Main Street Practitioner

Publisher
National Society of Accountants

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Main Street Practitioner is published by the National Society of Accountants, 1330 Braddock Place, Suite 540, Alexandria, VA 22314.

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SUCCESSION PLANS: WHY YOUR NONPROFIT NEEDS ONE
President’s Message: December 2019

As I write this letter, we are fast approaching Thanksgiving, and by the time you read this that holiday will be in the rearview mirror and Christmas will be here before we know it. We have arrived at that time of year when we take a little time to reflect on the many blessings we have and show appreciation to those who have been an important part of our lives this year. For that reason, I want to thank each of you for the honor it is to serve as President of this great Society.

Our mission is “To help our members achieve success in the profession of accountancy and taxation.” We strive to do this on every level, whether we are representing our members before the IRS or through the efforts of our legislative committees that monitor the legislation on the national and state levels. We also work to provide the power of relationships with some of our member benefits for programs like Verifyle and ZipWhip. Both of these programs are used daily by our members to increase productivity in their offices. Have you tried them yet? If not, check them out and let us know what you think.

Many of us are looking for that special gift to give our office staff during the holidays, and I would like to offer a few suggestions. For that professional level employee who does not have a credential, you may want to consider encouraging them to look for an ACAT credential that fits their passion and helping them achieve that by paying for all or part of the exam, or maybe giving them time to study for the exam at work. Maybe for that tax preparer who needs to achieve their EA designation you could pay part or all the cost of the live EA review that NSA does every year. By now you are thinking you would like to be on my gift list, but remember each of these investments help your firm as much as it does the employee. Please don’t miss an opportunity to invest in yourself and your staff at this busy time of year. This is also a great time to thank the ACAT Board for their dedication and efforts to help professionals achieve accreditation. They give much time and effort working to improve ACAT.

Maybe you would like to do a little year-end tax planning and make a tax-deductible gift to the NSA Foundation. They use this money to help with scholarships and to continue to invest in the profession. Our foundation board is made up of a variety of members, some with many years of NSA experience and some with just a few years of NSA experience. They give selflessly of their time and talent to help the foundation help our current and future members, and as one of their peers, I say Thank you!

NSA has recently informed you that we are going to Cleveland in August of 2020. This will be the 75th Anniversary of our Annual Meeting. Cleveland just happens to be where the first NSA convention was held. I am amazed that an idea that started as a plan to organize accountants around the nation has not only grown to have members in all 50 states, but that we have been representing our members needs for 75 years. Not only to I want to thank our founders, but also all the officers, board members and especially the volunteers who have ever given of their time, talent and treasure for the good of our Society. Thank you all!

I hope each of you will take some time to reflect on the many blessings you have and to grasp the opportunities that await you. Please make sure to find some time to relax with friends and family and enjoy some downtime before we flip the calendar to 2020.

Thank you again for the honor of serving you,

Joel Grandon
Choosing the right health insurance plan remains a confusing endeavor for you or your employees. But as we enter enrollment season, it’s important to know the differences, features and costs associated with each option. The NSA Member Insurance Program makes it simple as your one-stop shop when it comes to health insurance.

**NSA Health Insurance Exchange** – Whether you need individual or family insurance or are looking for an affordable plan for your employees, you can easily review and compare coverage options and find out if you qualify for subsidies. Your member insurance program provides access to qualified plans authorized by the Affordable Care Act (ACA), with coverage of pre-existing conditions and no yearly or lifetime limits for essential health benefits.

Non-qualified plans are a less expensive alternative, and they also offer large PPO networks of well-known insurers. For individuals not needing coverage for maternity, mental health, substance abuse or pre-existing conditions, a non-ACA plan may be a good option. In addition, if you’re looking for group coverage, employers can give employees access to coverage options and may choose to contribute to their premium.

That’s not all. Here are other health insurance offerings for NSA members:

- **Cancer Protector Plan** – An economical way to fill the expense gaps in cancer treatment costs with benefits paid directly to you.

- **Long-Term Care** – Your membership gives you access to LTCRplus, a customized approach to finding the best and most cost-effective way to provide long-term care services.

- **International Travel/Medical** – Your health plan probably won’t help if you get ill or have an accident while traveling abroad. Here’s an easy and affordable way to protect yourself.

All policies are offered through Forrest T. Jones & Company, which has served as NSA’s group administrator since 1970.

To learn more about the health insurance options available for you or your practice, go to www.memberprogram.com/nsa or call (800) 821-7303.
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Quick Tax Answer

AccountingWeb shared this timely tax topic with Main Street Practitioner. As participation in the gig economy expands, tax preparers may find that their clients are asking more questions about their deductions. This quick Q&A from contributor Julian Block is a great reference for you and an easy answer to share with your client.

Can Freelancers Legally Deduct Their Travel Expenses?

Question: I’m a Boston-based freelancer who writes books and articles on climate change and other scientific topics. Next month, I’ll be driving to attend a conference for science writers in Portland, Oregon. I’m pretty sure that I’m entitled to claim some deductions on Schedule C of Form 1040, but what sorts of expenses can I write off, and can I deduct them totally?

Answer: The law allows you to deduct 100 percent of the conference registration fee. Also entirely deductible are travel between Boston and Portland and hotel charges.

The IRS limits write-offs for meals not covered by the fee, including both what you eat en route and while you're in Portland. The agency allows you to deduct only 50 percent of those expenditures.

It authorizes two options for car travel. One is to deduct actual expenses. The other is a standard mileage rate.

For 2019, the rate is 58 cents per mile. Whether you claim actual expenses, the standard rate, or the cost of a rental car, also deduct parking fees, as well as bridge, tunnel and turnpike tolls.

Revenue Service spoilsports insist that you stay within the speed limit. They draw the line at deductions for traffic infractions.

Deductions for conferences and other business travel provide an additional break. They don’t just reduce the amount you show as profit on Schedule C, thereby reducing the amount of your business income subject to income taxes. They also reduce the amount of your business income subject to self-employment taxes, as calculated on Schedule SE. Many freelancers get nicked more for self-employment taxes than for income taxes.

You can find more questions and answers from Julian Block on AccountingWeb, as well as the article that was shared for your information.

About the Author:

Attorney and author Julian Block is frequently quoted in the New York Times, Wall Street Journal, and the Washington Post. He has been cited as “a leading tax professional” (New York Times), an “accomplished writer on taxes” (Wall Street Journal), and “an authority on tax planning” (Financial Planning magazine). More information about his books can be found at julianblocktaxexpert.com.
Selling S Corporation Stock – Are You Sure?

By Lou Vlahos

Much has been written regarding the limitations of the S corporation, especially the requirement that it have only one class of stock, and the prohibition against its having nonresident aliens, partnerships, or other corporations as shareholders. The fact remains, however, that there are thousands of S corporations in existence, out of which many closely held businesses operate.

