



# The Accountant

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## A Message From The President

James L. Holmes



James L. Holmes

### Inside this Issue

Secure IoT Devices 2

Mileage Rates 2

Password Protection 3

Sales Tax 3

Withholding 3

Tax Law 4-6

Help Wanted 6

Phishing for Tax Preparers 6

Christmas and New Years have come and gone. I hope that everyone had a very Merry Christmas and that the new year will bring prosperity and happiness to all of you.

My Christmas and New Years was a little bit different this year as I have a pinched nerve in my back and have to walk with a walker. Fortunately I was able to get through teaching the NC State Tax Schools before I was unable to walk. I had an MRI last week and am meeting with my doctor at Chapel Hill to see what can be done to get me back walking again. Getting old is not for wimps.

As we get ready to start tax season this year we are finding that security is a major concern this year and that we will have to have longer passwords and change them more often. And while we are talking about security, those of us that use e-Services may have to authenticate our identities through a rigorous Secure Access Process. This is a two-step process, which means where we may have to give some financial information and prior year tax information that the IRS can verify and have a mobile phone in our name for the IRS to send us a code. The IRS is sending letters to certain e-Services users informing them they need to validate their identities. If you receive a letter you will have 30 days to authenticate their identities on line or by phone. The letter also says that if you have already completed the Secure Access authentication process through Get Transcript Online after May 2016, you do not need to take any further action. I did update my information after May, but I am going to call to see if I have to do anything.

One of the things I know all of want to be able to do again is to do Powers of Attorney on line through e-Services again. I can assure you that the National Society of Accountants and several other organizations are pushing hard to get this done, and I feel that it will happen in the near future.

There are several other things that need to be discussed, but I am sure that Stephen Metelits and his writers are going to be updating us in the following pages so I am going to leave it with the e-Services.

On a sad note, we lost Wayne O. Parker, a Past President and valuable member of our society on December 12<sup>th</sup>. Wayne will be missed, and I ask that we all keep his family in our prayers.

In closing let me leave you with this: *Accept what is, let go of what was, and have faith in what will be.*



## Secure IoT Devices

The Federal Trade Commission says hackers are going after Internet of Things (IoT) products such as cameras and refrigerators using them to create havoc on the Internet. In October, hackers attacked such devices, turning them into zombie computers to overwhelm and shut down popular sites including Netflix, PayPal, and Twitter. To reduce the risk of compromise to your home network and smart products:

- Don't just click "next" when you set up your IoT device. Review the default settings carefully before making a selection, and use the security features for your device.
- Download the latest security updates for your IoT device. To be secure and effective, the software that comes with your device needs updates. Before you set up a new device and periodically afterwards, visit the manufacturer's web site or the device's settings menu to see if there's a new version of the software.
- Change your pre-set passwords. The manufacturer may have assigned your device a standard default password. Hackers know it, so change it to something more secure.
- Check the FTC's additional tips on [www.ftc.com](http://www.ftc.com).

## Mileage Rates

In IR-2016-169, the IRS announced the mileage rates effective January 1. The rates are:

- Business—53.5¢/mile
- Medical—17¢/mile
- Moving—17¢/mile
- Charity—14¢/mile

A taxpayer may not use the business mileage rate for a vehicle after using any depreciation method under MACRS or Section 179. In addition, the business mileage rate cannot be used for more than 4 vehicles used simultaneously.

For automobiles a taxpayer uses for business purposes, the portion of the business mileage rate treated as depreciation is:

- 2012—23¢/mile
- 2013—23¢/mile
- 2014—22¢/mile
- 2015—24¢/mile
- 2016—24¢/mile

For purposes of computing the allowance under a FAVR plan, the standard automobile cost may not exceed \$28,000 and the standard van or truck cost may not exceed \$31,000.

## Password Protection

The IRS says it's time to have a word about your password. Many of us use the same sign-on and password over and over for our on-line accounts. That's why phishing scams, which often seek password information, are so successful. Once a criminal has your password for one account, it's highly likely you've used the same sign-on information for other accounts.

The IRS, state revenue departments, and the tax industry have teamed up to combat identity theft in the tax arena. We all have agreed to new, stronger standards that you will see when you access your tax software products and file the taxes. These include:

- A password that has 8 or more characters, including upper and lower case letters, numbers, and a special character.
- New features include a timed lockout and limits on unsuccessful log in attempts.
- You must complete 3 security questions.
- Tax software partners must verify e-mail addresses. In many cases, this means a PIN will be sent to your cell phone that you must use to verify your address before you can proceed with your tax software.

These are just a few of the new protections that are in place for the 2016 tax season to protect you from identity thieves. Most of the protections we are taking may not be visible to you, but they will add layers of protection nonetheless, adding new and stronger protections during tax time.

