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Small Business Services Group

TRONCONI SEGARRA & ASSOCIATES LLP

Certified Public Accountants
Business Consultants

SOLUTIONS BEYOND THE OBVIOUS

"Dogs have no money. Isn't that amazing? They're broke their entire lives. But they get through. You know why dogs have no money? No pockets."

*Jerry Seinfeld, American stand-up comedian, actor, writer and producer.*

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# *Considerations for a Remote Workforce*

*By Michele A. Loretto, CPA, Manager, Small Business Department*

As the current work environment continues to evolve, employers are seeking out additional information on the ability to work remotely and what tax impact that has on the business and its employees.

Employers should begin by considering a few questions:

1. In which state(s) do we have employees doing work at a company facility or in a home office?
2. In which state(s) are we registered to do business for income tax, withholding tax or sales tax purposes?

Whether in an informal or detailed format, your responses should be clearly documented. This information will allow management to conduct a full risk analysis to determine if there is any tax exposure and how those risks should be addressed.

In most situations, the physical presence of an employee in a particular state is enough to create nexus, meaning a connection to that state, which may necessitate tax filings. Various states have provided some relief for employees temporarily working in another state given Covid-19, with the intent to return to the normal work location at some point. Those various state relief measures are set to expire at varying dates.

Some states follow the convenience rule, which says that any days worked in another state will only be considered actual days worked in that separate state if "it is for the convenience of the employer" and not the employee. There are five states that follow the convenience rule: New York, Connecticut, Pennsylvania, Delaware and Nebraska.

Other states have adopted reciprocal personal income tax agreements with one or more states, including the District of Columbia, that allow income to be taxed in the state of residence, even though it is earned in another state, as long as the income-source state is a party to the reciprocity agreement.

One final item to consider is state unemployment taxes, which may not line up with the states of withholding in all cases. The rules for state unemployment tax are based on localization, base of operations, control, and then residency.

## 2021 CHILD TAX CREDIT AND ADVANCE PAYMENTS: A DEEPER DIVE

*By Vedha Krishnamoorthy, CPA, FCA, Manager, Small Business Department*

The American Rescue Plan not only expanded the amount of the Child Tax Credit, but also created a newly advanceable monthly payment that commenced on July 15th and is expected to continue monthly for the remainder of the 2021 tax year.

The advance monthly payments are new and were rolled out rather quickly, so additional guidance has been released. The IRS recently launched a Child Tax Credit Update Portal (CTC UP), which allows taxpayers to update their individual information to reflect any new changes that might impact their 2021 Child Tax Credit amount, such as:

- Mailing address
- Bank account information
- Change in filing status
- Add/subtract qualifying children
- Report a change in your income

If your income for 2021 will be significantly different from the income shown on your 2020 tax return, the IRS now has the ability to adjust your estimated 2021 Child Tax Credit and therefore adjust the amount of the monthly advance payments yet to be paid.

If you do not receive advance Child Tax Credit payments for a qualifying child that you will claim in 2021, you may claim the full amount of your allowable Child Tax Credit when you file your 2021 tax return.

Taxpayers also have the option to opt-out of receiving advance payments through the CTC UP. If you are married, both the taxpayer and spouse will each need to unenroll. As a result, your future payments will be reduced to take into account your unenrollment or removal of a qualifying child. You may choose to unenroll for several reasons, including if you expect the amount of tax you will owe to be greater than your expected refund when you file your 2021 tax return. If no action is taken, you may need to repay to the IRS the amount of the advance payments that you received.

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# The New NYS Passthrough Entity Tax

*By Andrew J. Toth, CPA, Partner, Tax/SALT Team*

The 2021-22 New York State budget legislation includes a Passthrough Entity (PTE) tax as a workaround for the $10,000 state and local tax (SALT) cap, which was enacted as part of the 2017 Tax Cuts and Jobs Act (TCJA), to limit the amount of state and local tax an individual could deduct on their federal income tax returns each year. In response, NY and several other states filed lawsuits and attempted to create workarounds for their taxpayers, however none of these have been successful. On November 9, 2020 the IRS issued Notice 2020-75, which provides for amounts paid by a partnership or S Corporation to a state to satisfy their income tax liability, to be deductible by these entities when calculating their federal taxable income. Furthermore, these payments will not be counted toward the SALT cap of partners or shareholders when preparing their individual federal income tax returns.