For these businesses, the satisfaction of these requirements – i.e., living within these limitations and the attendant “lost opportunities”[i] – is the cost of securing and maintaining the corporation’s status as a pass-through entity[ii] for tax purposes.

There is one point in the life of the business, however – perhaps the most inopportune time – at which a corporation’s failure to satisfy these requirements or, stated somewhat differently, its inability to demonstrate that it has satisfied them, may cost its shareholders dearly. I am referring to the sale of the business and, in particular, the sale of all of its issued and outstanding stock.

I wish I could say that it is rarely the case for an S corporation that is in the midst of negotiating the sale of its business to discover that it may have lost its “S” status by virtue of having, for example, two outstanding classes of stock, but that would be inaccurate, as illustrated by a recent IRS letter ruling.[iii]

Before delving into the ruling, it may be helpful to review the “one class of stock” requirement and the tax consequences of a sale of an S corporation’s stock.

One Class of Stock

Under the Code, a corporation that has more than one class of stock does not qualify as a “small business corporation.”[iv]

A corporation is treated as having only one class of stock if all outstanding shares of stock of the corporation confer identical rights to distribution and liquidation proceeds.[v]

Differences in voting rights among shares of stock are disregarded in determining whether a corporation has more than one class of stock.[vi] Thus, if all outstanding shares of stock of an S corporation have identical rights to distribution and liquidation proceeds, the corporation may have voting and nonvoting stock.
In general, the determination of whether all outstanding shares of stock confer identical rights to distribution and liquidation proceeds is made based on the corporate charter, articles of incorporation, bylaws, applicable state law, and binding agreements relating to distribution and liquidation proceeds.[vii]

**Pass-Through**

If a corporation qualifies as a small business corporation,[viii] and if its shareholders elect to treat the corporation as an S corporation for tax purposes[ix], then the corporation’s items of income, gain, deduction, loss, or credit will flow through to its shareholders, based on their respective pro rata shares, and will be taken into account in determining each shareholder’s income tax liability.[x]

The S corporation, itself, will not be subject to federal income tax.[xi]

Thus, the gain from the sale of the assets of an S corporation – or from the deemed sale of its assets (see below) – will be included in the gross income of its shareholders for purposes of determining their individual income tax liability. What’s more, the character of any item of gain (as ordinary or capital gain) that is included in a shareholder’s pro rata is determined as if such item were realized directly from the source from which realized by the corporation, or incurred in the same manner as incurred by the corporation.[xii]

**A Stock Sale . . . ?**

At this point, some may be wondering why the purchaser of an S corporation’s business would be acquiring the corporation’s stock instead of its assets.[xiii]

After all, in a stock deal, the buyer necessarily acquires all of the assets of the target S corporation,[xiv] both the assets that are necessary to the operation of the business, as well as those that aren’t. The buyer also takes subject to all of the target S corporation’s liabilities, both known and unknown, absolute or contingent,[xv] whether or not related to the operation of the business, including any liability for taxes owing by the target corporation.[xvi]

The buyer of stock also loses the opportunity, generally speaking, to step-up the basis of the assets acquired from the S corporation to their fair market value – the buyer’s cost for acquiring the assets[xvii] – and to expense, depreciate or amortize such cost, as the case may be, and to thereby recover their investment (i.e., the purchase price) faster than in the case of a purchase of stock.[xviii]

That being said, there are circumstances in which either the purchaser, or the shareholders of the target S corporation, may favor a stock deal.

For example, the S corporation may hold unassignable licenses or permits, or there may be contracts or other agreements, the separate transfer of which may require consents that will be difficult or too time-consuming to obtain.[xix]

A stock deal may also be easier to effectuate where the target S corporation’s assets are so numerous or extensive that it would be difficult or costly to transfer them separately. The purchase of the target’s stock would ensure the buyer of acquiring all of the necessary business assets owned or used by the corporation.

It may be that the purchaser wants to keep the corporation intact – as a going concern – perhaps after determining that the business has few liabilities,[xx] while also recognizing that is has great potential as is; only the management of the business needs to change.

Finally, the shareholders of the target S corporation will usually prefer a stock deal because it ensures them that their gain from the sale of the stock will be treated as long term capital gain for tax purposes.[xxi] If the purchaser wants the business badly enough, they will accede to the shareholders’ request.[xxii] It comes down to a question of leverage and risk allocation.

. . . And A Basis Step-Up?

Fortunately for the buyer, its decision to acquire the stock of a target S corporation does not always mean that the buyer must forfeit the ability to depreciate or amortize the purchase price. Even in the case of a stock deal, it may still be possible for the buyer to acquire a cost basis for the target S corporation’s assets, provided the selling shareholders agree to make one of two elections, depending upon the tax status of the buyer.[xxiii]

Thus, if the buyer is a single corporation, the buyer and each shareholder of the target S corporation may jointly elect to ignore the stock sale and to treat the transaction, instead, as a sale of assets by the target S corporation to a subsidiary of the buyer corporation, followed by the liquidation of the S corporation.[xxiv]

If the buyer is not a single corporation – for example, a partnership, an individual, or more than one person – then the shareholders of the target S corporation may be able to elect (without the consent of the buyer, but certainly at its insistence) to
treat the stock sale as a sale of assets, as described above.[xxv]

It is unlikely that the shareholders of the target S corporation would make either of these elections unless they were asked to do so by the buyer. In that case, it is still unlikely that the shareholders would consent to the election unless they were compensated for any additional tax (including any deficiency) imposed upon them as a result of treating the transaction as a sale of assets – which may generate some ordinary income,[xxvi] or even corporate-level gain if the sale occurs during the corporation’s “recognition period”[xxvii] – followed by a liquidation of the target corporation (which may, itself, generate additional capital gain).[xxviii]

This compensation often takes the form of a “gross-up” in the purchase price for the target S corporation’s stock, such that the shareholders’ after-tax proceeds of a stock sale for which an election is made will be equal in amount to their after-tax proceeds of a stock sale without an election.[xxix]

Significantly, neither of these elections is available where the target is a stand-alone C corporation. Thus, it is imperative that the target corporation’s “S” election be intact at the time of the stock sale.

Which brings us to the letter ruling referenced above.

A Failed “S” Election?

Corp was a C corporation. Its board of directors amended Corp’s articles of incorporation to divide its common stock into shares of class A stock and shares of class B stock. The class A shares retained voting power and the class B shares held no voting power. The class A and class B shares otherwise conferred identical rights to distribution and liquidation proceeds.

The board subsequently amended Corp’s articles for a second time, to change the liquidation rights of the corporation’s stock. After this amendment, the class A and class B shares were entitled to receive equal shares of any assets of Corp in liquidation until a specified amount had been paid to each share. Upon reaching this amount in liquidation proceeds per share, the class B shares were entitled to receive the balance of any remaining assets of the corporation.

