoys options so the committee continues to work with Tax Speaker and Gear Up for all the full day events.

One of the committee's greatest accomplishments is the Solo and Small Firm Conference. This gold star event continues to be a success for the Society and the attendees. This all-inclusive event gives Principals the opportunity to network in small groups, discuss issues and solutions with their peers, and enjoy a great venue. This year's event will be held at the Hershey Hotel in Hershey. This five-star location is a must for everyone – come join us on November 8 – 10.

Strategic Leadership Committee – Chair Richard Gottfried of Rockville, MD

The Committee continues to do a remarkable job. The Committee meets every six months to discuss and review the key goals of the Society. With the profession and technology changing at the speed of light, this committee has a big job. This year they challenged the education committee to expand the types of offerings; expanded MSATP's community footprint by working with the Financial Literacy Program; and having a stronger voice on legislative issues with the revamping of the bill review process.

The Committee comes to every meeting with an open mind which keeps the Society moving forward.

Membership/Marketing Committee – Co-Chairs Judy Pincus of Owings Mills, MD and Sandy Steinwedel of Columbia, MD

The Membership/Marketing Committee continues to think outside the box and expand the value of being a member of MSATP.

The Committee added multiple new vendors who offers discounts on items that are important to the members: insurance, printer and copier services (buy or lease), printer and copier ink cartridges, and CPA exam prep courses.

In addition to discount programs, the committee added the FREE Dinner and CPE series with Frost and Assoc, AND launched the Young Professionals Leadership Program. The inaugural class has10 students.

The Membership Marketing Committee worked closely with the Education Committee to develop the new Education Plans program.

The Committee continues to look to the future and saw a 5% increase in Student members.

Final Comments

All of our committee volunteers work for the betterment of the profession and the membership while always remembering our vision.

Among a shifting and evolving economy and legislative landscape, the power of small business in fueling America remains constant. The Maryland Society of Accounting and Tax Professionals' commitment and vision is to create an environment conducive to fostering the innovation, fulfillment, and resources small to mid-size tax practices need to survive and thrive.

In addition to providing continuing education opportunities, MSATP designs and facilitates powerful programs that strengthen the entrepreneurial mindset of our members and the viability and scale of their businesses.

We relentlessly advocate for legislation that promotes the interest of small businesses, their clients, and the future members of this profession. We are dedicated to forming and nurturing longstanding relationships with members of both our state and federal governments to ensure this happens.

Centric to this vision, is our powerful community of business owners and entrepreneurial professionals. By providing members the ability to share, learn, and grow with each other, we know there are no limits to the ingenuity and opportunities that arise from this passionate network of professionals.

Classifieds

Executive Director

Non-profit Accounting & Tax Industry specific organization is seeking an Executive Director. This key Management Leader is responsible for working jointly with the Board of Directors, various committees, staff, members, government agencies, and affinity partners. Role is to manage strategic solutions fulfilling organization mission and objectives. Position reports directly to the Board of Directors. Central MD location. Salary commensurate with experience. Benefits provided. Interested individuals please submit resume and responses to EDResponse2020@gmail.com.

Taxpayer Advocate

This position is located in the Office of the Chief Financial Officer (OCFO), Office of Tax and Revenue (OTR), Deputy Chief Financial Officer (DCFO). The incumbent is responsible for the planning, development, coordination and implementation of all programs and activities associated with the Office of Taxpayer Advocate. The incumbent will also serve as a taxpayer advocate, ensuring taxpayers are aware of their rights; receive quality customer service and counsel on controversial tax issues, and that proper resolution is provided in accordance with District tax laws. Provides advice and educates taxpayers on the resolution and prevention of future tax problems. Oversees the corrective action process within statutory and delegated authorities and explains actions to taxpayers. For the rest of the job description and more information on how to apply, click here.

Swimming With the Sharks, Part II

by Jonathan Rivlin

Continuing with last month's article about the joys of IRC 7216, we'll now discuss the other side of the law. As a quick recap, IRC 7216 aims to protect taxpayer information (defined differently from Personally Identifiable Information (PII)) by addressing two broad actions: 'Use' and 'Disclosure'. Last quarter's installment focused on 'Use' (Remember that in the context of 7216, 'Use' roughly means 'Advertising'). This time, we'll focus on 'Disclosure'.

The law's disclosure rules focus on non-USA based persons. It covers contractors, employees of the same firm that just happen to work abroad, as well as software providers and other participants in the tax prep food chain.

A couple of years ago, even one year ago, if you would have told me about this law and its prohibitions against disclosure, I would have given a sigh of relief as this is one of those laws that's easy to comply with if you don't outsource or offshore in your firm. But this is this year and technology moves fast, faster than the law can keep up.

We (meaning all of us preparers, generally speaking) may have already violated the rules and not have

known about them.

First, let's get a few things out of the way:

1) Provided that both a sending (US based) firm and a receiving (non-US based) firm/preparer have adequate security, and

2) Provided that the taxpayer provides consent – using the proper form, then

There's nothing wrong in disclosing information to a non-US party in connection with an engagement.

