August. 2019
Volume 3, Issue 1

TaxSlayer PRO

Support Connection

Looking Back—Looking Ahead

After April 15th, many in the industry go on vacation or find other ways to relieve the stress that comes with the long hours of tax season. Last year there was less time to decompress. The IRS, state taxing authorities and most tax industry professionals realized that when tax season ended they had their work cut out for them getting ready for the next. Last year the IRS and the states were implementing historic tax law changes resulting in new tax forms, and updating their instructions and publications.

TaxSlayer used professionals both in and outside our organization to assist in training every company employee, regardless of their job. TaxSlayer dedicated a special project team with representatives from the development and customer support departments to implement the tax changes in the program. The support team joined the thousands of tax professionals that attended in record number the IRS nationwide tax forums and participated in various other tax seminars and events on the new law.

Ultimately the Tax Cuts and Jobs Act didn't end up impacting taxpayers as much as most industry leaders believed it would. As of May 10, 2019, the average federal tax refund was $2,729, down only 1.7% compared to last year and the number of taxpayers receiving a refund fell by only 1%.

Although most tax law changes enacted by the Tax Cuts and Jobs Act took affect for 2018 tax returns, several more will be implemented this year. Most of the provisions in the Tax Cuts and Jobs Act that was passed in December, 2017 were made

(Continued on page 8)

Inside this issue

Special points of interest

- Annual User Seminar Update
- Upcoming Due Dates
- Support Hours of Operation

2019 Filing Season

IRS Filing Season Statistics through May, 2019

Total Returns Received

141,567,000

Total Returns E-Filed

127,939,000

Paid Preparer E-Filed

71,725,000

Self Prepared E-Filed

56,214,000

Preparer Tax Identification Number—Fee Update

Since 2010, the IRS has required tax preparers to obtain and use a Preparer Tax Identification Number (PTIN) in order to prepare tax returns for a fee. When the PTIN requirement was first implemented, the IRS required paid preparers to pay a fee in order to obtain a PTIN, and thereafter pay an annual renewal fee. Also, certain licensing efforts were implemented by the IRS which would have required preparers to pass a competency test and meet continuing education requirements in order to obtain or renew their PTIN. All of the license and PTIN requirements were the subject of much litigation between the IRS and representatives of the tax preparation industry.

Initially, the issue of whether the IRS had the authority to implement both the PTIN and the competency requirements on tax preparers was raised. Ultimately, the competency test and continuing education requirements were struck down by the courts, but the federal court ruled that the IRS could require preparers to obtain a PTIN. The PTIN litigation then revolved around not whether the IRS could require a PTIN, but if the IRS could charge a fee to obtain and renew a PTIN.

In June of 2017, a federal district court ruled that the IRS could not charge tax preparers a fee to obtain or renew a PTIN. The IRS was ordered to stop collecting fees and to fully refund any fees that were previously collected. As a result of the order, the IRS immediately ceased charging for a PTIN, and tax preparers were not required to pay PTIN fees in 2018 or 2019.

In March of this year, the Court of Appeals reversed the district court's earlier ruling and found that tax preparers do receive a benefit by having a PTIN because they do not have to use their Social Security Numbers on tax returns. The appeals court determined that **the IRS can charge preparers a reasonable fee** associated with the issuing and renewing of PTINs and maintaining the PTIN database. The amount of this fee has yet to be determined. The IRS will need to get the proposed amount approved by the courts, which may happen before next tax season. Tax preparers should be aware that they will most likely be paying a fee at some point in the near future when they obtain or renew their PTINs.

Qualified Opportunity Fund

When the Tax Cuts and Jobs Act was enacted on December 22, 2017, the new law contained a provision that was designed to encourage investment in economically distressed communities. This provision was not widely reported at the time because it would take some time for the Treasury Department to implement the provisions of the new investment opportunity. However, this investment strategy will be something that tax professionals will likely encounter in 2019 and subsequent years. It also may be a significant tax planning strategy for many investors.