New York's PTE tax is elective for partnerships, limited liability companies and S corporations. It is effective for tax years beginning on or after January 1, 2021, however an election must be made at the entity level no later than October 15, 2021 for the entity to participate this year. After 2021, the election is an annual election that must be made by March 15th of each year going forward. Once the election is made, it is irrevocable for that tax year.

The advantages to making the election are:

1) NY State income taxes paid at the entity level will be fully deductible by the entity and will reduce federal taxable income that flows through to the shareholders, partners or members.
2) Owners of a PTE will receive a credit for NY tax paid at the entity level that can be used on their NY personal income tax return.

The NY tax rates that will be applied to the PTE's taxable income are as follows:

- 6.85% for taxable income less than $2,000,000.
- 9.65% for taxable income of over $2,000,000 but less than $5,000,000.
- 10.3% for taxable income of over $5,000,00 but less than $25,000,000.
- 10.9% for taxable income over $25,000,000.

Electing PTE's will make quarterly estimated tax payments on March 15, June 15, September 15 and December 15 each year. For 2021, estimated tax payments will not be required and a tax payment will be required on March 15, 2022. Cash basis PTE's will need to make their tax payments by December 31, 2021 to be deductible this year.

Partners, shareholders or members of an electing PTE will be entitled to a credit against their NY personal income

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# Importance of Bank Reconciliations

*By Jeanine Bombard, General Ledger Specialist*

Cash is the most vulnerable asset in a business. Performing bank reconciliations is an internal control mechanism that can help identify unusual transactions that might be caused by simple accounting errors or worse yet, fraudulent activity.

It's extremely important to perform such reconciliations on a monthly basis to properly identify and stop nefarious or questionable activity. Someone should be looking closely at checks, transfers and other type of transactions on a regular basis. For the process to work most effectively, it is necessary to

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# Top 10 IRS Audit Issues

*By Michele A. Loretto, CPA, Manager, Small Bus. Dept.*

IRS audits are on the uptick, as IRS employees are returning to a more normal schedule, post pandemic. What are the top 10 areas on which auditors are focusing?

1. Unreported income: Auditors have many techniques to search for unreported income, but among the more commonly used is the bank deposit analysis. Bank statements are often requested for the audit period, and total deposits in excess of income reported on your tax return must be properly explained by the taxpayer.
2. Business vs. hobby: Auditors will carefully scrutinize the nature of a business and determine if there truly is a profit motive or if the taxpayer is improperly deducting losses related to a hobby activity. However, if the business had a profit in 3 out of the last 5 years, the burden of proof shifts to the IRS to prove losses should not be allowed.
3. S-corporation reasonable compensation: S-corporations must pay their shareholders a reasonable salary based on their duties and responsibilities. This is a hot audit issue, and the IRS will determine if compensation is unreasonable resulting in FICA and Medicare tax avoidance. Shareholder loans and distributions are considered in conjunction with compensation and may result in a recharacterization of taxable wages.
4. Losses in excess of basis: Shareholder or partner basis schedules should be updated annually when filing the business tax return. Flow-through business losses are only deductible on an individual tax return to the extent that a shareholder or partner has basis.
5. Construction industry: This industry is highly scrutinized in many areas including: under-reported income, accounting methods, capitalization of costs to long-term contracts, worker status, cash payments, depreciation and auto expenses.
6. Worker status: Payroll audits are conducted less frequently, but this is an area that should not be overlooked. Payments to independent contractors and employees will be closely examined to determine proper worker classification and to look for potential payroll tax avoidance.
7. E-commerce
   In a digital world, most companies now have an online presence with the ability to sell to customers throughout the U.S. and even globally. There are many ways customers can pay online, such as via credit card, PayPal, Apple Pay, Venmo, to only name a few. Taxpayers should always be careful to capture all sources of income. Auditors will request Forms 1099-K and question discrepancies.
8. Related returns and multiple years: There is always the potential for an IRS auditor to extend an audit to other related-party business returns or key shareholders' or partners' individual returns. They can also expand the scope of the audit to cover multiple tax years that are still open under statute.
9. Form 1099 noncompliance: Annual information return filings for payments to applicable vendors (otherwise known as Form 1099s) is another hot area that is closely examined by the IRS, and the penalties for noncompliance can compound quickly.
10. An increased emphasis is being placed on noncompliance and accuracy-related penalties, in addition to the standard underpayment and late filing penalties.