Corp later filed an election[xxx] to be taxed as an S corporation for tax purposes. At that time, Corp had only two shareholders.

Somehow unbeknownst to Corp, the election was ineffective because Corp’s two classes of stock prevented it from qualifying as a small business corporation. Corp claimed that its tax advisors were unaware of this amendment.

In addition, according to Corp, at the time this election was filed, its board of directors was either unaware or had forgotten that the distribution and liquidation rights had been changed, and differed for class A and class B shares, as a result of the second amendment to Corp’s articles of incorporation.

Corp indicated that its legal counsel discovered the second amendment,[xxxii] which created two classes of stock, in connection with due diligence performed by counsel in connection with the proposed sale of Corp’s stock by its two shareholders (the “Transaction”).

Upon learning of this issue, Corp’s board amended Corp’s articles prior to the Transaction to reconstitute the class A and class B shares into a single class of stock, with identical rights to distribution and liquidation proceeds, in order to rectify the ineffectiveness of Corp’s S corporation election.

Corp also asked that the IRS recognize the corporation’s status as an S corporation, effective retroactively as of the date requested by its original election.

In support of its request, Corp represented that it and its shareholders filed their respective tax returns consistent with Corp being an S corporation since the time of the failed election.

On the basis of the foregoing facts, the IRS concluded that Corp’s S corporation election was ineffective when made, as a result of the second class of stock that was created by the second amendment to Corp’s articles.

However, the IRS also determined that the circumstances resulting in the ineffectiveness of Corp’s election were inadvertent,[xxxii] and were not motivated by tax avoidance or retroactive tax planning.

The IRS also found that, no later than a reasonable period of time after discovery of the circumstances resulting in the ineffective election, steps were taken so that Corp qualified as a small business corporation.

Thus, the IRS decided to respect the “S” election,[xxxiii] provided that Corp, and each person who was a shareholder of Corp at any time since the date of the election, agreed to make any adjustments to their tax returns – consistent with the treatment of Corp as an S corporation – that may be required by the IRS with respect to the period beginning with what would
have been the effective date of the election, through the date of the Transaction.

What If?

Corp and its shareholders were fortunate that the failed election was discovered prior to the consummation of the Transaction. It appears that they had sufficient time before the Transaction to request relief from the IRS, as reflected in the ruling described above. It also appears that they had an understanding buyer; one that was willing to wait for them to put their tax situation in order.

What if events had unfolded differently?

For one thing, the buyer could have walked away from the deal. There are always other buyers, right? Or are there?

Perhaps the purchase price offered by this buyer was the highest that Corp and its shareholders had received. Or perhaps this buyer was the only one who had agreed to pay a gross-up to Corp’s shareholders in connection with an election to treat the stock sale as a sale of assets. Moreover, this buyer may have been the only one that agreed to pay the entire purchase price at closing, in cash, whereas other suitors had included a promissory note or an earn-out, each payable over a number of years, as part of their consideration for Corp’s stock. Or maybe this buyer had agreed to keep the business at its present location, and to lease such location from the former shareholders of Corp, who happened to own the property in a separate business entity, whereas other potential buyers had planned to consolidate Corp’s business into one of their other locations.

You get the picture.

Another “What If:” The SPA

What if the Transaction had closed without either side being aware of the failed “S” election, and what if the buyer had discovered the failure on its own after the sale? Worse yet, what if the IRS had audited Corp’s returns for the periods ending on or prior to the Transaction?

In the typical stock purchase agreement, the buyer asks that the sellers and the target S corporation make certain representations as to their stock ownership and as to the business and legal condition of the corporation. As in the case of other representations, these play a due diligence function in that the seller’s willingness to make a certain representation, or to schedule an exception to the representation, will disclose facts that are important to the buyer.

The representations also afford the buyer the opportunity to walk away from a deal where the closing occurs some period after the SPA has been executed by the parties. The sellers will state that their representations were accurate on the execution date, and will continue to be accurate through the closing. To the extent there is a “material” change in the accuracy of a particular representation, or if the buyer discovers that a representation is incorrect, then the buyer may call off the deal.

Finally, if the buyer suffers an economic loss after the closing that is attributable to an inaccurate representation, the buyer make seek to be indemnified by the sellers on account of the breached representation. The fact that the buyer had been given the opportunity to examine the target corporation’s records and documents prior to the sale will not provide a defense for the sellers.

In the case of a target S corporation, the buyer may ask for the following representations and covenants (among many others) from the corporation and its shareholders: that the target S corporation has been a validly electing S corporation at all times, and will continue as such through the closing; that the corporation is not liable for the built-in gains tax; that they will not revoke the corporation’s “S” election, or take any action, or allow any action to be taken, that would result in the termination of such election (other than the sale to the buyer); and, at buyer’s option, that they will make an election to treat the stock sale as an asset sale for tax purposes.

Fast forward. The stock sale is completed and the target corporation is now a subsidiary of the buyer. The buyer subsequently learns that the target’s “S” election was either ineffectve or had been lost prior to the closing of the stock sale. The buyer realizes that its newly acquired subsidiary was, in fact, a C corporation during the period preceding its acquisition.

As a result, the new subsidiary is liable for corporate-level income taxes for tax periods ending on or before the date of its acquisition by the buyer.
What’s more, the buyer and/or sellers’ election to treat the stock sale as a sale of assets was also ineffective. Consequently, the buyer did not obtain a recoverable basis step-up for the assets of its new subsidiary.

In addition, the buyer’s gross-up payment to the former shareholders of the target corporation need not have been made.

In short, the immediate economic result to the buyer from its purchase of the target corporation’s stock is substantially different from what it had planned, bargained for, and expected.

The buyer looks to the sellers to indemnify it for these economic losses. The buyer may be able to “recover” part of this loss from any portion of the purchase price that it had withheld, whether in the form of a promissory note, an escrow arrangement, or otherwise. The buyer may also have to seek recovery directly from the sellers.

In short, the economic result for the sellers is substantially different from what they had planned, bargained for, and expected.

