

## TaxMama's® Tax Roundtable – November 2018

### Angela asks

MY questions are:

1. What are the general tax implications of transferring assets from an estate (set up at death) to a trust (setup after death)? Is there a way to transfer the assets tax free?
2. Pls cover preparation or general things that we need to know for the preparation of the M1 and M2 schedules, specifically the inputs/information needed before preparing the schedule.
3. How do you calculate a shareholders basis?

### TaxMama® Replies

1. What are the general tax implications of transferring assets from an estate (set up at death) to a trust (setup after death)? Is there a way to transfer the assets tax free?

We don't really have time to go into this in detail here. AND I am not the best person to ask. I heartily recommend that you take a full-blown course before touching ANY of this. Here is a suggestion:

[https://www.caltax.com/shop/index.php?route=product/product&path=62\\_64&product\\_id=1087](https://www.caltax.com/shop/index.php?route=product/product&path=62_64&product_id=1087)

Regardless, the question is very general. You always must have the will and/or trust document and read them entirely, as your starting point. That will define the nature of the estate or trust, to define how to handle the assets. Often, the details in the will specify that a trust must be created and that assets must be transferred. Handled properly, that doesn't create a taxable event. But there are pitfalls – so take the course(s).

2. Pls cover preparation or general things that we need to know for the preparation of the M1 and M2 schedules, specifically the inputs/information needed before preparing the schedule.

We went through some of those details in the Tax Return Sample classes for Partnerships, S Corps and Corps.

Partnerships - <http://irsexams.com/board/index.php?showtopic=509>

Corps - <http://irsexams.com/board/index.php?showtopic=882>

S Corps - <http://irsexams.com/board/index.php?showtopic=518>

In the TaxBook, there is a sample of an S corp return that explains about the M-1, M-2 adjustments - <https://thetaxbook.net/thetaxbook-federal-2017/page-19-14>

**M-1** – differences between book income/deductions and tax return income/deductions

In general – typical items on M-1:

Adjustments for differences in depreciation

Non-deductible meals

Non-deductible penalties

Gifts in excess of \$25 each

Books are on accrual and tax return is cash – you might adjust out for accounts receivable and payable differences (pull a Profit and Loss statement on both cash basis and accrual to see the actual effects)

Specifically – look at your client’s tax return to see what is handled differently on the tax return than on the books.

M-2 is about capital accounts. It starts with last year’s ending capital balance, and you pick up the current year’s income/loss, distributions, capital contributions, and anything else that will change the ending capital.

## 2. How do you calculate a shareholders basis?

For C corps – the amount they paid for the stock, amounts they contributed as additional capital. Stock splits will affect basis.

For S corps – start with the amount they paid for the stock and additional capital they contributed.

Distributions of money and property to shareholders may be taxable or non-taxable, and affect the shareholder's basis in the S-corp stock.

Loans might affect basis.

The IRS actually has a page that walks you through this

<https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-stock-and-debt-basis>

**Karla asks:**

I was wondering if at the round table we can discuss Retirement Plans.

I know it is a complicated subject and we need more than a few minutes to learn deeper but if it is possible then my questions are:

- Plans available to Sole proprietors vs sole proprietors that also have a W2 job and it contributes to a retirement plan at that job
- Plans available to partners as individuals, plans that the partnership is the one that has to open it and contribute, and again what if the partner also has a W2 job and contributes to a plan there
- Plans for employee-share holders of C Corps and S Corps. Who has to open the account? What amount can the employee contribute vs the business contribute? and what if the employee/owner has another W2 job where they contribute.

I know is A LOT! But maybe some guidance and where we can research further.

Thanks

**TaxMama® Replies**

- I was wondering if at the round table we can discuss Retirement Plans.

You do realize that we had an entire class on this topic?

