SOLUTIONS

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PLUGGING INTO VEHICLE TAX CREDITS

With the hype surrounding the new Tesla Model 3, many are wondering if a potential tax credit can help offset the cost of purchasing plug-in electric or alternative fuel cell vehicles. The answer is….it depends. Before you purchase a new electric or alternative fuel vehicle, it is important to understand which vehicles qualify, how the credit works, how much of the credit you may be eligible for, and how to get the credit.

WHAT CREDITS ARE AVAILABLE?

There are two tax credits for vehicles – the Alternative Motor Vehicle Credit and the Qualified Plug-In Electric Drive Motor Vehicle Credit.

The Alternative Motor Vehicle Credit is a tax incentive to purchase vehicles that have a qualified fuel cell. The IRS describes this vehicle as a 4-wheel vehicle that is powered by one or more fuel cells that convert chemical energy into

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SECURE ESTATE TAX DISCOUNTS BEFORE THEY ARE GONE

The proposed regulations under Internal Revenue Code Section 2704, which are likely to be finalized in early January, and will affect how estate planning is done. These regulations may eliminate many discounts used to reduce the future estate tax bill for high-net-worth individuals.

Even though the effective date of the 2704 regulations might not be until next summer, it is better to plan as soon as possible to help prevent missing the deadline if the regulations become effective shortly after January 1, 2017.

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REMEDIES TO MISSING THE 60-DAY ROLLOVER REQUIREMENT

Distributions received directly from an IRA or a retirement plan are usually treated as ordinary income. Any pre-tax portion of a distribution is subject to income tax, plus an additional 10% federal tax on early distributions if the recipient is under age 59½ at the time the distribution occurs. However, if the distribution is subsequently rolled over to another plan or IRA within 60 days from the date the distribution is received, it is excluded from income and becomes non-taxable. If the 60-day deadline is missed, the rollover is generally no longer eligible for tax deferral; however, the IRS may waive the 60-day rollover requirement in certain situations due to circumstances beyond the taxpayer's control.

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Plugging into Vehicle Tax Credits

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electricity. The Toyota Mirai, which is fueled by hydrogen, is an example of a vehicle with this technology. This credit is claimed on Form 1040 by filing Form 8910.

The Qualified Plug-In Electric Drive Motor Vehicle Credit is for taxpayers who purchase an eligible electric vehicle such as a Tesla or Nissan Leaf. The IRS defines a qualified plug-in electric vehicle as being powered by an electric motor that draws electricity from a battery. The battery must have at least 4 kilowatt hours of capacity and must have a gross vehicle weight of less than 14,000 pounds. Both 2-wheel and 4-wheel vehicles can qualify. This credit is claimed on Form 1040 by filing Form 8936.

A vehicle can only qualify for either a qualified plug-in electric vehicle or an alternative motor vehicle credit, not both.

Which vehicles qualify?

A taxpayer can generally rely on the manufacturer's certification that the vehicle meets the IRS standards to take either credit. The seller should provide a copy of the certification when the vehicle is purchased. There is a limitation associated with the credit for purchasing qualified plug-in electric vehicles. The credit phases out after 200,000 vehicles are sold by the manufacturer to a retailer for use in the US after 2009. Therefore, those who are considering purchasing one of these vehicles should first check with their retailer and tax advisor to make sure the credit has not already been phased out.

Additional qualifications include the following: a vehicle must be owned by the taxpayer; the vehicle's original use must be with the taxpayer; the vehicle must be placed in service the year the credit is claimed; the vehicle must be used primarily in the US, and must not be acquired for resale.

How much is the credit?

The credit ranges from $2,500 - $7,500. The amount of the credit for a qualified plug-in electric vehicle depends on the capacity of the vehicle's battery. The manufacturer's certification will usually list the amount of the credit allowable.

How long are the credits available?

The current vehicle tax credits are set to expire on December 31, 2016. New technology is continuously being developed, so there could potentially be more types of vehicle tax credits in the future.