Ease Their Pain

If the shareholders of an S corporation were honest with themselves, this is the point at which they wish they had listened to the very simple and straightforward counsel of their tax and corporate advisers.[xxxvii]

Among the nuggets of advice most often ignored by shareholders are the following:

• Enter into a shareholders’ agreement that includes transfer restrictions, as well as other safeguards, for preserving the corporation’s “S” status, including the buyout of shares where necessary;
• Require shareholders to share their estate plans (on a confidential basis) with the corporation’s counsel, so as to avoid any surprise transfers of their shares at their demise (like a transfer to a nonresident alien);
• Require shareholders to cooperate in restoring the corporation’s “S” election in the event it is inadvertently lost;
• Do not amend any corporate organizational or governing documents, and do not enter into any commercial agreements with shareholders, without first seeking tax counsel’s advice;
• Do not issue any convertible debt instruments without first seeking counsel’s advice;
• Do not issue equity-based compensation without first seeking counsel’s advice;
• Keep meticulous and contemporaneous records of any and all stock transfers;
• Provide for a drag-along right by which a majority shareholder may compel a minority shareholder to join in the sale of the corporation’s stock; and
• Require minority shareholders to join in making an election, at the option of the majority owner, to treat a stock sale as a sale of assets.

Granted, some of these are more easily attainable than others; for example, a minority shareholder may resist some of these suggestions.

One truth that cannot be disputed, however, is the following: a business owner should start to prepare for the sale of their business as soon as they go into business; they should act accordingly throughout the life of the business; getting the business “ready” for a sale is not something that they can adequately address just prior to the sale.

APPENDIX

[i] For example, the infusion of equity from an investment partnership, or from an investor who wants a preferred return in exchange for their capital contribution, perhaps in the form of convertible preferred stock.

[ii] An entity that is not, itself, taxable, but the income, loss, etc., of which passes through to its owners.

[iii] PLR 201935010.

[iv] IRC Sec. 1361(b)(1)(D).

The term “S corporation” means, with respect to any taxable year, a small business corporation for which an election under Sec. 1362(a) is in effect for such year.
IRC Sec. 1361(b)(1) defines a “small business corporation” as a domestic corporation which is not an “ineligible” corporation and which does not (A) have more than 100 shareholders, (B) have as a shareholder a person (other than an estate, a trust described in Sec. 1361(c)(2), or an organization described in Sec. 1361(c)(6)) who is not an individual, (C) have a nonresident alien as a shareholder, and (D) have more than one class of stock. Sec. 1362(a)(1) provides that a small business corporation may elect to be an S corporation.

[vi] IRC Sec. 1361(c)(4).
[vii] Reg. Sec. 1.1361-1(l)(2). It should be noted that other arrangements may be treated as creating a second class of stock if a principal purpose thereof is to circumvent the one class of stock requirement.
[viii] IRC Sec. 1361(b).
[ix] IRC Sec. 1362.
[x] IRC Sec. 1366. These amounts will be reflected on the Schedule K-1 issued by the S corporation to each of its shareholders.
[xi] IRC Sec. 1363. There are exceptions; for example, where the built-in gain rule applies. IRC Sec. 1374.
[xii] IRC Sec. 1366(b).
[xiii] We’ll consider only a couple of the factors that favor an asset deal over a stock deal. There are others, including, for example: the target corporation’s ability to sell its assets to the buyer even in the face of opposition from some minority shareholders (though the sale may trigger dissenter’s rights); and the buyer’s ability to select which assets it wants to acquire, and which liabilities it will assume.

Speaking of recalcitrant shareholders, this is where the absence of a shareholders’ agreement with a drag-along provision may be felt keenly.

[xiv] Indirectly; in a sense, the buyer steps into the shoes of the selling shareholders.

[xv] Sellers in a stock deal are always asked to represent to the buyer that the corporation has no liabilities, obligations or commitments of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured or otherwise, except (a) those which are adequately reflected or reserved against in the balance sheet [as of a specified date], and (b) those which have been incurred in the ordinary course of business consistent with past practice since the [date of the balance sheet] and which are not, individually or in the aggregate, material in amount.

[xvi] Because of this exposure, a stock deal will require more due diligence, which means the expenditure of more time and fees by both the buyer and the seller(s).

It will likely also require the buyer’s holdback or escrowing of a greater portion of the purchase price for a greater period of time.

With respect to the corporation’s tax liabilities, the parties will have to agree as to the preparation of returns, and the payment of any amounts owing, for tax periods ending on or before the closing date, or which begin before the closing and end some time after the closing date.

A related issue will be a more extensive indemnity agreement by the selling shareholders to indemnify the buyer for any losses suffered by the buyer as a result of a breach of a representation by the sellers regarding the state or condition of the target corporation and its business.

[xvii] IRC Sec. 1060 and Sec. 1012. In general, Sec. 1060 requires that the purchase price for the acquisition of the business be allocated among its assets.

[xviii] The cost of which is generally recovered only upon the subsequent sale of the stock or the liquidation of the corporation. IRC Sec. 168(k), Sec. 167, and Sec. 197. The Tax Cuts and Jobs Act (P.L. 115-97) extended the bonus depreciation deduction by allowing a buyer to expense the cost of certain “used” tangible personal assets.

[xix] Note, however, that many contracts include change-in-control provisions pursuant to which the “assignment” of the contract requires the consent of a party where the ownership of the “assigning” party (i.e., the target corporation) changes, as in the case of a stock deal. A large part of the due diligence process involves reviewing the target’s contracts and determining whether such consents are required.

[xx] Or liabilities that are manageable.

[xxi] Where there are too many shareholders with whom to negotiate, or where there are some shareholders who do not want to sell their shares, the stock deal may be structured as a reverse subsidiary merger. The result of such a merger is that the target corporation becomes a subsidiary of the acquiring corporation. For tax purposes, the transaction is treated as a purchase
and sale of stock. See, e.g., Rev. Rul. 90-95.

[xxii] IRC Sec. 1221 and Sec. 1222. An individual’s gain from the sale of stock in a corporation (“S” or “C”) is taxed as capital gain; if the gain is long-term, a federal income tax rate of 20-percent will be applied; the same holds true for trusts and estates. IRC Sec. 1(h).

This should be compared to the sale of partnership interests. Although generally treated as the sale of a capital asset, the gain will be treated as ordinary income to the extent the purchase price for the interest is attributable to so-called “hot assets.” IRC Sec. 741 and Sec. 751.

If the selling shareholder did not materially participate in the business of the corporation, the federal surtax of 3.8-percent of net investment income will also apply to the gain. IRC Sec. 1411.

[xxiii] Congress recognized that there are circumstances in which the buyer has a bona fide business (non-tax) reason to acquire the stock of a target corporation. In some such cases, Congress decided it would be improper for the buyer to give up its ability to recover its purchase price for tax purposes; i.e., to have to choose between good business decision and a tax benefit. The result was the elections discussed below.

[xxiv] IRC Sec. 338(h)(10); Reg. Sec. 1.338(h)(10)-1.

[xxv] IRC Sec. 336(e); Reg. Sec. 1.336-1 through -5. It should be noted, if the buyer of the target’s stock does not want the sellers to make a Sec. 336(e) election, it should include a prohibition of such an election in the stock purchase agreement; specifically, a covenant not to make the election.