What's wrong is disclosing information without receiving consent first, and not using the proper form.

A preparer cannot ask for consent without first ensuring that both the sending and receiving firms have adequate security. The law itself doesn't define it, but the associated CFRs and related Rev Procs refer to some best practices. Without getting into the specifics here, it's the same stuff that we've been brow beaten over for decades now; use good password hygiene, have a firewall, keep your software up to date, use anti-virus and anti-spam software, keep a look out for phishing attacks, etc. It's more than can be covered in this article, but fear not! Your MSATP will be providing a seminar on the intricacies of IRC Sect 7216 this coming Sept 27th, 2019 at Martin's West in Baltimore from 8AM to 12PM – (sign up now!)

The IRS has a mandatory form of consent that a taxpayer must sign, without which, no consent can be taken or acted upon. And as with all things government, the form of consent is without context and doesn't take into account the realities of our modern age. The language is alarmist and off-putting.

For 1040 series returns, the form of consent, which is available in Rev Proc 2013-14, must be separate from the engagement letter. It cannot be part of the engagement letter.

For 1120, 1120S, and 1065 series returns, the form of consent can be included in an engagement letter.

The preparer cannot contingent one's acceptance of the engagement on a taxpayer's withholding of consent, but we can charge a differential for non-consent. For this reason, among so, so many others, it's important to set limits in an engagement letter as to which years, forms, and services are covered.

Having laid this groundwork, let's get back to the story from where the previous installment left off.

In this brave new cloud world that is forming all around us (The clouds are coming! The clouds are coming!), some app providers are more transparent and professional than others. In Silicon Valley, Facebook's motto of 'Move fast and break things' is taken as a moral

imperative that allows greedy people to do some immoral things. The reality is that we live in a society that is the way it is for a reason; not everything should be broken, and certainly not without careful consideration. But then again, I'm an accountant; I can't use the bathroom without a reason or a plan.

Earller this year, it was reported by some other accountant bloggers from out west, that an app called Botkeeper has made use of non-US based employees. Botkeeper's tagline is to replace the accountant's brain with AI. Let's put the dubiousness of that claim aside (A deep dive into the meaning of AI is its own article) and focus on what was reported. It turns out that part of the process of training this app's AI was a staff of accountants based in The Philippines.

The company's CEO pushed back on the accountants' reporting stating that no individual client data was exposed; it was aggregated information for the purpose of ensuring that the AI was working properly – in other words, it wasn't client data, it was the client's meta data. (Sometimes it feels like I'm writing technobabble dialogue from a Star Trek TOS episode...'Quick Mr. Scott, what is the profitability on our client's last quarter? I'm giving it all she's got, captain!' The correct answer is tachyons; it's always tachyons.)

The problem isn't that this was done or not. The problem was that it wasn't disclosed to the app's clients (other accountants) and that these clients couldn't then get the proper consent form from their clients (actual taxpayers).

IRC 7216's definition of taxpayer information is broader in scope than PII (personally identifiable information). In other words, this antiquated law, the authors of which could not have conceived of something called aggregated anonymized meta data, doesn't exempt such meta data, therefore, it's covered under the overly broad definition of 'Taxpayer Information'.

Further, these app providers are included in the coverage of the statute. As much as these companies like to disclaim away the world and said world wants to put all of the liability on the preparer's shoulders, as Lt. Worf once quipped, "Death, like liability, is an experience best shared." That Worf; such a poet.

As an aside, I was able to find job postings for accountants in The Philippines that Botkeeper had published, but they have since been taken down. Botkeeper, endorsed by Jody Padar of Radical CPA fame, is one of the more noteworthy apps, but there are others.

Gappify is another AI based accounting bot and there was one that was profiled in the July 11th daily digest from Accountant's World, BQE's Core AI.

In reading through the Terms of Service for BQE's Core AI, for example, they state that aggregated, anonymized information will be shared with 3rd parties for a variety of reasons. It is not stated whether those 3rd parties are in the US or not. In light of 7216, alarm bells should be going off in our heads when reading these things that no one ever reads.

Did I mention that 7216 was a criminal statute? And that it is applied per disclosure?

There are many misconceptions out there. The first one I encountered came from Camico, the venerable provider of malpractice coverage for accounting firms. When I informed them that we were adopting cloud-based apps in our practice, I was told to ask where the companies' servers are located, and that as long as the servers were located in the US and no data would leave the US, then no consent was required because there was no disclosure (as defined in IRC Sect 7216).

As you can see, this is not entirely correct. Even the experts can make mistakes.

When it comes to our byzantine legal system, we're not unlike the prisoners in Plato's cave, attempting to discern reality from the shadows cast on the wall. In the next installment, we'll discuss actions that can be taken to protect yourself and your clients, as well as, the distinction between outsourcing and offshoring – they aren't the same thing, believe it or not, and we'll take a closer look at this McGuffin/Boogeyman that's coming for our jobs called 'AI'.