<http://irsexams.com/board/index.php?showtopic=515>

- Plans available to Sole proprietors vs sole proprietors that also have a W2 job and it contributes to a retirement plan at that job

All the same plans are available as if they didn't have a plan at work. However, their TOTAL contribution to all plans (aside from personal IRAs) must be limited to the total annual limit for the plans. For instance, if they have a 401k at work – their total 401k contributions to all plans may not exceed \$55,000 [http://www.401khelpcenter.com/2018\\_401k\\_plan\\_limits.html#.W-2M5DhKiUk](http://www.401khelpcenter.com/2018_401k_plan_limits.html#.W-2M5DhKiUk)

They cannot ALSO contribute to a SEP in excess of that.

And if they have SEP or 401k plan, they may not have their self-employed SIMPLE.

- Plans available to partners as individuals, plans that the partnership is the one that has to open it and contribute, and again what if the partner also has a W2 job and contributes to a plan there

Again – all plans are available – with the same limits as above.

When the partnership contributes to a plan for the partners, the contributions are treated as guaranteed payments to the partner – and then the amount of the contribution is deduction on the personal return – above the line.

BUT remember, when there are employees, they need to be taken into account for any plan.

- Plans for employee-share holders of C Corps and S Corps. Who has to open the account? What amount can the employee contribute vs the business contribute? and what if the employee/owner has another W2 job where they contribute.

When it comes to C corps, they can have any kind of plan and make the contributions and take the deductions on the corporate tax return.

The S corp is a completely different animal. It acts more like a partnership. And the plan contributions happen on the personal 1040. Contributions to plans are limited to S corp WAGES, not S corp profits.

When there is a matching contribution by the S corp, like the employer's share of SIMPLE

contributions, that part happens at the S corp level.  
Again, take employees into account.

This might be a useful class – 1040 Preparation and Planning 4: Gross Income: Employee Compensation and Fringe Benefits (2018)

<https://www.cchcpelink.com/product/detail/?p=12749&s=85iz6kg>

### **Patrick asks**

I'd like to ask has anyone used Atom or Canopy Tax (not the tax resolution part) as a platform for office organization or if anyone has recommendations. Unless I hear of another great option I plan to purchase Atom in the next week or so to have it ready before tax season.

I look forward to the Roundtable.

### **Patrick Oden**

### **TaxMama® Replies**

Interesting. I looked at Atom and it appears to be quite powerful.

<https://www.atomanager.com/tax-office-management-software-features/>

Find out more about their support – especially since you're out of the country most of the time.

The price seems to be reasonable for a full-size practice.

Canopy doesn't include an appointment scheduler or your employee payroll and time tracking – or referral tracking. But it does include a way to track the list of things you need from clients – and can be set to re-send reminders for the missing information (deleting the things that have been received). It costs more than ATOM. It doesn't integrate with your tax software or your accounting system.

<https://www.canopytax.com/pricing>

And again, check on support. Lately, people have been posting complaints about not getting any.

So depending on what you need from such a system – look at each one's set of features – and select the one that does more of the things you need. For a tax preparation practice – ATOM looks more practical.

## Randell asks

My questions deal more with practice management...

- Do you have a system/process for tracking efilings?
- Which organizer do you prefer to use? I'm always somewhere between trying to make a simpler organizer or making it more complex...
- How do you keep track of your different checklist?

## TaxMama® Replies

- 1) Do you have a system/process for tracking efilings?

My tax software does that. There is a page (drop-down menu) in ProSeries that shows all the tax returns that have been efiled and their status. I am certain that your software has something like that. And you can talk to your tech support to learn how to sort that list so you can see the files that haven't been approved yet.

The screenshot shows the ProSeries software interface. At the top, there are navigation tabs for 'HomeBase View', 'EF Center', and 'Ask ProSeries or Search Help'. Below the navigation, there are several tabs: 'All', 'Pending', and 'Accepted'. The 'Pending' tab is selected, and a table of tax returns is displayed. The table has columns for Client Name, SSN/EIN, Return Type, Fed Type, E-Sig Status, EF Status, Next Step, Audit Assistance, Refund Method, Status Date, and Submission ID. Three rows of data are visible, with the first two rows having redacted client names.