[xxvi] You’ll recall that the character of the gain – for example, ordinary income from the sale of receivables, or depreciation recapture from the sale of machinery – passes through to the target S corporation’s shareholders. The maximum federal tax rate for ordinary income included in the gross income of an individual is 37-percent.

[xxvii] IRC Sec. 1374.

[xxviii] IRC Sec. 331; Sec. 1371.

[xxix] The gross-up amount paid by the buyer will end up being allocated to the target’s goodwill and going concern value, and will be amortizable over 15 years under IRC Sec. 197.

[xxx] IRS Form 2553.

[xxxi] Presumably, counsel did not prepare or file the second amendment.

[xxxii] Within the meaning of IRC Sec. 1362(f).

[xxxiii] Assuming that Corp met all of the other requirements for status as a small business corporation.

[xxxiv] Or perhaps they asked for expedited handling.

[xxxv] As opposed to signing and closing on the same day.

[xxxvi] Query whether the sellers’ and the target’s attorneys have done their own diligence.

[xxxvii] “You can pay us now to fix the problem, and avoid bigger issues down the road,” they said, “or you can ignore us now, and pay a lot more to someone else down the road.”

About the Author:

Lou Vlahos practices tax law and has extensive experience in corporate, individual and partnership income taxation, and in estate and gift taxation, including tax planning, ruling requests, and tax controversy.

Lou counsels not-for-profit corporations in connection with reorganizations. He has advised cultural institutions, hospitals and other nonprofit organizations on their tax-exempt status, corporate restructuring, the creation and operation of supporting organizations (including fundraising entities), the structuring and acceptance of charitable gifts (including charitable trusts), compensation and other excess benefit issues, deferred compensation arrangements, and the taxation of unrelated business income.
Critical Steps for Starting a New Accounting Practice

Hugh Duffy

Starting an accounting practice can become one of the most rewarding things in life if you plan your entry properly, have a healthy do-it-yourself mentality, willingness to learn on the job and enjoy working with people.

The accounting industry is more diverse than most people realize. There are so many opportunities to create a practice that it boggles the mind. And for the right individuals, the rewards of self-employment, economic enrichment and gratification from helping prospective clients is why they do it.

Relative to other industries, starting an accounting practice is relatively low risk, if you have prepared yourself adequately, and requires low upfront investment. In the long run, the business model is excellent and selling an accounting practice when you want to exit the industry is very easy. Quite frankly, the business model is phenomenal and the need for accountants gets stronger each year with ever growing legislation.

Here are the key things for starting an accounting practice:

1. **Prepare yourself adequately before jumping in.** Before starting your own accounting practice, I recommend that you obtain at least 1-3 years of public accounting firm experience. The typical person has 5-15 years of accounting and tax experience before hanging out their own shingle. This is typically a combination of private and public experience. However, we’ve also seen several practitioners who start with just a couple years of experience and make up for their lack of experience with a healthier drive to learn on their own and run their own business.

   As a rule of thumb, acquire 80-90% of what you need to know while working for someone else’s practice (aka – working as an apprentice) and then jump in. Don’t expect to know over 90%. Even accountants who have owned a practice for many years learn new things on the job.

2. **Entry Strategy** – Most aspiring entrepreneurs are afraid of failure. Accountants are no different. Most accountants are thrifty and risk averse so their desired entry strategy is buying someone else’s accounting practice because it appears to be less risky. Unfortunately, this is a fallacy and is the most expensive way of entering the accounting industry.

   The accounting firms that are listed on the market for sale are the seller’s retirement nest egg so they want to sell to the most “qualified” buyer, both financially and experience wise.

   If the accounting practice they built is highly desirable, a larger CPA Firm will quickly gobble it up for cash.

   In our experience, it is far cheaper to acquire new clients organically using a proven marketing system.

3. **Determine the type of accounting practice you want to develop.** Just like any new business, your goal is to develop something that is unique and sustainable. By creating a unique twist on a need in the market, you can compete on something other than price and location.
The accounting industry is ripe with niche opportunities and emerging needs that are currently underserved, or often ignored. The goal is to identify what is unique within your experience base, evaluate what parts of your local market that are underserved, and determine if you can command a premium price for it. From our vantage point, the goal is to obtain higher pricing for superior “perceived” value.

4. **Location is more important than most accountants realize.** By all means, you don’t need expensive retail office space for your new practice but securing space in a location which is close to many small businesses is imperative for attracting the right type of clients. Often, many new practitioners will select an office location near their residential home for a shorter commute which is typically the wrong decision. The reasons for selecting a residential home (e.g., good school system, low crime, etc.) are very different than selecting an accounting firm location (e.g., abundance of small businesses, high population density, close to university/major hospital/business incubator/enterprise zones).

5. **Learn how to market yourself.** All new business owners need to learn how to use marketing for lead generation. The accounting industry is no different. In fact, it’s pretty simple if you are willing to invest a little into education and learn from the experts. In some cases, the marketing and lead generation can be outsourced.

6. **Learn how to price your services and overcome objections.** Even though this sounds basic, you’d be surprised how many new accounting practitioners struggle at this. Learn how to identify good from bad prospects, what types of services are more desirable, how to properly price your services, and how to overcome objections. Do not try to learn this on the fly.

In working with thousands of accounting firms, we’ve developed a short list of common mistakes that you will hopefully avoid.

**Mistakes to Avoid**

1. **Acquire an existing practice as your entry strategy.** This is an expensive history lesson. In a couple cases, I’ve even seen it bankrupt a few accountants because they purchase the practice with an SBA loan, attrition is higher than projected, and cash flow does not adequately cover loan payments. In some cases, the seller re-enters the market and poaches some of old clients. Yes, this happens more often than you would think…

2. **Adopt the same approach as your former employer.** As a new firm, you have the opportunity to start over with a clean sheet of paper and have no legacy issues. Use it to your advantage. New firms can better capitalize on cloud tax software, paperless environments, modern pricing approaches, modern marketing and virtual office practices. For example, most new practices tend to avoid audits and reviews, use SaaS tax software, store documents in the cloud (avoid buying servers), and service clients virtually (e.g., very few in person appointments) after the initial in-person consultation.

3. **Avoid traditional write-up and payroll services.** Most new practices learn to embrace QuickBooks and use it proactively to attract new business clients. Although QuickBooks is not the best software program, it has become the industry standard and gradually, Intuit will make QuickBooks Online a better cloud solution.

4. **Avoid accounting services that are one-time only oriented.** As a business owner, your goal will be to obtain predictable, recurring revenues (e.g., think cable or cell phone subscriptions). Avoid hourly fees, time clocks, and one-time charges. Package what you do into monthly payments and ongoing type service packages.

5. **Avoid outbound marketing techniques.** Decades ago, outbound marketing techniques like cold calling, door knocking, and fax marketing used to work. Today, it’s viewed as spam, seldom works and yields lower fees. Learn how to use inbound marketing and a consultative approach.