Jonathan Rivlin is a CPA practicing in the Baltimore metropolitan area. He has been a member of MSATP since 2002 and currently serves as a Delegate on the Society's Board of Directors.

Interested in learning more about Reg. 7216? MSATP will be having a seminar on the subject on September 27, 2019 from 8:00 AM - 12:00 PM at Martin's West in Baltimore, MD. The cost for members is $160. To learn more and register, visit our website or give us a call at 1-800-922-9672.

MSATP Cares

by Robert Boehner and Patricia A. Mager

The Assistance Committee was formed when the Society learned that one of our members was unable to practice due to a medical emergency. The individual's family did not know who could help run the business, so they reached out to the MSATP office. It was then realized that the Society might have members, both active and retired, who might be willing to step in and temporarily assist a practice which has incurred a crisis due to the death or illness of the principal. This helper would not necessarily need to have an interest in buying the practice, but they would be a resource which could step in to oversee the business or provide guidance during such a crisis.

The Assistance Committee volunteer members will do their best to try and help any MSATP member or their family if they have a medical emergency, death, or other circumstance that prevents them from practicing. Here are some steps that our members can take to ensure that their employee or spouse knows who to call in case such a situation arises:

1. Create a contingency plan for a medical emergency if you are a sole tax practitioner.
2. Create a succession plan if the sole practitioner passes away.
3. Leave instructions for your staff or your spouse, including who to call in case of an emergency. The MSATP office phone number is 1-800-922-9672.
4. Include contact information in your estate information about who to call in case of an emergency, including if it is the MSATP office. This way, your staff or spouse can find assistance for helping with the tax season workflow in your absence, or find someone to purchase your practice before it becomes worthless or before it's worth less.

Additionally, you can gather the information on the disaster recovery list below to help the person who will oversee your business in case of an emergency:

1. Have a sample letter to your client explaining what will happen if you are unable to practice.
2. Set up contact person for access to your office. Make sure your "go to person" has a key to the office and the security code to turn off the alarm system if there is one.
3. Make a list of all of your software: tax, accounting, tax planning, etc.
4. Keep a list of updated logins and passwords for the computer, phone, voicemails/answering machine, etc.
5. Keep a flash drive with information on how to retrieve the information on your hard drives and or laptops.
6. Keep a list of where your data is being backed up and how it's being saved.
7. Keep a "due dates" list.
8. Keep a work in progress file and note your procedures/processes.
9. Maintain a list of problem clients.
10. Have a working client list (as current as possible; both business and individual clients)
11. Create a list of resources available to businesses in your area.
12. Update this information semi-annually, or annually.

Are you willing to step in and temporarily assist a practice which has incurred a crisis due to the death or illness of the principal? Please email info@msatp.org or give us a call at 1-800-922-9672 to get on our list of contacts.

**Please note: We will make every effort to provide assistance, but we may be limited and slightly delayed depending on the time of the situation and the location of the practice.*

Protect Your Clients; Protect Yourself

by The IRS

It takes all of us working together to protect taxpayers' data. The Data Security Resource Guide for Tax Professionals can help. Download it today at IRS.gov/ProtectYourClient.

Data Security Tips for Tax Professionals

Go to www.IRS.gov/ProtectYourClients to download the complete Data Security Resource Guide for Tax Professionals. See what steps you can take to better protect your clients and your business.

Here's a sampling from the Data Security Resource Guide:

- Learn to recognize phishing emails, especially those pretending to be from the IRS, e-Services, a tax software provider or cloud storage provider. Never open a link or any attachment from a suspicious email. Remember: The IRS never initiates initial email contact with tax pros about returns, refunds or requests for sensitive financial or password information.
- Create a data security plan using IRS Publication 4557, Safeguarding Taxpayer Data, and Small Business Information Security-The Fundamentals, by the National Institute of Standards and Technology.
- Review internal controls:
  - Install anti-malware/anti-virus security software on all devices (laptops, desktops, routers, tablets, and phones) and keep software set to automatically update.
  - Use strong and unique passwords of 8 or more mixed characters, password protect all wireless devices, use phrase or words that are easily remembered and change passwords periodically.
  - Encrypt all sensitive files/emails and use strong password protections.
  - Back up sensitive data to a safe and secure external source not connected fulltime to a network.
  - Wipe clean or destroy old computer hard drives and printers that contain sensitive data.
  - Limit access to taxpayer data to individuals who need to know.
  - Check IRS e-Service account weekly for number of returns filed with EFIN.
  - Report any data theft or data loss to the appropriate IRS Stakeholder Liaison.
  - Stay connected to the IRS through subscriptions to e-News for Tax Professionals, Quick Alerts and Social Media.

The Data Security Resource Guide for Tax Professionals also details the signs of data thefts, explains how to report thefts to IRS and provides links to important data theft resources on IRS.gov. Download the guide today.