## CHILD TAX CREDIT, *Continued from Page 2*

It is important to note that in January 2022, the IRS will send taxpayers a letter to provide the total amount of advance Child Tax Credit payments that were disbursed to you during 2021. Please keep this IRS letter regarding your advance Child Tax Credit payments with your permanent tax records and provide a copy to Tronconi Segarra & Associates with your 2021 Tax Organizer information, as it will be needed for proper completion of your 2021 federal income tax return.

## ABOVE-THE-LINE DEDUCTION FOR CONTRIBUTIONS MADE IN 2021

*By Diane M. Straka, CPA, Partner, Small Business Department*

As a reminder, taxpayers are eligible to take a deduction for monetary contributions made by cash, check or credit card to qualifying charities in 2021, regardless of whether you itemize your deductions. The maximum allowed deduction is $300 for single, married filing separately and head of household filers, and $600 for married filing jointly. This deduction only applies to monetary gifts; the deduction is not allowed for non-cash donated items. As of now, this deduction is not available for tax years after 2021, so take advantage of this deduction this year and save your receipts for any such contributions made. Documentation to be retained includes a bank record or a written communication from the qualified charitable organization containing the name of the organization, the amount, and the date of the contribution.



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# *Back to School! Education Planning Reminders for Fall 2021*

*By Lisa A. Mrkall, CPA, MBA, Principal, Small Business Department*

School will soon be back in session for Fall of 2021. Parents and students alike are anticipating the return to classes in person with little to no remote classes and doing so with much enthusiasm. The pandemic certainly has brought the importance of the educational experience to the forefront. As such, this is an ideal time to share some important reminders for those saving for higher education, applying for financial aid and entering college this coming fall.

For many American students and their families, financing higher education comes from multiple sources. These may include financial aid, scholarships & grants, 529 plans and traditional savings accounts & investments. Each of these elements has various pros and cons. The Free Application for Federal Student Aid (FAFSA) is usually the first step and the key component in seeking financial aid and is the form schools will use to determine how much money to offer the student for college and the types of aid one can qualify for. The application opens October 1, 2021 if enrolling for the 2022-2023 school year. The FAFSA application needs to be completed every year if you are seeking federal aid and can be found here: FAFSA Application

A great option available to parents to save for education costs is a 529 plan. The 529 plan is an education savings plan in which the earnings grow tax-free and contributions are not taxed when the funds are withdrawn if used to pay for qualifying education expenses. Additionally, if you are a New York State resident and an account owner, you may be able to deduct $5,000 ($10,000 if married filing jointly) of your contributions annually when filing your state income tax return. Currently there is no federal tax deduction for contributions to 529 plans. An interesting strategy not as well known, is there is "no waiting period for withdrawals" in many states, including New York. Essentially, this means that a contribution can be made to claim the state tax deduction and then immediately withdrawn in the same year to pay for qualified education expenses. Lastly, qualified education expenses include: tuition and fees, college room and board, books, supplies, computers, internet access, registered apprenticeship program expenses, tuition and fees for K-12 schools (up to $10,000 per year) and up to $10,000 in student loan debt repayment. A 10 percent penalty plus income taxes will be imposed if the funds are withdrawn for a reason other than the uses noted above.

Like many aspects of planning for higher education, the various scholarships available to students entering college could lend itself to a full-length article. There are thousands of scholarships available, for nearly every interest, hobby, sport and academic achievement. Needless to say, scholarships can lessen the burden of rising tuition costs, provide students with more time to focus on studies, and reduce the amount of student loans needed to complete higher education.

Please do not hesitate to contact your TSA tax advisor to discuss in more detail the vast education planning options available to parents and students.

# *Bank Reconciliations,*

*Continued from Page 2*

segregate the duties of those responsible for the accounting and authorizing of bank transactions from those that are responsible for preparing and monitoring monthly bank reconciliations, otherwise fraud or theft by employees can be easily hidden.

When performing a bank reconciliation, you are actually ensuring that all transactions have been recorded correctly in your internal accounting system and that they match the transactions that actually cleared the business bank account. Most accounting systems provide bank reconciliation capabilities, but if not, below are four easy steps to perform a manual reconciliation:

1. Compare the bank statement ending balance to your book cash balance as of the same date.
2. Add any bank-only transactions to your book balance, such as bank fees and interest earned.
3. Subtract any checks or other disbursements from your bank balance that were recorded on the books, but remain uncleared (or outstanding) as of month-end. Likewise, add any deposits in-transit.
4. Compare your adjusted bank balance to your adjusted book balance.