6. **Don’t expect lots of new business from friends and family.**

7. **Don’t be cheap on marketing and lead generation.** To get your new practice off the ground, it will take a lot more marketing effort than you realize. Most new practitioners fail to do enough in the first year which results in a shortfall of revenue (and a cash crunch later).

We wish you the best of luck and enjoyment in the development of your new business venture.

**About the Author:**

Hugh Duffy is the Co-Founder and Chief Marketing Officer of Build Your Firm, a website development and marketing company for accounting firms. With more than 30 years of marketing experience, he has been coaching accountants on how to improve their marketing and make more money from their accounting practice since 2003. Hugh takes great pride in the impact his coaching has on the practices and lives of his clients..
Sucession Plans: Why Your Nonprofit Needs One

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What would happen to your nonprofit if its CEO/executive director were suddenly no longer around?

Erika E. Cole, Esq.

Dwindling membership. Shrinking finances. Reduction of staff. These are some of the immediate results of what often occurs when a nonprofit fails to have a succession plan and its leader makes an abrupt exit. The National Council of Nonprofits warns that “[n]onprofits that are serious about their own sustainability will also be serious about planning for smooth and thoughtful transitions of leadership...”

As aptly stated by Nick Price at Board Effect, the “executive director or CEO is the cornerstone of every nonprofit organization. As trusted, strong leaders, CEOs give nonprofits a sound footing that extends to all other arms of the organization in one way or another.” The absence of succession planning can cause severe problems for organizations and raise numerous legal issues.

In the case of one DC-based nonprofit with significant holdings, when the nonprofit’s leader died suddenly without a succession plan, a rift ensued between the board and membership which resulted in years of infighting and costly litigation over the how the nonprofit should be governed going forward. As a result, the nonprofit saw diminishing assets and the mass exodus of staff and members. The nonprofit was nearly destroyed.

As the saying goes, the worst time for a person to try to learn to swim is when they’re drowning. The instance above is just one of far too many examples of the devastating consequences nonprofits suffer when they do not plan ahead for a transition in its top leadership.

According to ECFA’s most recent Nonprofit Governance Survey, 65 percent of all nonprofit boards self-report that they do not have a succession plan. As staggering as that figure is, the number is likely greater for smaller nonprofits, who often rely on volunteers for many of the day-to-day needs.

Why succession planning is essential

Dave Travis, CEO of Leadership Network, fittingly defines succession as “the intentional transfer of authority and leadership from one primary leader to another.” The need for new leadership can come very unexpectedly, such as in the case of a death, resignation, sudden illness, or termination of a leader. Whatever the reason for a change in senior leadership, nonprofits need a succession plan for at least five reasons:

• **Minimize disruptions.** Every nonprofit needs a carefully documented plan to ensure the reigns in leadership will be handed over to the next top leader in an orderly way that has minimal impact on operations.

• **Provide uninterrupted top leadership.** Organizations continue to need guidance and strong leadership when a senior leader leaves, and before the new leader arrives.
• **Properly handle the nonprofit’s resources.** Every nonprofit needs sound stewardship, especially during transitions. As an organization financially dependent on revenue from its members, a nonprofit must make every effort to properly steward the assets of its organization. A nonprofit that wastes resources on expensive litigation—which can be avoided by a succession plan—is not carefully managing the organization’s resources. In the case of the earlier referenced nonprofit whose founder died, the years of litigation jeopardized over 100 acres of valuable real estate, several valuable ventures and it brought a lot of bad press—both through traditional media and blogs. But worst of all, many people were turned off to nonprofit altogether.

• **Progression of mission.** Succession planning should not be thought of as just switching out one leader for a new one; rather, it is an opportunity for growth. The arrival of new leadership, when handled strategically and wisely, can breathe new life into an organization, ignite a fresh vision, and create innovative mission-related opportunities.

• **The best alternative to litigation.** In my experience, the alternative to chaos and court intervention is a well-orchestrated succession plan. When there is no thoughtful, documented plan established to fill the vacancy of the head of a nonprofit, chaos often results. That chaos often prompts conflict, and the opposing parties tend to look to the court system for help.

**Key questions to answer**

In their book *The Elephant in the Boardroom*, Carolyn Weese and J. Russell Crabtree outline several questions to help start the process of creating a succession plan:

• **Do you have a strategic plan that defines where your nonprofit is going and how you are going to get there?** Creating a new strategic plan or carefully examining the current one helps leaders explore the strengths and weaknesses of their nonprofit’s vision and mission. As far as succession planning goes, the leadership team should reflect on how a transition in executive leadership would affect the nonprofit’s vision and mission.

• **Do you have a clear understanding of your particular nonprofit’s culture and the specific advantages and risks an executive leadership transition poses?** Every nonprofit has a unique culture, and the current senior leader is often responsible for that culture. For instance, he or she might tap into certain grants or other resources. Does succession planning provide an opportunity to broaden that financial stream or change it in a way the nonprofit leadership finds desirable?

• **Have you had an honest, structured discussion with your governing board about what is going to happen to the nonprofit when the top leader leaves?** Having “the talk” between the senior leadership and the nonprofit board can be tough, no matter who initiates it, but it must be done. In fact, it should be done with regularity, as opposed to it being a haphazard, uncomfortable discussion. Make it a part of a regular agenda that starts early in the new leader’s tenure.

**Work with a qualified nonprofit attorney**

If the organization does not have in-house counsel, the nonprofit should engage a competent attorney with experience representing nonprofits. Along with a strong legal understanding of succession, the attorney should also know how to apply principles of nonprofit leadership, governance, and leadership transition. Moreover, an attorney with experience in this area of practice should be familiar with the legal parameters that such a plan can (and cannot) include.

**Positioned for success**

It has often been said that the only certainties in life are death and taxes. In large part, the nonprofit world has managed to avoid the latter, but the former has had its hand in the demise of too many organizations. Consider what actions you need to take to ensure that your nonprofit is best positioned for continued success by having a properly prepared succession plan.

**About the Author:**

Erika E. Cole is a partner in the Nonprofit Section and [Whiteford Taylor & Preston LLP](http://www.whiteford.com). Ms. Cole has 20 years of experience advising nonprofit and tax-exempt organizations in a broad range of legal matters, including charitable giving, governance, contracts and mergers.