Horizons

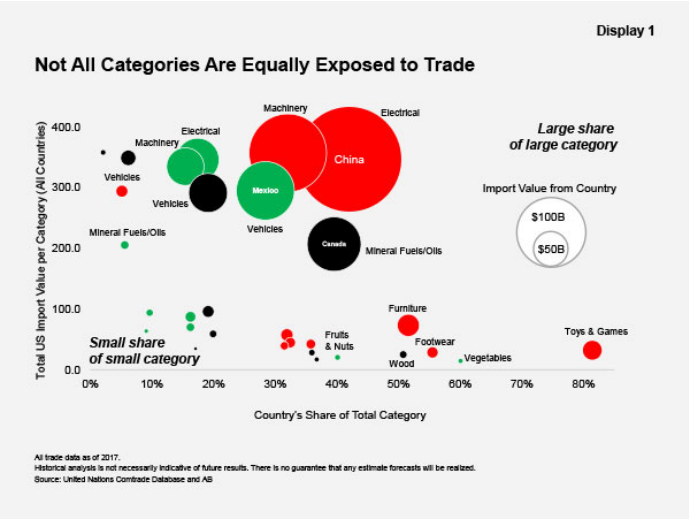
by Bernstein Private Wealth Management/Carl Schwartz

As the first half of the year comes to a close, the US economic recovery since the Great Financial Crisis stands just weeks away from setting a new record for longevity. Stock markets hover at all-time highs while trade tensions and the debate about the direction of interest rates rage on. What's an investor to do?

At times like these, the importance of aligning time horizons with investment goals cannot be overstated. Near-term predictions have always been a fool's game. But when we step back, the longer-run implications of today's questions strike us as more likely to slow longer-term growth than reverse it. Ironically, they also support risk assets like stocks in the context of a diversified portfolio.

About Face

In just the last three months, optimism has flipped around a trade agreement with China and the stabilization of US interest rates that fueled strong investment gains at the start of the year. For our part, we have always seen the prospects of a trade accord—whether with China, Mexico, or auto suppliers in places like Germany and Japan—as impossible to handicap from the top down. Whenever tariffs on billions in goods are mentioned, it's also important to remember that the US represents a $20-trillion-dollar economy. For those reasons, we focus on investing in industries and companies as a bottom-up exercise (DISPLAY 1), aiming to add value at the portfolio level through a research-driven process.



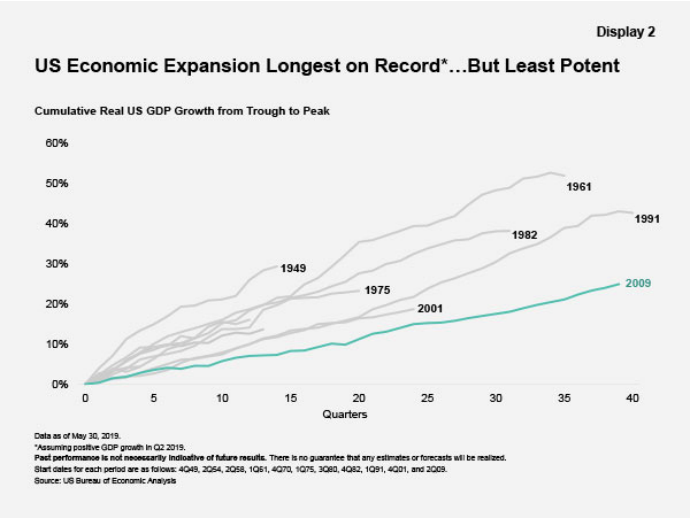
At the same time, with few signs of inflationary pressures and several economic indicators softening, we expect the Fed to reduce short-term rates by 75–100 basis points over the next six to nine months. We consider this reasonable insurance against further economic deterioration. It would also confirm what we see as a shifting stance among central bankers: an increased willingness to risk running inflation hot for a period, given the greater fear of a deflationary alternative driven by aging populations, technology, and reduced confidence.

What do we make of this about face? Mainly that normal economic data and corporate spending decisions will be delayed and distorted for some time to come. For example, proactive steps taken by companies in the second half of 2018 (in anticipation of trade disruptions) factored heavily into the surprisingly robust 3.2% US GDP growth reported in the first quarter of 2019. In our view, the 1.3% growth in "final sales to domestic purchasers" represents a closer proxy for real underlying economic activity.

And while corporate debt levels have received a lot of press lately, debt relative to assets and interest coverage looks manageable to us. Especially since debt proceeds are disproportionately supporting share buybacks—which can be turned off at any time—rather than capital spending, which has longer-term consequences. For these reasons, we remain comfortable with our 2% GDP outlook for the year.

Below the Surface

This summer, the US economy will eclipse the expansion period that started in 1991 as the longest in history. But that's not the only record that will be set. Looking at US growth since 2009, the current cycle will also be remembered as the least potent of 11 such post-war periods (DISPLAY 2). If there's a silver lining to the lack of a boom in recent economic history, it's the reduced probability of a bust both in timing and magnitude. We wouldn't be surprised if the current cycle ran for several more years, with any interruptions being short and shallow.



