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NewsBrief

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Benefits of Bunching Charitable Contributions

By Denise Coyle, CPA

Tax reform, known as the Tax Cuts and Jobs Act (or TCJA), significantly changed tax planning and preparation for many individuals, especially those who have itemized deductions in the past. The limitation of state and local income taxes to $10,000, the elimination of miscellaneous itemized deductions and the increase in the standard deduction for 2019 to $12,200 (for single filers and married individuals filing separately) and $24,400 (for those married individuals filing joint returns), has resulted in many taxpayers finding the standard deduction to be more beneficial. But what about those individuals who want to support certain qualified charitable organizations, but also want to see a tax benefit from their generosity? The best course of action for those taxpayers is to bunch their charitable contributions.

Bunching charitable contributions involves planning and forethought. The goal is to bunch charitable contributions that normally would have been made over two years into one year. This results in itemized deductions being more beneficial than the standard deduction in the years contributions are made and the standard deduction will be taken in the years in which no contributions are made.

To illustrate how this works, here is an example:

John and Alice are married and file a joint tax return. They have several charities they like to support and usually donate about $7,500 per year in total contributions. Their 2019 Adjusted Gross Income (AGI) is $170,000, they have mortgage interest of $6,000, Real Estate Taxes of $6,000 and State Income Taxes of $11,000. Because their state and local taxes are limited to $10,000, their total itemized deductions would be $23,500 ($10,000 +$6,000 +$7,500). In this case, it would be more beneficial for them to take the standard deduction of $24,400, so they would receive no tax benefit from donating to their favorite charities.

To maximize their tax deduction benefit, John and Alice should bunch their contributions normally donated over two or more years into one year. In 2019, they can skip making contributions and instead make donations totaling $7,500 in January 2020. They should also donate the $7,500 they normally would have donated during 2020, thus doubling up (or bunching) their charitable contributions for 2019 and 2020 into one year for tax purposes. This will result in the following itemized deductions for 2020: $10,000 state and local taxes, as limited, + $6,000 mortgage interest + $15,000 charitable contributions = $31,000. In this way, they will maximize the tax deduction for making contributions to their favorite charities. Their 2020 tax return will show $31,000 in itemized deductions ($6,200 above the projected 2020 standard deduction of $24,800), thus lowering their 2020 tax bill and their 2019 tax return will use the $24,400 standard deduction for married taxpayers filing a joint tax return. Without using this strategy, John and Alice would have taken the standard deduction amount for both years and would not have received any tax benefit for making charitable contributions.

Why Outsourced Accounting Might Be a Good Idea for Your Start-Up Business

By Renata Dabrowska, CPA

Finding a qualified controller or CFO is not always easy. Demand for professionals with the right skill set is high, making recruiting difficult. And as a start-up business, you may be growing fast, which makes keeping up with back-office demands more challenging. Just when it is critical to focus on managing the business side of your company, you also need help with compliance, reporting, and data processing.

An increasing demand for highly qualified candidates to fill financial department roles, combined with the fast, unpredictable growth of start-up companies means it is often more cost effective to hire an outside professional to help with your accounting needs. Here are some of the advantages to outsourcing your accounting function:

Expertise and Experience: A CPA firm that provides outsourced accounting services utilizes staff, many of them CPAs, who have experience working with small, mid-sized, and large companies. They have experience helping businesses in each stage of growth and can anticipate what your start-up may need next. With easy access to each other's expertise, they can help you with the myriad of situations you might encounter: federal grant compliance, multistate issues, foreign activities tax compliance, assistance with financing, reports to investors, and more. They can serve as a valuable resource and partner on your road to success.

Flexibility: Maybe you just started your business and you need assistance keeping your QuickBooks up to date on a cash basis. Even if you do not have many resources yet, a CPA firm can do it for you for a modest fee, thereby saving you time so you can focus on growing your business. As time passes, you might hire employees, increase sales, acquire new investors, and expand to other states—suddenly you are not a small start-up anymore. A CPA firm can help you manage your business's growth from the accounting standpoint, adjusting their services as your needs and resources change, saving you the worry of hiring additional employees to meet the new requirements.