Ms. Cole launched the Church and Faith-Based Organization practice at Whiteford, Taylor & Preston and is one of only a handful of attorneys in the nation who practices exclusively in the area of Church Law. Known as The Church Attorney®, she has dedicated her life to helping churches of all denominations and sizes ensuring that their legal affairs are in order so they can focus on spreading their message, serving their communities, and growing their ministries.
Failure to Document and Perform Due Diligence

An accountant was asked by his client to review an audited financial statement to provide an opinion whether there was adequate collateral to secure an investment in a company. The accountant spent less than two hours reviewing the document for a multi-million-dollar investment. The accountant did not seek any additional information, nor did he seek to speak with anyone regarding the financial information. The accountant did not prepare a written report and, in fact, did not create a file documenting his work. The accountant also did not ask his client to sign a retention agreement.

Later, the client lost his investment because the company for which the audit had been prepared went bankrupt. The accountant was brought into the ensuing litigation on a theory that he breached the standard of care because he did not identify issues in the audited financial statement and he did not seek more information. The parties disputed the scope of the accountant’s engagement and whether he should have sought additional information, particularly in view of the fact that there was a qualification contained in the audit of the financial statement. The accountant argued that his scope was limited to a review of the audited financial statement for the sole purpose of verifying that the company had adequate collateral to secure the investment. The accountant maintained that he was not hired to provide a thorough evaluation of the investment company. Other parties to the litigation, however, argued that the accountant was hired to provide a broader analysis and had a duty to advise his clients regarding the risk of investing in the company. The qualification in the audit was viewed as a red flag which indicated that the accountant did not have sufficient relevant data to afford a reasonable basis to draw a conclusion or make a recommendation.

What, if anything, could the accountant have done differently to avoid or lessen the impact of this claim?

Ask For A Written Retention Agreement

No matter how small you may view a job, it is always prudent to ask for a retention agreement. It is your opportunity to clarify your scope of work and to identify whether you and your client have different ideas regarding the level of service you will be providing. It is important to do this even if it is a long-standing client. Simply because you have been doing work for the client for a long time does not mean that you are in agreement on the client’s latest request for services. In our example, above, the scope of the accountant’s work was central to the claim against him. A written agreement would have helped to identify the limited scope of his work, thus likely eliminating any attempt to broaden the scope and thus, his potential liability.
Produce A Written Report/Documentation of Your Work

A written report will provide a clear road map of the work provided. It is also another opportunity to ensure that there are no misunderstandings about the scope of your work. In our example, above, the accountant could have provided a very short written summary of his review of the audited financial statement. In that summary, he could have noted the qualification contained in the audit and that he had not investigated it further. At that point, the client then would have had the opportunity to ask the accountant to investigate further if they desired. At the least, the client would be made aware of the qualification in the audit.

Take Time and Due Care

Even if the scope of your services is relatively limited, take the time to thoroughly review all of the information that is provided to you. If the information is incomplete, seek out the information to ensure that the missing information will not impact your work. If you are unable to obtain missing information, note it in a written summary of your services to your client.

Know What Your Duties Are

Once you have established the scope of work with your client, identify the standards to which your work will be subject and ensure that you are complying with those standards. In our example, a party to the litigation argued that the CPA professional standards required the exercise of “due professional care” and the gathering of “sufficient relevant data to afford a reasonable basis for conclusions or recommendations in relation to any professional services performed.” (AICPA Code of Professional Conduct Section 2.300.001.) The accountant arguably had not met that standard of care because he did not seek additional information that was potentially relevant to his analysis of the audited financial statement.

Administered by FTJ, your NSA Member Insurance Program offers professional liability insurance that protects your business from the risks you face every day. For more information on coverage and rates, contact our Errors & Omissions specialist Ladonna Filler at 1-800-821-7303 ext. 1157, or email her at LFiller@ftj.com.
NSA CURATED ARTICLES

NSA shares selected articles in the biweekly MemberLink email newsletter. They are selected by how useful they are for NSA members and their clients. Here is a sample of the most viewed articles from MemberLink.

Something to share with your clients is this guide, Steps to Take Before You Prepare Your Taxes, from Investopedia. Not only does this article help them, but the first step the article lists is Choose a Preparer. That gives you an excellent opportunity to explain to new clients why you’re the best choice, and to remind current clients of how well you serve them.

As a reminder to NSA members, be sure to keep your profiles updated on the member directory. Potential clients can’t find you if your contact information is incomplete.

Tax pros, accountants, and preparers will find this gem on PolicyGenius: How to get ready for 2020 taxes. This short article helps your clients by giving them five simple steps they can take to prepare for this coming tax filing season. Let them know that you are their trusted partner and can help them make the most of their deductions, explain tax changes and build a working strategy before it’s time to submit their returns.

Do you know why your clients get audited over and over again? In this article on AccountingWeb, Julian Block breaks down how the IRS chooses which filings get flagged. It’s worth a read. Read more.

NSA members derive value from their membership in many ways. NSA keeps members up to date, engaged, and provides information that is relevant to their professional lives. MemberLink, NSAlert, and other industry announcements are an example of that value.

NSA ANNOUNCES 75TH ANNUAL MEETING: SAVE THE DATE!

SAVE THE DATE

Cleveland

August 24-27, 2020

75TH ANNUAL MEETING
BENEFITS SPOTLIGHT: CYBER PROTECTION PACKAGE

Cyberattacks are escalating in frequency and intensity and pose a growing threat to the business community. Many recent incidents reflect the expanding spectrum of cyber threats — from hackers stealing customer account information, to attacks meant to disable a company’s website. Companies in greater numbers are seeking financial protection through skillfully underwritten cyber liability coverage.

Forrest T. Jones gives members access to cyber protection packages that include options like these.

DIGITAL CRIME: a first-of-its-kind bundle of coverages to protect your company from various types of digital crime including:

- Electronic transfer of funds
- Telephone toll fraud
- Cyber extortion
- Deceptive transfer

BREACH LIABILITY: broad liability coverage for any suits or demands related to cyber that result in a loss to your company including:

- Privacy liability
- Website media liability
- Payment card industry
- Regulatory

BREACH RECTIFICATION: coverage designed to get your business back on track as quickly as possible all while protecting your company’s brand and reputation. The coverage suite includes:

- Data breach team
- Business interruption
- Digital asset loss

Forrest T. Jones has been NSA’s insurance partner for almost 50 years. Their commitment to bringing top insurance policies to members is as strong today as it was in 1969. Be sure to access your current cyber insurance policy before the New Year and compare it to what FTJ offers.

For more information, contact Ronda Jones at (800) 821-7303 x1556 or RJones@ftj.com.
NSA members who have a federal tax question can take advantage of NSA's tax research assistance capabilities. NSA's professional research staff will search its extensive library to provide you with the information you need. Questions are typically answered within three business days or less. When you submit a question, our tax research department will research it and send you information, usually including citations.

What you need to know

1. To answer your questions in a timely and efficient manner, we recommend you submit your question in writing. This will allow you to include the necessary detail in your question needed for NSA to answer your question and will reduce the amount of time leaving messages back and forth over the phone.