Below the surface, however, we see some tectonic shifts in the drivers of both economic growth and corporate profits that will play out over years to come. While it's difficult to make a call on specific trade deals, what seems abundantly clear is that the 30+ year era of global economic integration has hit a wall due to growing nationalism across the globe.

With the additional tailwind of falling interest rates over those same 30 years, the world economy has enjoyed an unprecedented run of lower costs, increased choice, and record corporate margins. The next leg of expansion—if destined to be as robust as the last—will need a new source of fuel. Yet taken together with the aforementioned deflationary forces, we don't see past as prologue. As we look ahead, we believe two is the new three (as in real GDP growth) in terms of the underlying economic support that will serve as the long-run foundation for investment opportunity.

What's Priced In?

Economies and markets are not the same thing, especially in the short run. But over time, fiscal and monetary decisions that influence economic growth remain critical drivers of returns. Among these, interest rates are paramount as they serve as a price-setting mechanism for all cash-generating assets (with lower rates boosting asset prices higher). With this in mind, when we step back and attempt to connect our macro outlook with investment opportunities today, we find more sources for comfort than concern.

First, if interest rates are set to remain low for the foreseeable future, multiples for assets like stocks (i.e., the price paid for ownership of a unit of earnings or cash flow) should be higher than historical averages. At around 17x forward earnings, the US stock market currently trades in a range around its long-run average—an average where interest rates stood three times higher than they do today. That makes us think current market multiples offer more support than history might imply and should offer solid downside protection if earnings stall for a period of time.

At the same time, markets outside of the US look extremely cheap on a relative basis, and for good reason. Not only has the US been the standout economy over the last 10 years, its mix of fast-growing and innovative companies remains the envy of the world. But that's not new news, and US exceptionalism seems well understood when you consider that the US economy represents ~25% of global GDP, but closer to ~55% of world stock market capitalization. While we always see a strong case for geographic diversification, it seems particularly relevant now.

Finally, markets tend to be most vulnerable when investor expectations are high—not when positioning is (surprisingly) defensive like today. A look at recent global fund flow data (i.e., what investors are buying and selling) shows the preference for bonds over stocks near extreme levels. While we continue to advocate ownership of bonds in diversified portfolios despite their low yields, investors' widespread preference hardly seems euphoric. The pattern also has a reliable record of signaling positive returns for stocks in the next six to 12 months (DISPLAY 3).

Display 3

Fund Flows Suggest More Caution Than Exuberance, and Are Supportive for Future Returns

Near Term: Relative Flows Highly Skewed to Bonds
Global Equity—Bond Flows (26-Week Average) Z-Score

Forward MSCI World returns when indicator passes two standard deviations

	3 Months	6 Months	1 Year
Occurrences	5	5	5
Average	3.60	10.02	17.07
Hit Rate	60%	100%	100%

As of 6/5/2019.
Source: Bloomberg, EPFR, Bernstein Research

IRS Forum Wrap Up

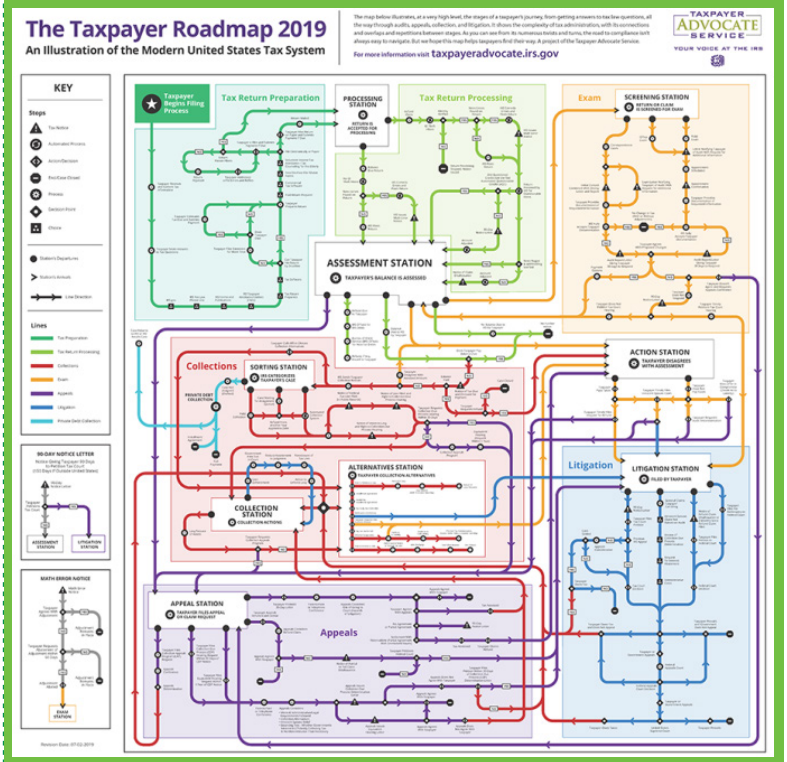
Nina E. Olson, the outgoing National Taxpayer Advocate, released a special report Wednesday on the Earned Income Tax Credit, suggesting different ways to increase the participation rate of eligible taxpayers in claiming the EITC and reduce overclaims by ineligible taxpayers. The Taxpayer Advocate Service she leads also published a chart Wednesday that it's referring to as a "subway map" showing how a taxpayer can navigate the tax system to get assistance with their tax needs.