Basically, when investing in a Qualified Opportunity Fund (QOF) an investor is permitted to defer any capital gain that they have realized if they re-invest that gain within 180 days. The QOF is simply an investment vehicle that is set up either as a partnership or corporation to invest in eligible property that is located in economically distressed communities called Opportunity Zones. The Treasury Department has designated Opportunity Zones in all 50 states, the District of Columbia and the U.S. territories. A Limited Liability Company (LLC) can qualify as a QOF when it files its tax return as a C Corporation, an S Corporation or a partnership, but an LLC does not qualify when it is a single member LLC filing its business activity on Form 1040, Schedule C.

To qualify as a QOF, the underlying business must earn at least 50% of its gross income from activities within the designated Opportunity Zone. There are several tests which a business can meet to satisfy the

(Continued on page 4)

“Taxes-Security-Together” Checklist

For several years the IRS, state authorities and tax software companies, including TaxSlayer Pro, have joined forces to combat the ever growing threat from cyber-criminals targeting professional tax preparers and their clients. In the past few years these efforts have produced some tangible positive results, particularly in reduced claims of identity theft. Between 2015 and 2018, IRS data reflects that the number of taxpayers reporting identity theft and refund fraud has fallen by 71%.

However, as attacks against individual taxpayers have decreased, cyber-criminals have increased their efforts against tax professionals. A tax office or accounting firm is a place where a cyber thief can steal large amounts of sensitive taxpayer/client data which can be used to create fraudulent returns that are very difficult to detect. The information obtained from hacking a tax office can be used by the cyber-criminal for other purposes such as obtaining credit using the client’s identity. Basically, the tax professional’s office is a treasure trove of data for a cyber criminal because the tax office has all of the sensitive financial and personal information on many taxpayers in one place.

Federal law requires that all tax professionals create and maintain an information security plan for client data. A data breach in a tax office can have catastrophic results for the client and for the tax professional’s business. Everyone in this industry needs to take the necessary steps to protect their business. This summer the IRS released a “Taxes-Security-Together Checklist” that highlights the areas tax professionals should consider when creating and implementing their security plan. The checklist has five major areas which the IRS urges all tax professionals to review and incorporate as the starting point in their security plan. The five major areas are:

1. **Deploy the “Security Six” Measures.**
   - Activate anti-virus software
   - Use a firewall
   - Opt for two-factor authentication whenever it is offered
   - Use back-up software/services
   - Use drive encryption—(For additional information on this area contact TaxSlayer Pro Support)
   - Create and secure Virtual Private Networks—(For additional information on this area contact TaxSlayer Pro Support)
2. **Create a Data Security Plan.**
   - All tax professionals are required to have a security plan for client data
   - The Security plan requirement is flexible enough for any size tax preparation organization
   - Focus on key areas, management & training, information systems and detecting and managing failures
3. **Educate Yourself and Be Alert to E-Mail Scams**.
   - Learn about phishing emails
   - Beware of ransomware
4. **Recognize the Signs of a Client Data Theft.**
   - Clients receive letters from the IRS about suspicious tax returns
   - More returns are filed with your EFIN than you have submitted
   - Clients receive a tax transcript that they did not request
5. **Create a Data Theft Recovery Plan.**
   - Contact the IRS immediately
   - Assist the IRS in protecting your clients
   - Contract with a cybersecurity expert to stop thefts

For more information , see the IRS Publication 4557, Safeguarding Taxpayer Data and Publication 5293, Data Security Resource Guide for Tax Professionals.

TaxSlayer Pro Annual User Seminar

The 2019 TaxSlayer Pro Annual User Seminar will be held on Monday, November 18th and Tuesday November 19th at the Marriot Convention Center in Augusta, Georgia. This year’s program will include the latest updates on changes to the tax software, security issues affecting the industry and tax changes for 2019.