While we are taking these steps, it's a good time for you to think about the passwords you use for other accounts. You always should use strong passwords with a mix of letters, numbers, and special characters. Do not use the same password for multiple accounts. The longer, the better. And change your passwords regularly.

## Sales Tax

Exempt from sales tax:

- Inspection fee required by law
- Services by a relative
- Services to resolve issue on real property within months of occupancy
- Cleaning of real property
- Services on roads, parking lots, and sidewalks
- Removal of waste, trash, debris, and snow from personal property except from portable toilets
- Home inspections for the sale of real property
- Alteration or repair of clothing
- Pest control service
- Moving service
- Self-service car wash

## Withholding

The NC DOR has the Wage Withholding Tables publication NC-30 available on the Internet. You can find it for download at [DORNC.com/downloads/nc30\\_2017.pdf](http://DORNC.com/downloads/nc30_2017.pdf). It is over 40 pages.

## December 18, 2015

The *Protecting Americans From Tax Hikes Act of 2015*, passed in December has over 300 provisions. Many of them are included below:

- The Child Tax Credit is "permanent" and, to the extent the credit exceeds the taxpayer's liability, the taxpayer is eligible for a refundable credit (the Additional Child Tax Credit) equal to 15% of earned income in excess of a threshold amount of \$3,000.
- The Hope Scholarship Credit is \$1,800 indexed for inflation for the first two years of post-secondary education and phases out for AGI starting at \$48,000 (single) or \$96,000 (joint).
- The American Opportunity Tax Credit is \$2,500 for four years of post-secondary education, is "permanent", and phases out for AGI starting at \$80,000 (single) or \$160,000 (joint).
- The Earned Income Tax Credit is "permanent", workers may be eligible for the credit with 3 or more children, and the marriage penalty is reduced by increasing the income phase out range by \$5,000 (joint), and indexed for inflation.
- The teachers above the line deduction of \$250 is "permanent" and indexed for inflation starting in 2016.
- Income for employer-provided mass transit and parking benefits are "permanent" and excluded from income.
- The deduction of state and local income taxes is "permanent."
- The charitable deduction for contributions of capital gain real property is "permanent." Starting in 2016, Alaska Native Corporations can deduction up to 100% of taxable income.
- The ability of individuals at least 70½ to exclude from income charitable distributions from IRAs up to \$100,000/year/taxpayer is "permanent."
- The limitations of the charitable deduction for contributions of food inventory beginning in 2016 is increased to 15% of AGI.
- The R & D Tax Credit is "permanent" and beginning in 2016 eligible small businesses (up to \$50 million gross receipts) may claim the credit against AMT and the credit can be used by certain small businesses against the employer's FICA liability.
- For employers with up to 50 employees, the 20% employer Wage Credit for employees called to active duty is "permanent" and, in 2016, extends to all employers.
- Section 179 Property:
  - Small business expensing limitation (\$500,000) and phase out amounts (\$2 million) are "permanent" and adjusted for inflation beginning in 2016
  - Also made "permanent" are expensing for computer software, leasehold improvements, restaurant property, and retail improvements
  - HVAC units are added beginning in 2016
- Exclusion of 100% of gain and AMT on certain small business stocks for non-corporate taxpayers to stock acquired and held for more than 5 years is "permanent."
- The period for which an S corporation must hold its assets following a conversion from a C corporation is 5 years to avoid the tax on built-in gains.
- The 9% minimum credit for the Low-Income Housing Tax Credit for non-federally subsidized new buildings is "permanent."
- The exclusion of military basic housing allowances from the calculation of income for determining eligibility as a low-income Housing Tax Credit building is "permanent."
- The Work Opportunity Tax Credit applies to employers who hire qualified long-term unemployed individuals beginning in 2016 is 40% of the first \$6,000 of wages and extends through 2019.