"Anyone looking at this map will understand that we have an incredibly complex tax system that is almost impossible for the average taxpayer to navigate," Olson said. "I personally have spent dozens of hours designing and preparing this map, as have many members of my staff."

The TAS will be working to develop a fully interactive version of the subway map in the year ahead. When it is finished, a taxpayer or their representative will be able to enter it at any step and find out more about that step and the surrounding steps. TAS envisions that a taxpayer or representative will be able to input the number of an IRS letter or notice and generate a pop-up window that provides key relevant information, including where in the process the taxpayer is and what the next steps will be.

"This digital roadmap will be the culmination of many years of work and research by TAS into human cognition and learning, notice clarity, and taxpayer empowerment," Olson said. "It is my firm belief that taxpayers must have knowledge about their rights within a bureaucracy as complex as the IRS. If only taxpayers who are represented by tax professionals have access to that knowledge, then we do not have a fair and just tax system. Thus, the digital roadmap will be a powerful tool to improve access to justice."

For the full article, please click here.



Tax Reform and The New Benefits of Cost Segregation

by Jerry Lotz

The old saying is "money doesn't grow on trees," but could it be hidden in the walls? Since the landmark Hospital Corporation of America v. Commissioner court case in 1997, tens of thousands of owners of commercial and residential rental buildings have utilized cost segregation studies to significantly reduce taxable income by accelerating depreciation. The resulting tax reduction can be $50,000 to $70,000 for every $1,000,000 in building cost basis. Rather than depreciating a building over 39- or 27.5-year lives, the 1997 ruling allows building owners to separate building components into shorter depreciation lives of 5, 7, and 15 years. A few examples of 5-year property are cabinets, moldings, carpet, wall coverings, and specialty lighting. Fifteen-year property would include retaining walls, external signage, parking lots, landscaping, among many other components. While there is general awareness of cost segregation within the business community, many building owners are unaware of recent changes in the tax code that have made cost segregation more valuable than ever.

Previously, bonus depreciation was just 50% and only applicable to new construction. The Tax Cuts and Jobs Act (TCJA) of 2017 now allows 100% bonus depreciation for both new and existing buildings acquired after 9/27/17. Bonus depreciation applies to 5-, 7-, and 15-year components which is typically 20-35% of a building cost basis.

Under the TCJA, 5-, 7-, and 15-year building components can now be fully depreciated in the first year of ownership, rather than over 39- or 27.5-years. A new owner of a $1,000,000 building acquired in December 2018 can often obtain a $70,000 tax reduction in the first year of ownership, compared to about $10,000 in the first year under the old rules.

Two other valuable and often overlooked changes resulted from the IRS Tangible Property Regulations (TPR) issued in 2013. When a renovation of an existing building is undertaken, the TPRs now allow a cost segregation study to determine the value of the building components discarded during the course of the renovation which can then be taken as a loss, less what had previously been depreciated. The deduction must be taken in the same year the renovation was completed.

To be compliant with the Regulations, a building must be broken down into its nine building systems: building structure including roofs, plumbing systems, electrical systems, escalators, elevators, fire protection and alarm systems, security systems, gas distribution systems, and any other system defined by the U.S. Treasury.

When a building repair occurs, the newly repaired component must be compared to all similar components within the building system. If the new component is repaired more than two years after the original date of occupancy, does not make the component materially better, and does not affect more than 33% of all the like components, it must be expensed. The Regulations also offer three Safe Harbors that can be utilized which also can help the building owner expense repairs if any of the above rules do not apply.

It is difficult to take advantage of this favorable ruling without a cost segregation study. Owners of commercial or residential rental property acquired or renovated in the last 15 years for at least $250,000 likely qualify for a cost segregation study. Today more than ever, being aware of and taking full advantage of cost segregation benefits is crucial for building owners wanting to maximize their property investment in the most tax-efficient manner.

Feel free to contact Jerry Lotz (jlotz@costseges.com or, 410-960-8269) for more information, or to request a FREE Pre-Analysis of tax savings for any property.

Innocent Spouse Relief (IRC §6015)

by Eli S. Noff and Mary F. Lundstedt

Under Internal Revenue Code (IRC) §6013(d)(3), spouses who file joint income tax returns are subject to joint and several liability for the income tax reported on those returns. In other words, the IRS will hold each spouse responsible for the entire amount of tax due. Sometimes, however, one spouse may be innocent of actions taken by the other spouse resulting in an understatement on the tax return. In such cases, upon a qualifying administrative "innocent spouse relief" request, made pursuant to IRC §6015, the IRS may be persuaded to find that joint and several liability is inequitable.