The second day will feature breakout sessions on a variety of topics that will impact the coming tax season. You can register early through your Account Hub or by calling your sales representative at 888-420-1040

Qualified Opportunity Fund

(Continued from page 2)

requirement to be a QOF. The tests are based on (1) the hours of service dedicated to the business in the economically depressed area, (2) the amounts paid for services in the area and (3) the tangible property located in the Opportunity Zone. The business only has to satisfy one of these tests to be considered a QOF. To designate itself as a QOF, the entity must certify that it meets the requirements to be a QOF by completing and attaching Form 8996 to their tax return.

For the investor/taxpayer the initial deferral of the capital gain is made on Form 8949—Sale and Other Dispositions of Capital Assets. The amount of the capital gain re-invested in the Qualified Opportunity Fund is adjusted by using adjustment "Code Z". The indicated adjusted amount is not taxed. The taxpayer will not pay any taxes on the amount of capital gain deferred until they sell the investment in the QOF, **or until December 31, 2026**, whichever comes first. It is anticipated that the IRS will be issuing further guidance on the mechanics of reporting any subsequent sale of the QOF and recognition of the deferred capital gains. The IRS has currently indicated that any deferred gain will most likely be reported on Form 8949 and they have indicated there will be a new "Code Y" adjustment code on the 2019 Form 8949.

In addition to being able to defer the gain on the initial investment in the QOF, when the investor/taxpayer holds the investment in the QOF for 5 years, 10% of the original deferred capital gain is excluded from ever being taxed. If the investment is held for 7 years, 15% of the deferred capital gain is excluded from taxation. Finally, when the taxpayer/investor holds the investment in the QOF for 10 years, any gain that is realize on the sale of the QOF investment is not taxed.

Tax Collections in the United States

2018 Tax Collections	Federal Collections	State and Local Collections
Total Taxes Collected	$3.3 Trillion	$1.8 Trillion
Taxes collected for each person living in the U.S	$10,063	$5,472
Taxes collected for each household in the U.S	$25,825	$14,044
Percentage of U.S. Economy	16.1%	8.7%

QBID—New for 2019—Dealing With Loss Carryovers

This past tax season, the Qualified Business Income Deduction (QBID) under section 199A of the Internal Revenue Code was one of the more anticipated and discussed aspects of the Tax Cuts and Jobs Act. Implementing the QBID was possibly the most problematic of all TCJA provisions for the IRS and for tax software companies due to its complexity. To complicate matters, the final regulations on Section 199A (consisting of 248 pages), were not released by the IRS until right before the start of e-file for the 2019 tax season. By that time, tax returns claiming this deduction were already being submitted for filing. This year QBID will be calculated and reported on Forms 8995 and 8995-A, which replace last year's worksheets.

Starting in 2019, a taxpayer that had a net Qualified Business Loss in 2018 will carry that loss forward and it will offset any QBI in 2019. This loss carryover requirement for the QBID does not affect the underlying deductibility of that loss in 2018 under any other tax provision, but is an additional requirement. In other words, if the only business activity a taxpayer reported on their 2018 return was a net loss from a Schedule C, that loss would be taken on the taxpayer's 2018 return

(Continued on page 5)

QBID—New for 2019—Dealing With Loss Carryovers

(Continued from page 4)

and it would offset any other income on that 2018 return. However, the same Schedule C net loss (that was already applied against the taxpayer's 2018 other income) will also carry forward to 2019 for QBID purposes. On the 2019 return, the loss from the prior year Schedule C is netted against any QBI the taxpayer has from a Schedule C or any other business. In essence, net losses from pass-through businesses incurred in 2018 or later that have not been offset against QBI in a subsequent year, will carryforward and reduce future QBI until they are exhausted. Thus, a taxpayer will not receive any QBID until losses incurred in 2018 and subsequent years have been netted against QBI.