	Client Name	SSN/EIN	Return Type	Fed Type	E-Sig Status	EF Status	Next Step	Audit Assistance	Refund Method	Status Date	Submission ID
1	[REDACTED]	[REDACTED]	Federal	1065		Return Marked for EF				05/09/2018	
2	[REDACTED]	[REDACTED]	Federal	1040	<a href="#">Request</a>	Return Marked for EF				04/03/2018	
3	[REDACTED]	[REDACTED]	CA	1040	<a href="#">Request</a>	Return Marked for EF				04/03/2018	

In our case, we do all the efilings on one computer and transfer the completed data to my computer after tax season ends. Otherwise you would see that all returns have been efiled.

- Which organizer do you prefer to use? I'm always somewhere between trying to make a simpler organizer or making it more complex...

ProSeries comes with an organizer (for an extra price) that pulls in last year's data. So they can see last year's numbers and accounts as they fill out this year's data. Your software probably has this too. It's the ideal solution because it is customized for each client. But yes, there are too many pages.

Also, have you ever explored the resources in your TaxBook WebLibrary account? Please do! You will find a variety of resources (in English and Spanish), including organizers that allow you to put your own firm's name and contact info on the PDF file before you give it to your clients.

<https://thetaxbook.net/tools-for-tax-pros>

**All States**

**California Edition**

**Depreciation**

**Social Security**

**Planning Strategies**

**What's New In-Depth**

**TCJA Supplement**

**Occupations & Oddities**

**FastTaxFacts Master Set**

**Update Service**

**Tools for Tax Pros**

### Organizers

- [2017 Individual Taxpayer Organizer](#)
- [2017 Individual Taxpayer Organizer \(Spanish Version\)](#)
- [2017 C Corporation Tax Organizer](#)
- [2017 Health Care Organizer](#)
- [2017 Individual Taxpayer Organizer – Rental Property](#)
- [2017 Individual Taxpayer Organizer – Sole Proprietorship](#)
- [2017 LLC Tax Organizer](#)
- [2017 Paid Preparer Due Diligence Checklist](#)
- [2017 Partnership Tax Organizer](#)

- How do you keep track of your different checklist?

Good question.

Some things are easy because the tax software allows us to make a list of missing information, for instance. It also allows us to set a status (or it does that automatically for things like extensions, efilings completed, etc.) On the home page/client list, we can sort for the status of each client. You can click on any of the top tabs to sort by that information.

	Client Name	File Name	Initial Link	Home Telephone	Taxpayer E-mail Address	SSN/EIN	Client Status	Last Modified	Due Date	Preparer	City	State	Zip Code	Extension	Estimate	Refund or Tax Due
1	[REDACTED]	[REDACTED]	tu.de	[REDACTED]	[REDACTED]	[REDACTED]	EF Accepted	08/16/2018	04/17/2018	EVA ROSENBERG	LA CRESCENTA	CA	91214	No	No	0
2	[REDACTED]	[REDACTED]	tu.de	[REDACTED]	[REDACTED]	[REDACTED]	EF Accepted	04/03/2018	04/17/2018	EVA ROSENBERG	RIO RANCHO	NM	87124	No	No	-2234

If we have new clients – we set up their basic tax return file so they are on the list, then we can see their status. You can find the client status page on the navigation list on the left. (Find out where this is in your software – it has one.)

**? Where Do I Enter?**

**Forms In Use**

- Form 1040 ( 1 Error )
- Info Wks ( 1 Error )
- Client Status
- St Refund Wks
- Earned Inc Wks
- Keogh/SEP Wks
- Tax Payments
- Schedule A
- Medical Wks
- Schedule C (Fishing Supply Store)

You can check off one of the printed status options – or Other – and put your own status title on that line, like in this case. It will automatically add the date the event took place, or you can change the date to your specified date.

Check the appropriate box below to update this client's status.

Client Status ..... **sample** Status Date ..... **08/16/2018**  
Client Number ..... [redacted]

If you want to be reminded to update the Client Status form each time you close a client file, go to the **Tools** menu and choose **Options**. While in the **General** section, go to the **Client Status** area and check the box titled "Prompt to go to Client Status form when closing clients."

Check this box to print the Client Status with the Preparer copies of the tax return .....

The last box checked will be the current status.