Since you've already adjusted the balances to account for common discrepancies, the numbers should now match one another. If you find that the adjusted balances still do not match, then it's very likely an accounting or bank error has occurred that needs to be investigated further.

The importance of bank reconciliations cannot be overstated. It not only impacts the accuracy of the financial statements, but can also affect performance metrics, cash flow management and tax reporting.

# Cutting Ties with NYS: What You Need to Know

*By Melissa S. Howell, CPA, Principal, Small Business Department*

People seem to be fleeing the Empire State en mass for a whole host of reasons, including costly living expenses and high tax rates. More residents left New York over the past year than did residents of any other state, migrating to states that offer more attractive deals and incentives for companies and their employees. People are moving to states that have substantially lower taxes, more available jobs and larger homes for cheaper prices, such as: Arizona, Texas and Florida. But is it really that easy to cut ties with New York and change your residency status?

New York has two tests for determining residency:

1. Domicile Test
2. Statutory Residency Test

In this article, we will focus exclusively on the first, the Domicile Test. Your domicile is the place you consider to be your permanent home. There are five primary domicile factors used to determine where the taxpayer's domicile is located:

1. Home – use of New York residence as compared to an out-of-state residence
2. Active business involvement – where an individual's economic and financial activities are located
3. Time – how and where the individual spends time during the year
4. Near and dear – location of individual's possessions
5. Family – location of spouse and minor children

Changing your residency from one state to another can be a long and difficult process, and each of these factors should be carefully considered. The burden of proof is placed upon the taxpayer to establish clear and convincing evidence that you have established a domicile in the new state. The key is to plan ahead, intend to leave the state and land in another, and properly sever ties with NY.

The following is a list of steps individuals should consider taking when relocating to another state. Although it is important that a taxpayer perform these steps, no one step will automatically guarantee success in changing domicile for tax purposes, but rather assist in backing up their new residency position.

- Purchase a home or lease an apartment in the new state
- Move as much personal property as possible to your new home
- Open a safe deposit box in the new state
- Transfer valuable possessions and important papers
- File a change of address with the post office and the IRS
- Change your address directly with all institutions to your new address
- Register to vote in the new state and vote in person
- Obtain driver's license and vehicle registration in new state and surrender old ones
- Transfer major bank and investment accounts to new state
- Execute a new will under the laws of the new state
- Establish affiliations with religious, social, political, civic and professional organizations in the new state
- Establish new subscriptions and memberships and cancel old ones
- Establish relationships with physicians, dentists and professionals in new state
- File a declaration of domicile in the new state, if offered
- Claim homestead exemption when available
- Do not claim STAR in New York State
- File resident income tax returns in the new state, if applicable
- Be present in the new state more than you are in any other state

In many instances, taxpayers may not completely sever ties with New York and continue to maintain various connections to the state. When you have a home somewhere else, but you are in New York enough for whatever reason, you could be viewed by the New York State Tax Department as a Statutory Resident and taxed accordingly. Watch for our next newsletter as we explore the second test for residency, the Statutory Resident Test.

## MEET JEANINE BOMBARD!

Jeanine Bombard is the newest member of our General Ledger team/ Small Business Department, having joined Tronconi Segarra & Associates this past June. She has 15 years of QuickBooks experience gained while working in private industry. Previously, Jeanine was the Accounting and HR Manager at a durable medical equipment company in Tonawanda, and the Accounting/HR Manager at a jet boat company located in Youngstown, NY.

Jeanine is the proud mom of two children and one lively German Shepard. In just a few months, Jeanine will become a first-time grandma. We are all looking forward to seeing pictures of her new grandchild soon!

Like many of her new co-workers, Jeanine enjoys traveling. When she is not working or traveling, Jeanine can be found in her garden or her kitchen where she is either cooking or baking something delicious for her family.

Welcome, Jeanine!

# The New Passthrough Entity Tax

*Continued from Page 2*

tax equal to their direct share of the PTE tax. The amount of credit claimed will need to be added back to the partners, shareholders or members federal adjusted gross income when computing their NY taxable income.

PTE's considering making the election for 2021 have limited time to act. Before making the election, each PTE should prepare an analysis to determine if electing to pay the Passthrough Entity Tax is beneficial to their owners.

Please contact your Tronconi Segarra & Associates tax advisor if you have any questions on NY's new Passthrough Entity Tax.