For tax returns completed last year in the tax software, the 2019 program will pull forward any carryover Qualified Business Loss from the QBID worksheets that were used last year. This carryover loss will then be used to calculate QBID on the new Form 8995—QBID Simplified Computation for taxpayers below the income thresholds of $160,700 ($160,725 for MFS and $321,400 for MFJ), or to Schedule C (Form 8995-A)—Loss Netting and Carryforward for taxpayers above the income thresholds.

Over Stating the Foreign Tax Credit

Recently the Foreign Tax Credit claimed on Form 1116 has come under increased scrutiny by the IRS because it has been determined that taxpayers are claiming this credit when they either are not entitled to receive any credit, or they are claiming a much larger credit than what they are entitled to receive. The IRS estimates that the errors associated with claiming the Foreign Tax Credit is resulting in a multi-billion dollar annual shortfall in U.S tax collections. Accordingly, the IRS is becoming more aggressive on disallowing the credit when the source of the foreign tax paid comes from a 1099-DIV.

Specifically, it is common for a taxpayer to receive a Form 1099-DIV that contains an amount for foreign tax paid. The 1099-DIV will also identify the foreign country that is the source of the tax withholding. Taxpayers may erroneously report the withheld amount from the 1099-DIV as the amount paid in foreign taxes when determining their Foreign Tax Credit.

The confusion that occurs is the amount shown on the 1099-DIV as being withheld is typically not the amount that the taxpayer actually owes in foreign taxes. The United States has treaties with over 50 foreign countries that define when U.S. taxpayers are subject to, or exempt from, taxation in that foreign country. As a result of these treaties, the actual amount owed by the taxpayer to the foreign country is most likely less than the amount withheld. Tax withholdings and the ultimate tax liability are normally not the same.

When claiming the Foreign Tax Credit, the taxpayer is required to use the amount that they actually owe to the foreign country and not the amount withheld on the 1099-DIV. Many times under the applicable tax treaties little or no tax is owed to the foreign country even though taxes were withheld. In such situations, no Foreign Tax Credit can be claimed on the 1040. Instead, the taxpayer is expected to claim a refund for the foreign taxes withheld by filing the proper return in the foreign country. Going forward, the IRS has indicated that taxpayers claiming the Foreign Tax Credit based on withholding amounts from a 1099-DIV, may be required to produce the foreign tax return verifying the actual tax owed to the foreign country.

Form 1099-NEC Nonemployee Compensation

On July 24, 2019, the IRS revealed a new tax form that will be used to report nonemployee compensation. Form 1099-NEC—Nonemployee Compensation, will replace the reporting that occurs on the current 1099-MISC, Box 7. The date on the draft form is 2020 and it is anticipated that this form will not be used this year, but will be used starting in 2020.

Under the PATH Act of 2015, the due date for filing a Form 1099-MISC with the IRS/Social Security Administration is February 28. However, if the Form 1099-MISC has an amount reported in Box 7, the deadline for filing the form is January 31. The filing deadline has been the subject of concern for businesses having to file the Form 1099-MISC because of the different due dates. If a business fails to file a single 1099-MISC with NEC by January 31, all of their 1099-MISC filings may in some situations be deemed late, which can significantly increase the potential for penalties. By separating the reporting into two distinct forms, it should alleviate this problem.

It is expected that with the new Form 1099-NEC, the due date for this new form will become January 31, and all 1099-MISC will be due on February 28.

Form 1040 Is Being Revised (Again) for 2019

In 2018, the IRS introduced the "postcard" Form 1040. The new 1040 was promoted as a simpler version of the previous two-page Form 1040. To create this reduced size Form 1040, the IRS took many commonly used parts of the previous full page version of the 1040 and moved them to six new schedules that would be included with the return when needed. This change was met with mixed reviews by taxpayers and tax professionals alike. Many taxpayers found that the "postcard" 1040 actually increased the number of pages that were necessary to file a tax return. Moreover, on many tax returns, the number of pages being produced (and printed) increased because certain common items previously reported on the 1040 were now being reported on one of the new schedules.