Date

	Date
<input type="checkbox"/> Organizer sent to client .....	
<input type="checkbox"/> Organizer returned by client .....	
<input checked="" type="checkbox"/> Client information transferred to current year .....	01/03/18
<input type="checkbox"/> Appointment scheduled for (time and date) ..... ▶ [redacted]	
<input type="checkbox"/> Received client's tax data .....	
<input type="checkbox"/> Interview completed .....	
<input type="checkbox"/> Client's tax return is in process .....	
<input type="checkbox"/> Need more information from client (specify below) .....	
[redacted]	
[redacted]	
[redacted]	
<input type="checkbox"/> Data input completed .....	
<input type="checkbox"/> Draft copy of tax return printed .....	
<input type="checkbox"/> Extension filed .....	
<input type="checkbox"/> If filing electronically, extension filed .....	
<input type="checkbox"/> If filing electronically, extension accepted by IRS .....	
<input type="checkbox"/> Sent to reviewer .....	
<input type="checkbox"/> Review completed .....	
<input type="checkbox"/> Final tax return printed .....	
<input type="checkbox"/> Informed client of return completion .....	
<input type="checkbox"/> Tax return signed .....	
<input type="checkbox"/> Electronic filing signatures needed (Form 8879) .....	
<input type="checkbox"/> Ready to Efile tax return .....	
<input type="checkbox"/> If filing electronically, return EFiled .....	
<input type="checkbox"/> If filing electronically, return accepted by IRS .....	
<input type="checkbox"/> If filing electronically, Form 8453 mailed to IRS .....	
<input type="checkbox"/> If filing electronically, Form 1040-V given to client .....	
<input type="checkbox"/> Tax return delivered to client .....	
<input type="checkbox"/> Billed client for tax return. Enter amount billed ..... ▶ [redacted]	
<input type="checkbox"/> Received payment from client .....	
<input checked="" type="checkbox"/> Specify other status ..... ▶ <b>sample</b>	08/16/18

So, basically, what I am saying is – check with your own tax software for the built-in resources. They may offer local, in-person training – or webinars. And they probably have recorded videos with how-to data, often step-by-step.

## Debi asks

I have a question about when a client loses some of their records. They are reconstructing as best they can. Their account was hacked so they can't do online access. They are in financial trouble and filing bankruptcy so they can't afford to pay the bank to make copies of all the checks they wrote but he has copies of purchase orders and some of his invoices. What do I need to do to make sure I have covered my liability in preparing the return? They have been clients for years and always had good records in the past. Because of health issues they have closed the business but want to get the 2 final years filed - 2017 and 2018.

## TaxMama® Replies

Use whatever data you have available. They do need to help and not just dump it on your shoulders. They DO have some things available online, even if they have been hacked. They information on their credit card accounts, online banking and other info is still there. You don't say what kind of business they are in – but they have vendors. Vendors can often provide printouts of orders by year.

Pull IRS transcripts and 3<sup>rd</sup> party reports – that will give you W-2, 1099 info, mortgage payments. And if they ran a payroll for employees, pull those reports (or you may have them) from the IRS or the payroll service.

If a lot of info is still missing – do an outline of their living expenses for the year to what their minimum profits should have been. There are LOTS of ideas in the class on Dealing with NonFilers - <http://irsexams.com/board/index.php?showtopic=537>

In the end, if you're still not totally comfortable that you have all the numbers you need, use historical data from prior year tax returns. Use the same ratios for their expenses, compared to income, that they had in the past.

Include a Form 8275 Disclosure to explain that you had to reconstruct data because their data was stolen when they were hacked – or whatever the reason is. Please be as detailed as possible.

## Melinda asks

Good morning. I'd like to get a better understanding of the Opportunity Zone and the new deduction Section 199A.

## TaxMama® Replies

That's interesting. Michael Rosedale was just talking to me about the Opportunity Zones last night – and suggesting that I develop some courses in that area. Honestly, at this point, I don't know anything about them. But I will. And perhaps I will include some information about that in the December 5<sup>th</sup> class.

As to the 199A, we will spend time on that on December 5<sup>th</sup>.