Technology Improvements: Accounting applications are evolving at a rapid pace. It is essential to have a partner who stays current with software updates and changes, and can help you take advantage of applications that improve efficiency. A CPA firm who provides outsourced accounting services can assist and advise start-up businesses on what accounting software solutions might work best for them.

Cost-Effective Service: Sometimes you only need part-time or temporary controller or CFO services. Finding a qualified professional for a part-time or temporary role can be difficult. A CPA firm can customize a service package with just the number of hours and timeframe that you need. They often utilize new technologies that enable them to be very efficient. This means that you are getting a high-quality service for less than the cost of hiring an employee.

Outsourced accounting can serve as an optimal solution for start-up businesses as well as established companies. The built-in flexibility of working with us means that you can outsource only the functions you want to and perform the others in-house.

If you are interested in learning how we might be able to help, please reach out to a member of our Outsourced Accounting group.

Impact of the New Revenue Standard on Your Software Start-Up

By Katie Fisher, CPA

Effective December 16, 2018, all private companies that report under U.S. GAAP are subject to the new revenue recognition guidance under Accounting Standards Codification (ASC) 606. The new standard requires companies to follow a 5-step approach that involves identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the identified performance obligations, and recognizing revenue when (or as) the company satisfies a performance obligation. What does this mean for your software startup?

Oftentimes, software contracts include post-contract customer support such as technical support, maintenance, and software updates. In fact, some post-contract customer support, even though not clearly defined in the contract (such as when-and-if available software upgrades), might be implied by the entity's customary business practice. Under ASC 606, entities need to evaluate whether these services are distinct performance obligations from the license itself. If so, they will need to determine how to measure progress towards complete satisfaction of such obligations. For instance, for stand-ready services that may or may not be utilized during a specified time period, performance obligations may be satisfied with the passage of time regardless of the number or significance of updates or customer support provided during the period.

Entities will also need to consider whether software intellectual property (IP) is distinct in cloud computing arrangements. The first step is to determine whether a software license exists within the scope of ASC 606. If the customer cannot take possession of the software at any time during a hosting arrangement without significant penalty, or cannot feasibly run the software on its own hardware or a third-party hardware, then a software IP license does not exist and therefore is not a separate performance obligation in the contract. In such cases, the software IP is only considered utilized by the entity in providing other services to the customer. This is also the case in software-as-a-service (SaaS) arrangements. Under SaaS arrangements, IP is run on the entity's system via the "cloud" and accessed remotely by the customer. As the customer does not have the rights to obtain the software and run it on its own systems, a SaaS arrangement does not include a promise of a license.

As a sales incentive, start-ups often offer price concessions to its customers. Price concessions may take many forms, including, but not limited to, price discounts, rebates, refunds, credits, or extensions of scheduled payment obligations. Even if it's not explicit in a contract, oftentimes customers have a valid expectation of a price concession arising from an entity's customary business practices. Regardless of whether price concessions are explicit or implied, entities will need to estimate such concessions at the start of the contractual arrangement to determine the actual transaction price. To do so, they will need to consider all reasonably available information – historical, current, and

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What the Wayfair Decision Means for Remote Sellers

By Evan Ramiza, CPA

On June 21, 2018 the U.S. Supreme Court decided South Dakota v. Wayfair, Inc., 138 S. Ct. 2080 (2018), whereby the longstanding precedent of physical presence nexus as decided in Quill Corp. v. North Dakota, 112 S. Ct. 1904 (1992) was overturned. Prior to this decision states could only enforce a sales tax collection obligation on businesses that had physical presence in the state. While the physical presence rules are still in effect, this decision expanded the collection obligation to include businesses with an economic presence. Businesses with an economic presence cross identified sales or transaction thresholds with customers within the state.

In the 18 or so months since the decision, 43 states have identified either by legislation or regulation sales and activity thresholds to create a collection obligation or determined that they have existing provisions that covered the economic thresholds.

In the Wayfair case, the economic presence threshold established by South Dakota included annual sales of goods or services of at least $100,000 or at least 200 individual transactions for the delivery of goods or services into the state.

Unfortunately, the 43 states that have adopted this new concept did not adopt the concept uniformly and their differences include thresholds for both sales and transactions, definition of sales, treatment of exempt vs. nonexempt sales, effective dates, evaluation period, and a myriad of other identified differences.