Earlier this summer, the IRS revealed that the 1040 will again undergo several changes for the coming tax season. First, the size of the "postcard" form from last year is being enlarged to allow more information to be entered on the actual 1040 instead of being entered on one of the supporting schedules. For the coming year, the 1040 will be approximately 25% larger than it was last year. In addition, three of the six schedules have been eliminated either by combining items that were on last year's schedules or moving the reporting of those items back to the 1040.

The first page of the revised 1040 will now have a place for the taxpayer to enter a foreign address, which last year was located on Schedule 6. The revised 1040 has also moved the income items, including a line to report Capital gain or (loss), to the first page. Last year most income items were reported on the second page of the form and capital gains or (loss) were on Schedule 1. The signature lines for the Taxpayer, Spouse and Paid Preparer have been removed from the first page and are now back on their historical location at the bottom of the second page of the 1040. In addition, the Third Party Designee information has been added back to the second page of the 1040.

The layout of the new 1040 and the three remaining numbered schedules are different than last year's forms. The area on the 1040 where the Standard Deduction is designated has been expanded to make it easier to identify when the taxpayer is eligible for the additional standard deduction due to their age or blindness. Other format changes on the new 1040 include the addition of entries for an E-mail address and the taxpayer's phone number in the taxpayers signature section. The three numbered schedules have each been re-numbered to begin with the Number 1. Previously, the numbering sequence for each Schedule was intended to correspond to the number sequence that the item had on the Form 1040 used to file 2017 tax returns.

Form 1040 (Schedule 1) - Additional Income and Adjustments to Income has been renumbered but basically remains the same. The most relevant change to Schedule 1 is the section on alimony now requires the taxpayer to enter the date of the divorce. The date of the divorce or any modification to a divorce decree will determine if the alimony has to be reported as an adjustment to income for the payer and as additional income for the recipient.

Form 1040 (Schedule 2) is now **Additional Taxes**. It combines last year's Schedule 2—Tax and Schedule 4—Other Taxes onto one schedule.

Form 1040 (Schedule 3) is now called **Additional Credits and Payments.** It combines last year's Schedule 3—Nonrefundable Credits and Schedule 5—Other Payments and Refundable Credits.

The latest version of the re-designed Form 1040 and Schedules 1-3 are posted in the draft forms section on IRS.gov.

Windows 7 Update—Time is Running Out

This coming January, Microsoft will no longer support Windows 7 and all versions of Windows 8 Server. No further security updates for these operating systems will be released. As a result, tax professionals will not be able to use equipment that still has these Microsoft operating systems to run the 2019 TaxSlayer Pro program. In the next few months it will be critical for tax professionals with such equipment to upgrade their operating systems and/or their equipment to a newer version of Windows such as Windows 10. The 2019 tax program is not designed to run on equipment using these older Windows operating systems and Pro Support will not be able to assist customers attempting to run the 2019 software on such equipment.

Now is the time to get your computer equipment needs addressed for the 2019 tax year. Pro Support is available to answer any questions you may have, can provide technical support to assist in backing up your current programs and assist in migrating your data to a new computer. Waiting until the beginning of tax season may seriously delay your ability to operate when e-file begins.

IRS Sends Letters to Over 10,000 Virtual Currency Owners

The IRS announced that letters will be sent to more than 10,000 taxpayers who may have failed to report income from virtual currency transactions or who may have reported their transactions incorrectly on their tax returns. In the news release, the IRS warned that “taxpayers should take these letters very seriously by reviewing their tax filings and when appropriate, amend past returns and pay back taxes, interest and penalties.”

Three variations of the educational letter are being sent to taxpayers who the IRS has identified through various ongoing IRS compliance efforts. Each version of the letter is intended to remind taxpayers that income from transactions involving virtual currency needs to be reported on their tax returns. The letters also explain how the taxpayer can correct past errors.