Grounds for Relief (IRC §6015(b), (c), and (e))

When a spouse requests innocent spouse relief, the availability of such relief will depend on current marital status or current household composition. So long as the requesting spouse is no longer married to or living with the spouse with whom he/she filed jointly, then the requesting spouse may be entitled to full or partial relief based on three grounds:

1. Lack of knowledge,
2. Separate return determination, or
3. Equitable relief

For a requesting spouse who is still married to or living with the other spouse, relief may still be sought on grounds of lack of knowledge or equitable relief; however, separate return determination is unavailable as a means to relief.

Lack of Knowledge (IRC §6015(b))

This first basis for relief must be elected by the requesting spouse within two years after the IRS begins collection activities. Relief may be granted if the requesting spouse can establish that: (1) he or she did not know, and lacked a reason to know, of an understatement on a joint return when the return was signed, and (2) facts and circumstances indicate that it would be inequitable to hold the requesting spouse liable for the understated tax. If granted, to the extent attributable to lack of knowledge, the requesting spouse is relieved of liability for tax, penalties and interest.

The requesting spouse will be considered to have knowledge or reason to know of an understatement if: (1) he or she had actual knowledge of the understatement, or (2) a reasonable person in similar circumstances would have known of the understatement. The IRS will consider the fact and circumstances involved to determine whether the requesting spouse had reason to know of an understatement. Relevant facts and circumstances include, but are not limited to:

(1) the nature of the erroneous item and the amount of the erroneous item relative to other items;

(2) the couple's financial situation;

(3) the requesting spouse's educational background and business experience;

(4) the extent of the requesting spouse's participation in the activity that resulted in the erroneous item;

(5) whether the requesting spouse failed to inquire, at or before the time the return was signed, about items on the return or omitted from the return that a reasonable person would question;

(6) and whether the erroneous item represented a departure from a recurring pattern reflected in prior years' returns (e.g., omitted income from an investment regularly reported on prior years' returns); and

(7) the requesting spouse's failure to challenge the other spouse's understatement due to fear of retaliation arising from an abusive or controlling situation.

The IRS also considers the facts and circumstances when determining whether the requesting spouse had actual knowledge of the understatement. For instance, the IRS will consider whether the requesting spouse deliberately attempted to avoid learning about the understatement in order to escape liability. Additionally, the IRS will factor in whether the requesting spouse and the other spouse jointly owned the property that resulted in the understatement.

Separate Return Determination (IRC §6015(c))

For a requesting spouse who is no longer married to or has not been residing with the other spouse during the 12-month period ending on the filing date of the election for relief, a second basis for relief exists. This relief, if granted, results in the requesting spouse's liability being determined on a separate-return basis. In other words, the requesting

spouse's liability would be determined as is he or she had filed a separate return. Once again, the election for such relief must be elected by the requesting spouse within two years after the IRS begins collection activities. Also, the requesting spouse must not have had knowledge of the understatement at the time the return was signed. IRS regulations provide the methods of allocating the deficiency to a spouse.

Equitable Relief (IRC §6015(b))

If relief is unavailable under either "lack of knowledge" or "separate return determination," the requesting spouse may find relief based on equitable grounds. Relief may be granted where the IRS determines that, given the facts and circumstances, it is inequitable to hold the requesting spouse liable for the understatement.

The initial threshold requirements and factors considered by the IRS in making this determination are located in administrative guidance issued by the IRS. First, in order to be considered for this relief the requesting spouse must establish that:

(1) he or she filed jointly for the tax year for which relief is sought;

(2) neither lack of knowledge, nor separate return determination forms of relief are available;

(3) the claim for relief is timely filed

(4) no assets were transferred between the spouses as part of a fraudulent scheme;

(5) IRC§6015(c)(4)(B) "disqualified assets" were not transferred to the requesting spouse by the nonrequesting spouse;

(6) the requesting spouse did not knowingly participate in the filing of a fraudulent joint return; and

(7) the liability is attributable (either in full or in part) to an item of the nonrequesting spouse or an underpayment resulting from the nonrequesting spouse's income.

If these threshold requirements are met, then the IRS may make a streamlined determination granting equitable relief if the requesting spouse can show that:

(1) he or she is no longer married to the other spouse;

(2) economic hardship would result if relief is not granted; and

(3) he or she did not know or have reason to know: (a) that the joint return was filed with an understatement or deficiency, or (b) that the other spouse would not or could not pay the liability.