2. Please include all pertinent facts with your question(s) with as much detail as possible—the more detail we have, the sooner we'll be able to respond to you and the less likely it is we will have to go back to you for additional information.

3. If you have already done some research, please let us know the extent of your research and the tentative conclusion you reached as a result of your research.

4. Do not send any documentation to the Tax Help Desk that contains private client info, such as social security numbers.

How to submit your question

Click this link to submit your tax question. You will receive an email confirmation after the Tax Help Desk receives it.

You can also email your question to taxresearch@nsacct.org. Include your NSA member ID#, your name, city and state, in the message.

To fax your written question download the Tax Research Fax Form.

NSA Active & Associate Members Get 5 Questions Answered-FREE!

This member benefit saves you at least $200 every year.

Reminder: The NSA Tax Help Desk will not answer state tax questions; perform or review calculations; prepare any returns, schedules or forms, render legal opinions, or give tax opinions. Only you and your client know all the facts, and only you can interpret the applicable tax law and apply it to your client’s situation. The NSA Tax Help Desk makes your life easier by providing the information you need to resolve a client issue.
DO YOU KNOW ABOUT ACAT?

The Accreditation Council for Accountancy and Taxation® (ACAT) was established in 1973 as a non-profit independent testing, accrediting and monitoring organization. The Council seeks to identify professionals in independent practice who specialize in providing financial, accounting and taxation services to individuals and small to mid-size businesses.

An ACAT designation provides concrete proof of your knowledge, reflects your industry experience, shows your commitment to a code of ethics and continuing education. The distinction of your achievement may allow you to advance your career and business by marketing yourself with a value statement based on the meaning behind the credentials.

Becoming credentialed is a simple process. Visit ACAT’s [website](#) to learn more about the credentials and the process that can lead you to greater success in your career and business.
SHOULD I ALWAYS CHANGE MY PASSWORD AFTER A BREACH?

Eléonore Le Bihan

NSA’s partner, Dashlane, shared this article with us about password safety in the aftermath of a data breach. Unfortunately, cyber security events of this kind are happening with increasing frequency. Just this month, shortly after launching, Disney+ was hacked, exposing the data of subscribers to cybercriminals. In fact, that information is already on sale on the dark web.

Pay special attention to Eléonore’s simple password tips. They are easy, actionable, and can keep you safer. -Editor

Every week or so, news of yet another company’s data breach breaks. Often, the news stories will include a list of what data was or wasn’t compromised: emails, credit card numbers, addresses, etc. When you use Dashlane, if that list includes “passwords,” you’ll automatically receive a security alert telling you to change your affected password and showing you other accounts you’ve stored in the app with reused or similar passwords so you can update those, too.

So, you might assume that if a news story doesn’t include “passwords” on the list of compromised data after a breach, there’s no rush to go reset yours.

But actually, resetting your password for any compromised account, regardless of whether that password was exposed, is exactly what you should do.

Why you should update your password for any compromised account

Even though 91% of people know that reusing passwords across accounts is bad, 59% of people still reuse their passwords—even between personal and work accounts.

There’s a chance the password you’re using on a compromised account is also being used elsewhere. And if someone already has your email address or other personal information from one breach, and then gets your reused password through another, they can put two and two together to hack your accounts.

It’s also possible that the breadth or depth of a breach may not be apparent or reported until months later, so passwords may indeed have been involved. Why take the risk?

The bottom line: No matter the extent of a company’s data breach, you should go change that password ASAP.

Here are a few more tips for creating strong passwords, and other smart password practices

1. Store passwords securely. If you use Dashlane, you probably know this, but never keep a list of passwords in plain text, like in a Word doc or Google doc. This applies to physical lists, too, especially in public places like an office.

2. Make them unique and strong. The strongest passwords are strings of random characters, because they’re the hardest to crack with simple brute force or dictionary attacks. Using a password manager like Dashlane helps you create and manage complex passwords.

3. Turn on 2FA (two-factor authentication). For your most important accounts, like banking and email, use two-factor authentication.
authentication. 2FA adds an additional layer of protection by requiring a second verification that you are who you say you are when you log in—usually via a code sent to your phone or email. When 2FA is enabled, even if someone gets a hold of your password, they still won’t be able to access your account unless they also have one of your devices. Check out Duo or Google Authenticator for 2FA options.

The tips above might seem like a lot if you try to do them all at once. Instead, pick at least one per week to implement in your digital life, and you’ll be more secure online right away!

About the Author:

Eléonore Le Bihan: Is the Product Marketing Manager for Dashlane.
Time to Renew PTINs

The IRS would like to remind tax return preparers to renew their Preparer Tax Identification Numbers (PTINs) before they expire on December 31, 2019.

“Last year we issued more than 813,000 PTIN’s and are asking tax preparers to renew now to avoid a last-minute rush,” said IRS Return Preparer Office Director Carol Campbell. “Having this essential element done now will make the transition to tax season much easier.”

Tax preparers with who have a PTIN issued or renewed in 2019 should use online renewal to speed up the process, which can take four to six weeks to turn around if submitted by mail.

To renew your PTIN online:

• Go to IRS.gov/tax-professionals
• Select “Renew or Register” button
• Enter the user ID and password to login to the online PTIN account.
• Follow the prompts to verify information and answer a few questions.

Once completed, users will receive confirmation of their PTIN renewal. There is no fee for renewing or obtaining a PTIN for 2020. However, tax preparers who do not have a valid PTIN may be subject to penalties.

Tax Inflation Adjustments for 2020 Tax Year

The Internal Revenue Service announced the tax year 2020 annual inflation adjustments on November 6, 2019. Revenue Procedure 2019-44 provides details for more than 60 tax provisions, including the tax rate schedules and other tax changes.

The tax law change covered in the Revenue Procedure was added by the Taxpayer First Act of 2019, and the failure to file penalty to $330 for returns due after the end of 2019 was increased. From 2021 forward, the new penalty will be adjusted for inflation.

The adjustments for the 2020 tax year are typically used on tax returns filed in 2021.
New Expense Deduction Guidance

The IRS issued new guidance for taxpayers who wish to claim certain deductible expenses in order to bring the deductions into line with the Tax Cuts and Jobs Act of 2017. Revenue Procedure 2019-46 contains the revised rules for using the optional standard mileage rates in computing the deductible costs of operating an automobile for business, charitable, medical or moving expense purposes.

The new guidance also delineates how to substantiate the amount of an employee’s ordinary and necessary travel expenses reimbursed by an employer using the optional standard mileage rates. Taxpayers are not required to use the process described in the publication but must substantiate the actual allowable expenses through recordkeeping.

Revenue Procedure 2019-46 contains these items as well as other guidance related to unreimbursed business expenses, and costs of operating an automobile in the course of business. Download Rev. Proc. 2019-46 here.