Letter 6173 – This version of the letter states the IRS has information that the taxpayer has (or had) at least one account containing virtual currency and that U.S. tax filing and reporting requirements may not have been met. The letter advises taxpayers on how to respond and that reminds them that failure to do so may result in a further examination of their tax account.

Letter 6174 and 6174-A – These versions of the letter do not require a response from the taxpayer but indicate that the IRS has information that the taxpayer has (or had) an account containing virtual currency. The letter explains the reporting requirements for various virtual currency transactions. Taxpayers receiving this version of the letter are encouraged to file delinquent or amended returns if they did not accurately report their virtual currency transactions in an earlier year.

The IRS began mailing the letters in late July as part of a virtual currency compliance campaign originally announced in 2018. The campaign focuses on addressing tax noncompliance regarding the use of virtual currency through a variety of ongoing IRS efforts to include taxpayer education, audits and possible criminal investigation.

IRS Notice 2014-21 describes in further detail the consequences for transactions involving virtual currency and provides answers to frequently asked questions.

Due Dates for Returns on Extension

September 16, 2019

Form 1065—U.S Return of Partnership Income

Form 1120-S— S Corporation Returns

September 30, 2019

Form 1041—Estates & Trust Returns

October 15, 2019

Form 1040/1040NR—Individual Tax Returns

Form 1120—U.S. Corporate Tax Return

November 15, 2019

Form 990—Non-Profit Organization Returns

Preview of the next Support Connection Newsletter

Getting ready for the New Tax Season

Industry Updates

What's New in the 2019 TaxSlayer Pro Program

Improvements for Taxes -To-Go Mobile App.

Pre-Season Tax Office Checklists

Looking Back—Looking Ahead

(Continued from page 1)

effective for 2018 and were implemented this past tax season by the IRS. However, a few TCJA provisions and changes will become effective in 2019 that will affect individuals. For the coming tax season, the following TCJA provisions are now in effect:

The **Shared Responsibility Payment** for not having minimum essential health coverage under the Affordable Care Act has been reduced to zero, effectively eliminating the penalty for not having health coverage. Accordingly, Form 8965, Health Coverage Exemptions and the Shared Responsibility Worksheet will not be needed on the 2019 tax return.

The **AGI threshold for medical expenses** on Form 1040, Schedule A will be 10% starting in 2019. The reduction of the AGI threshold to 7.5% was a temporary provision. This provision applies to all taxpayers including taxpayers age 65 and older.

Alimony is no longer deductible from the income of the payor spouse and is not considered income for the recipient if the parties divorced on or before December 31, 2018 or modified their divorce or separation agreement after December 31, 2018.

Support Hours of Operation

All Eastern Time

Apr 18 to Dec 31, 2019

Monday - Friday
8:00 AM to 5:00 PM

Monday October 15
8:00 AM to 8:00 PM

Fall Holiday Schedule

Support will be closed on the following Fall Holidays.

Labor Day
Monday September 2, 2019

Thanksgiving
Wednesday November 27, 2019 (at Noon)
Thursday November 28
Friday November 29

TaxSlayer Pro Contact Information

Sales	888-420-1040
Sales Fax	706-868-1955
Email	sales@taxslayer.com
Pro Support	706-868-0985
Pro Support Fax	706-868-0263
Email	prosupport@taxslayer.com

IRS Phone Numbers

E-file Help Desk	866-255-0654
PTIN Registration/Information	877-613-7846
Refund Status	800-829-1954
Tax Fraud	800-829-0433
FTC Identity Theft Hotline	877-438-4338
Identity Theft (Form 14039)	800-908-4490
Practitioner Assistance	866-860-4259
Business Assistance	800-829-4933
Social Security Administration	800-772-1213
Taxpayer Assistance	800-829-1040
Financial Mgmt. Services	800-304-3107
E-Services Secure Access Registration Assistance	888-841-4648
Healthcare.gov	800-318-2596