<http://taxmama.com/tax-quips/webinar-the-trump-tax-plan/>

Meanwhile, here are some resources that might help you, that provide explanations and examples:

- The Watson CPA group has a terrific resource, with examples on their website for free <https://www.watsoncpagroup.com/section-199a-deduction/>  
They have a book for about \$25 - <https://www.watsoncpagroup.com/book/>
- Compass Tax Educators (Sherrill Trovato and her team) just updated their class - <https://on-demand.compasstaxeducators.com/courses/updated-sec-199a-with-regulations>
- Spidell had some good detail and examples in their summer update – and probably more this fall. Meanwhile, here is a specific webinar on the topic - [https://www.caltax.com/shop/index.php?route=product/product&path=60\\_76&product\\_id=1125](https://www.caltax.com/shop/index.php?route=product/product&path=60_76&product_id=1125)
- Lisa Ihm at Brass Tax has an 8-hour recorded seminar, with wages, multiple businesses, computations - <https://brasstax.com/>

AND for software, TaxTools has a 199A tax planner with 4-5 simultaneous scenarios you can look at. [www.taxtools.com](http://www.taxtools.com) use discount code taxmama239 to get 50% off – if it doesn't work, call them to place the order.

## Cheryl asks

I have questions regarding unreimbursed partner expenses (UPE). As in how to report them, where, etc. In the gazillion years I've been preparing returns, I've never had to deal with it!

(<https://www.bankrate.com/finance/taxes/accounting-unreimbursed-expenses.aspx> )

I need more data on how to report partnership unreimbursed expenses. I have never done that before . . . so my client set up an SMLLC and is a partner in an LLC. He will receive a K-1 but he has expenses from there. He will have other forms of revenue coming into the SMLLC.

## TaxMama® Replies

Please be kind and don't use acronyms without also spelling them out – I never do that to you. (Don't force me to think.)

First of all, the partnership MUST have a provision, in writing, as part of the partnership agreement, that the partnership does not reimburse expenses; or it defines which expenses the partnership WILL reimburse, up to some limit. Without this, there is NO deduction for those UPEs. Period.

With that, you prepare a detailed schedule of unreimbursed expenses. Then summarize that. And on Schedule E, page 2, you include the amount of the deduction, using the Partnership's Taxpayer ID number on that line. Include a Form 8275 Disclosure, to be safe – and include a reference to the partnership agreement's terms.

There is another way to do this at the partnership level, but we don't have enough time to walk you through that today. It's more complicated and you must have control of preparing the partnership return.

## Jim asks

Long story:

I had such a bad time with the IRS with an 83 year old client. They had me take her off speaker phone then asked her all of these complex questions to determine her identity. He had a very condescending tone the whole time. She put me back on the phone, and he just said she couldn't answer the questions. I asked if there was another way and he just repeated that.

Later I found out he asked her how much she had sent in with her extension and she read the amount that had been on her withholding. She was actually quite sharp at her age and had everything laid out.

What could have I done differently? Is that just policy that I can't coach her or know for privacy reasons. Was going to do a complaint, but haven't yet. Mainly it was his tone that got to me after being on hold for so long.

### **TaxMama® Replies**

First of all, do NOT spend time on hold for a long time.

You definitely want to sign up for CallEnQ to get through to the main IRS phone numbers in minutes - <http://iTaxMama.com/CallEnQ> you can get free access for about 60 days (and if you sign up and pay – I get a commission).

Next, NEVER allow the client to talk directly to the IRS without you hearing exactly what is asked and said. NEVER. Once you have your EA, you won't allow the IRS to speak with your client AT ALL. NO! With a power of attorney, you will do all the talking.

KNOW the answers to the questions the IRS will ask their security process – things like date of birth, address, prior year AGI (do NOT provide the client's phone number)...here is some information from the IRS's website about identity verification.

<https://www.irs.gov/identity-theft-fraud-scams/identity-verification>

Read Kelly's 2016 article – it's useful.

<https://www.forbes.com/sites/kellyphillipserb/2018/02/14/calling-the-irs-be-prepared-to-prove-who-you-are>