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We are now well into the third quarter of 2017 and we continue to wrap up the 2016 tax filing year. The corporate and partnership income tax return deadline is September 15, 2017, while the individual return deadline date is October 16, 2017. Extended estate and trust income tax returns now have a deadline date of October 2, 2017. We sincerely appreciate all of our clients' cooperation in getting us the information we need to complete the returns in a timely manner.

The second quarter of 2017 brought many tax developments from Washington, the IRS and the courts.

REMINDER:

Individual Estimated Income Tax payments are due September 15, 2017.

This letter highlights some of the more significant developments for you.

We also have included a short article which warns clients about a sharp increase in W-2 e-mail scams targeting businesses and organizations in all 50 states.

IMPORTANT 2017 SECOND QUARTER FEDERAL TAX DEVELOPMENTS

Tax Reform. President Trump proposed a tax reform plan that would reduce individual tax rates, abolish the alternative minimum tax (AMT) and federal estate tax, and more. Individual rates under the President's proposal would be 10, 25 and 35 percent. At the same time, the President proposed to double the standard deduction and protect the home ownership and charitable gift tax deductions. The President also proposed to provide unspecified tax relief to families with children and dependents. The President's proposal calls for a 15 percent corporate tax rate. The 15 percent rate would also be available to small and mid-size pass through businesses. Further, the President called for elimination of unspecified tax breaks for special interests. Democrats in Congress said the President's plan favored high-income taxpayers and did not deliver enough tax breaks to lower and middle-income taxpayers. As tax reform moves into the latter half of 2017, the chances of a retroactive tax cut to include the 2017 tax year are lessened but not entirely removed from consideration.

Partnerships. Proposed regulations implementing the new centralized partnership audit regime under the Bipartisan Budget Act of 2015 (BBA) were release in June. The BBA regime replaced the current procedures beginning for 2018 tax year audits, with an earlier "opt-in" for electing partnerships. Originally issued on January 19, 2017, but delayed by a January 20, 2017 White House regulatory freeze, the re-proposed regs carry with them much of the same criticism leveled against them back in January as well as several minor modifications. Many partnerships should start looking at their partnership agreements to proactively address these new audit procedures. **Research expenses.** The IRS unveiled interim guidance describing for small businesses the new payroll tax credit election for increasing research expenses. The IRS also provided a special rule for 2016 for small businesses that did not claim the credit but want to claim the credit before year-end 2017.

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Exempt organizations. The IRS issued final regulations in June that allow streamlined tax-exempt status applications to continue, officially moving forward use of Form 1023-EZ and adopting, with certain changes, temporary and proposed regs issued in 2014. The final regulations spell out the IRS's short-cut process for eligible, smaller organizations to apply for tax exempt status under Code Sec. 501(c) (3).

Tax Collection. Private collection agencies are working some taxpayer accounts, the IRS announced in April. Legislation passed in 2015 directed the IRS to contract with private collection agencies to collect inactive tax receivables.

Health Savings Accounts. The IRS announced the annual inflation adjustments for limits on deductible contributions to health savings accounts (HSAs) for the 2018 calendar year. For calendar year 2018, the annual limitation on deductions under Code Sec. 223(b)(2)(A) for

an individual with self-only coverage under a high-deductible health plan (HDHP) is \$3,450. For calendar year 2018, the annual limitation on deductions for an individual with family coverage under an HDHP is \$6,900.00

Education. A software engineer, who worked as a project manager, was not entitled to deduct expenses related to her executive masters of business administration. The Tax court found that the education qualified her for a new trade or business. One determining factor was that the taxpayer's employment was largely unrelated to her coursework. Also in April, the IRS posted additional questions and answers on its website about the breach into its Data Retrieval Tool used in connection with Free Application for Federal Student Aid (FAFSA). In what is relayed as a precautionary step, the agency is notifying by letter about 100,000 taxpayers who could be affected, as well as offering them free credit monitoring.

Alert for W-2 EMail Scam

The IRS, state tax agencies and the tax industry have urged tax professionals and businesses to beware of a recent increase in email scams targeting employee Forms W-2. The W-2 scam, called a business email compromise or BEC, is one of the most dangerous phishing email schemes trending nationwide from a tax administration perspective. The IRS saw a sharp increase in the number of incidents and victims during the 2017 filing season. A business email compromise occurs when a cybercriminal is able to "spoof" or impersonate a company or organization executive's email address and target a payroll, financial or human resources employee with a request. For example, fraudsters will try to trick an employee to transfer funds into a specified account or request a list of all employees and their Forms W-2. "These are incredibly tricky schemes that can be devastating to a tax professional or business," said IRS Commissioner John Koskinen. "Cybercriminals target people with access to sensitive information, and they cleverly disguise their effort through an official-looking email request". The FBI reported earlier this year that there has been a 1,300 percent increase in identified losses - with more than \$3 billion in wire transfers - since January, 2015. The FBI found that the culprits behind these scams are national and international organized crime groups who have targeted businesses and organization in all 50 states and 100 countries worldwide. During the 2016

filing season, the IRS first warned businesses that the scam had migrated to tax administration and scammers were using business email compromise tactics to obtain employees' Forms W-2. The criminals were immediately filing fraudulent tax returns that could mirror the actual income received by employees - making the fraud more difficult to detect. The IRS urges tax professionals to both beware of business email compromises as a threat to their own systems and to educate their clients about the existence of BEC scams. Tax professionals should consider taking these steps: (1) Confirm requests for Forms W-2, wire transfers or any sensitive data exchanges verbally, using previously-known telephone numbers, not telephone numbers listed in the email. (2) Verify requests for location changes in vendor payments and require a secondary sign-off by company personnel; (3) Educate employees about this scam, particularly those with access to sensitive data such as W-2s or with authorization to make wire transfers. (4) Consult with an IT professional and follow these FBI recommended safeguards.