*(continued on page 5)*

## December 18, 2015 *(continued from page 4)*

- Bonus depreciation:
  - 50% for property placed in service 2015-2017, 40% for property placed in service 2018, and 30% for property placed in service in 2019.
  - In lieu of bonus depreciation, can accelerate the use of AMT credits
  - Includes qualified improvement property and certain trees, vines, and plants bearing fruit or nuts when planted or grafted rather than after placed in service.
- The exclusion from gross income of discharge of qualified principal residence indebtedness through 2016.
- The treatment of mortgage insurance premiums as qualified residence interest extends through 2016 and phases out ratably for a taxpayer with AGI of \$100,000 to \$110,000.
- The above the line deduction of tuition and related expenses is capped at \$4,000 for AGI of \$65,000 (single) or \$130,000 (joint) or capped at \$2,000 for AGI less than \$80,000 (single) or \$160,000 (joint)..
- The first \$15 million of costs may be expensed for qualified film, television, and live theater productions through 2016.
- The 2.3% excise tax on the sale of medical devices does not apply 2016-2017.
- A credit of 10% of the amount paid or incurred for non-business energy improvements up to \$500 through 2016 only.
- A credit of up to 30% of the cost of installing of alternative fuel vehicle refueling property through 2016.
- The credit for 2-wheel plug-in electric vehicles of 10% is capped at \$2,500 through 2016.
- The \$1/gallon tax credit for biodiesel and biodiesel mixtures and the small agri-biodiesel producer credit of 10¢/gallon through 2016.
- An eligible contractor may claim a \$1,000 or \$2,000 credit for the construction or manufacture of a new energy efficient home that meets qualifying criteria through 2016.
- The above-the-line-deduction for energy efficient improvements to lighting, heating, cooling, ventilation, and hot water systems in commercial buildings through 2016.
- The credit of between \$4,000 and \$40,000 (depending on the weight of the vehicle) for the purchase of a new qualified fuel cell motor vehicle.
- For returns filed in 2017 or later, Forms W-2, W-3, and returns or statements to report non-employer compensation must be filed by January 31 of the year following the calendar year to which such returns relate.
- *De minimis* errors on information returns and payee statements:
  - Failure to file or errors on information returns or payee statements,. if the error is \$100 or less (\$25 or less in the case of tax withholding), there is no penalty and no requirement to file a corrected return.
  - A recipient can elect to have a corrected return issued to them and filed with the IRS.
  - For forms filed after December 31, 2016
- ITIN requirements:
  - The applicant must provide documentation in person to the IRS, a certified acceptance agent, or by mail.
  - Individuals issued an ITIN before 2013 are required to renew their ITIN on a staggered schedule between 2017 and 2020.
  - ITINs expire if an individual does not file a tax return for 3 consecutive years.

*(continued on page 6)*

## December 18, 2015 *(continued from page 5)*

- o Cannot retroactively claim the Child Tax Credit for prior years in which the individual or child for whom the credit is claimed did not have an ITIN.
- o Cannot retroactively claim the American Opportunity Tax Credit for prior years in which the individual or child for whom the credit is claimed did not have an ITIN.
- For tax years beginning after December 31, 2015, there is an expansion of the paid-preparer due diligence requirements with respect to the Earned Income Tax Credit (the \$500 penalty for failure to comply), to cover returns claiming the Child Tax Credit, and to cover returns claiming the American Opportunity Tax Credit.
- There are restrictions on taxpayers who improperly claim credits for prior years on the Earned Income Tax Credit for 10 years if convicted of a fraud and for 2 years if they have been found to have recklessly or intentionally disregarded the rules, to apply to the Child Tax Credit and American Opportunity Tax Credit for tax years beginning after December 31, 2015.
- The penalty for tax preparers who engage in willful or reckless conduct is the greater of \$5,000 or 75% of the preparer's income with respect to the return.
- To claim the American Opportunity Tax Credit, the taxpayer must supply the EIN of the educational institution to which the taxpayer makes payment for tax years beginning after December 31, 2015, and expenses paid after that date.
- For Form 1098-T, education institutions are required to report only qualified tuition and related expenses actually paid after December 31, 2015.
- For tax years after December 31, 2014, a disabled person can open an ABLÉ account in any state.
- Any monetary awards that an individual receives for wrongful incarceration is excluded from gross income.
- After December 18, 2015, a taxpayer can roll over amounts from an employer-sponsored retirement account to a Simple IRA provided the plan has existed for at least 2 years.
- After December 18, 2015, taxpayers who have been victimized by the IRS, for example through the unauthorized disclosure of private tax information, to find out basic facts such as whether the case is being investigated or whether the case has been referred to the Justice Department for prosecution.
- After December 18, 2015, gift tax does not apply to contributions made to organizations exempt from tax under Sections 501(c)(4), (5), and (6).
- After December 18, 2015, employers are required to provide a truncated SSN on Form W-2.
- After December 18, 2015, enrolled agents can use "enrolled agent," "EA," or "E.A."

## Help Wanted

Employee needed with QuickBooks, Payroll and Tax Prep experience - please contact Richard Reedman if interested - office number is 919-872-1657. Location is North Raleigh

## Phishing for Tax Preparers

### ***Stephen Metelits***

This morning I got an e-mail from "Todd Herst" telling me his former accountant has a "grave illness" and cannot do his family taxes. Can I? While he would prefer to meet in person, he is out of town with family on vacation for the rest of the month. If I reply, I will get an e-mail with an imbedded link which leads to someone getting access to my files. *Don't reply.*

## NCSA Schedule of Events

### 2017

June 22-23–**Convention**,  
Grandover, Greensboro

### 2018

June 20-23–**Convention**,  
Pine Needles, Southern Pines

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