However, if the threshold requirements are met, but the IRS does not make a streamlined determination, then the IRS will determine whether or not it is inequitable to hold the requesting spouse liable for a liability by considering the following factors:

(1) marital status

(2) economic hardship

(3) knowledge or reason to know of item resulting in the deficiency or that the liability would not be paid

(4) non-requesting spouse's legal obligation to pay the liability pursuant to a divorce decree or similar agreement

(5) whether the requesting spouse received a significant benefit from the item resulting in deficiency or the unpaid liability

(6) compliance with tax laws

(7) the requesting spouse's mental or physical health

Judicial Review (IRC §6015(e))

Note that if the IRS denies administrative relief, a spouse may seek judicial relief from joint and several liability. A petition to the Tax Court for redetermination of joint and several liability must be filed no later than the 90th day after the mailing of the IRS's notice of final determination.

If you are considering making a request for innocent spouse relief, you may contact us at Frost & Associates, LLC at 410-497-5974.

Practice Value & Retirement

by Cliff Reiter

The demographics in the accounting and tax profession show that a majority of practitioners are Baby Boomers. Having been in this profession for more than 25 years, I thought the exodus of the Baby Boomer generation, from their practices, was going to occur eleven years ago, but something happened. The Great Recession of 2008 occurred and many practitioners saw their retirement and real estate nest eggs dwindle substantially and they continued to work rather than sell their livelihood. This decision was made because practitioners just could not afford to retire.

Let's fast forward to 2019 with everyone being eleven years older. Some of the nest eggs have recovered in value, however in many cases, the practice values have declined by 25 basis points or so. In 2008, practice values in the Philadelphia area used to get 1.25 – 1.4 x gross. Today, they are getting 1.0 – 1.15 x gross. What is consistent, however, is that many practitioners still cannot afford to retire. In my career, I have seen too many accountants, tax preparers, CPAs etc. give their clients "tough love" about selling their businesses and retirement planning, but fail to take the advice themselves.

When a practitioner looks at their retirement situation, they must also look at themselves in the mirror. If you consider the value of your practice as an integral part of your retirement planning, burying your head in the sand is not a good Exit Strategy. The Fed keeping interest rates excessively low for the past decade has made taking income out of a practice a better decision than the 1% interest rate on the cash generated from the sale.

However, other options are available to you:

- Working out a consulting/employment agreement after the sale: or
- Downsizing by selling your 1040 or write up business separately; or
- Selling an office if you are a multi office firm; or
- Getting an employee or outside candidate to buy in; or
- Keeping several clients that would not transition after the sale.

The next five years will probably see more practices come to the market as many practitioners realize, for health, stress or other reasons, that they are not able to proceed on their current course. With millenials and Gen Xers more interested in being employees, I anticipate some pricing pressure ahead. In major metropolitan areas, it may be less apparent and further down the road than in more rural areas. I am already seeing this in Maine, which has the highest median age of any state in the country. Maine dynamics consist of more Sellers than Buyers and that usually has an adverse affect on the sales price.

Each practitioner should plan and focus on this emotional subject before a life event forces a family member to!

The 2020 W-4: Yes, It Makes No Sense

by Jonathan Pocius

Employers need simple tools for employees. The new draft W-4 does not appear to be simple. On the surface, the intent of the new W-4 appears to be moving in a good direction. The IRS is trying to provide a more accurate way of computing tax withholding.

In the past, individuals with multiple jobs or other sources of income, had problems getting an accurate withholding using the standard allowance and filing status method. Any tax credit or tax cuts, (remember the 2009 stimulus credits) affected the payroll withholding table, normally making a mess of things for those individuals. This new W-4 seems to try and address these issues.

Getting started with the new W-4, I must admit, I was pretty confused. I have a very strong accounting and tax background, and this form made me scratch my head.

Okay - married, check. That is easy and normal right?

My wife is blessed to be a stay at home mom, so skip step 2 - check.

4 kids under 17 awesome, check.

No other dependents (that I know of), check.

Other income...I wish...check.

Deductions...okay, page 2 worksheet 2...alright, entered my itemized deductions, compared line 1 and 2. Alright got it, check. That makes sense right? Trump's tax rewrite was trying to get rid of itemized deductions and simplify the code.

Back to the form, additional amount... no thanks.

Done!

Okay, now what?

And that is how the W-4 ends.

What do all of these amounts mean (there isn't even a totals line)? Does the employer take that amount and divide it by each pay period? I'm thinking yes, but clarification would be nice.

What do employers do for individuals that have the old W-4 status such as Married 3? Will they eventually need to convert to the new method? IRS has indicated that we should be able to use the old method, however payroll systems will now need to have multiple methods of computing taxes (or at least collecting the W-4 info)

What if the employee doesn't want to show the employer "other income" on line 4a due to privacy concerns?

These are just a few of the questions this form leaves us with. We didn't even go into the multiple job scenario (thank goodness!).

To be fair, this is a draft version, let's just hope that there are some big changes before they release this form. As a provider of payroll, I am worried. I am worried because this form will cause a lot of phone calls, upset and confused employees and employers having to deal with one more thing.

Please visit us at www.payrollservicesllc.com or contact me at jonp@payrollservicesllc.com for more information.