What this means for your business is that firstly you need a well-documented approach to track sales into other states for which you are not already filing sales tax returns based on total sales, number of transactions, type of transaction, exemption certificates as appropriate, and delivery location (as opposed to billing location). These amounts need to be monitored on a continuous basis to ensure that all relevant collection requirements are followed and as new collection and filing requirements are met, registration, collection, and remittance are occurring. Continual monitoring is important because if a state was to determine, by audit or other means, that your business should have begun collecting sales tax at a certain date, they will calculate the sales tax owed based upon transactions entered into after that date regardless of your collection of the tax from your customers. Depending upon the type of business you operate and the sales taxability of the transactions, this is a number that can add up quickly in terms of both business liability as well as potential responsible person liability.

While potential liability due to noncompliance can most significantly come from the non-collection of tax on sales taxable items, there is also potential liability for entities that sell exempt products due to lack of required registration in those states. Depending upon the rules established by each state, a company with exempt sales may have to register and potentially file tax returns in that state.

This change from a physical presence standard to that of economic thresholds has placed significant additional reporting and filing requirements on small businesses and if those requirements are ignored or not considered, may place significant liability on them as well. The best way to limit potential issues is to start early with a proper data collection system and proper monitoring of sales to ensure these new rules are followed before they turn into large problems.

Impact of the New Revenue Standard on Your Software Start-Up

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forecasted – to identify a reasonable number of possible consideration amounts and then determine the most likely or expected amount of consideration they will receive.

The new revenue recognition standard has a large impact on how revenue is recognized and reported in GAAP-basis financial statements. This is especially true for software companies. By assessing your revenue streams under the 5-step process, considering all the nuances specific to your company, and drafting a revenue recognition policy, your start-up will be well prepared to comply with GAAP for your financial reporting needs.

Sciarabba Walker & Co., LLP

www.swcllp.com | 607-272-5550

Our Partners:

David Iles, CPA, Managing Partner
Linda Bruckner, CPA
Renata Dabrowska, CPA
Jeff Gorsky, CPA
Amy Iles, CPA
David Stinson, CPA, MS

Sciarabba Walker & Co., LLP
410 East Upland Road
Ithaca, NY 14850

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What Your Will Does and Does Not Do

The Impact of Beneficiary Designations, TOD Designations, and Trusts on Estate Planning Through Your Will

By Michelle Flinn, CPA

When planning for the distribution of assets at death, you have a few choices on how to best implement your intentions. You need to consider who you want to receive your assets and what is the best way to make that happen.

A will is a common and important method used to dictate your post-death wishes. A will governs the distribution of individual assets that you own in your name alone. As part of the probate process, individual assets that pass only by direction of the will are frozen until someone (generally an executor) is appointed and granted authority to distribute those assets. The length of time for probate can vary greatly depending on where you live. If there is no will, then assets are disbursed according to the law of the state you die in. In addition to documenting your wishes regarding the distribution of your financial assets, a will may also list certain other provisions, create trusts, or handle issues related to the care of minors.

Transfer on death designations are a great way to transfer assets after death without going through probate. These are accounts set up as joint assets with right of survivorship and immediately pass to the surviving owner(s) upon your death. This type of designation can be used to transfer assets to other than a spouse beneficiary (such as a child) and does not allow the designees to have access to your accounts while you are alive. A transfer on death designation on an account supersedes the will with respect to the disposition of the assets in the account.

Beneficiary designations are another method of assets transferring outside of probate and are generally used for retirement accounts and life insurance. The named beneficiary receives the assets directly and outside of the probate process. As with the transfer on death designation, a beneficiary designation overrides any beneficiary of the asset named in the will. It is important to keep beneficiary forms updated and to review them occasionally, particularly if you have a change in circumstances.

Trusts are another estate planning tool and there are many options to create them both pre-death and by will to be formed at death. There are many different purposes ranging from trusts for minors or special needs beneficiaries to those that protect children in second marriage situations. There is some time and complexity to setting up and properly administering a trust, but they are a useful part of many estate plans.

Most estate plans utilize a combination of the above transfer planning techniques. Estate planning is often done by a team of attorneys and accountants. Please contact us if you are interested in planning an estate.

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