If you have additional questions or need more information about purchasing a qualifying vehicle, please contact Courtney Brown at **cbrown@windes.com** or **844.4WINDES** (844.494.6337).

Courtney Brown, CPA, MST
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Cost of Living Adjustments for 2017

	2015-2016	2017
Maximum Compensation	$ 265,000	$ 270,000
Maximum Contribution Limit	$ 53,000	$ 54,000
401(k) Annual Limit	$ 18,000	$ 18,000
SIMPLE Retirement Accounts	$ 12,500	$ 12,500
457/403(b) Annual Limit	$ 18,000	$ 18,000
Defined Benefit Annual Limit	$ 210,000	$ 215,000

	2015-2016	2017
Covered Comp. Limits-Social Security	$ 118,500	$ 127,200
Catch-Up Contributions 401(k)/403(b)	$ 6,000	$ 6,000
Catch-Up Contributions SIMPLE 401(k)	$ 3,000	$ 3,000
Highly Compensated Employee	$ 120,000	$ 120,000
IRA Contribution Limit	$ 5,500	$ 5,500

Secure Estate Tax Discounts Before they are Gone

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Given the future uncertain planning landscape, the following are effective estate planning strategies that have been used for years:

- Gifts — Gifts of assets valued at a discount (whether outright gifts, or in trust).
- Intentionally defective grantor trusts (IDGTs) — These are installment sales to defective trusts. The grantor receives cash flow from the note payments. IDGTs can freeze the value of discounted interests in closely held businesses. Additional estate assets can also be used up, estate and gift tax free, because the grantor of the defective trust continues to pay the income tax on the earnings of the asset sold. It is important to determine in advance if the transaction will have sufficient cash flow to work.
- Grantor retained annuity trusts (GRATs) — A GRAT is funded with the discounted value of the asset gifted into it. Grantor receives cash flow in the form of an annuity payment.
- Beneficiary defective trusts (BDTs) — This is similar to an IDGT. BDTs can provide for principal payments to the beneficiary after the note term ends and are useful if clients are holding assets that they wish to shift out of their estate for asset or divorce protection.

Important: Discounted gifts to trusts, rather than discounted outright gifts to heirs, provide asset protection and can include swap powers. With a swap power, the trustee has the ability to bring assets back into an estate and receive a step-up in basis at death.

When trying to squeeze planning into a short period of time, thought must be given to the following:

- Step-transaction doctrine — The IRS may collapse the various steps in a transaction if there is insufficient time between the steps. The step transaction doctrine is a judicial doctrine in the United States that combines a series of previously separate steps, resulting in tax treatment as a single integrated event. The doctrine is often used in combination with other doctrines, such as substance over form.
- Trusts take time to establish — Attorneys who draft the documents may be overloaded with work.
- Valuation firms also might be backlogged with work — Planning might have to be based on estimates using defined-value clauses in agreements.

If you have questions or would like to discuss your own estate planning needs, please contact Donita Joseph at **djoseph@windes.com** or **844.4WINDES** (844.494.6337).

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Remedies to Missing the 60-Day Rollover Requirement

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The 60-day requirement can be automatically waived if **all** of the following apply:

- The financial institution receives the funds on the taxpayer's behalf before the end of the 60-day rollover period.
- The taxpayer followed all the procedures set by the financial institution for depositing funds into an IRA within the 60-day period (including giving instructions to deposit the funds into an IRA).
- The funds are not deposited into a plan or IRA within the 60-day rollover period solely because of an error on the part of the financial institution.
- The funds are deposited into a plan or IRA within one year from the beginning of the 60-day rollover period.
- It would have been a valid rollover if the financial institution had deposited the funds as instructed.

If the taxpayer does not qualify for an automatic waiver discussed above, a self-certification procedure can be utilized to make a late rollover contribution. In Revenue Procedure 2016-47, the IRS created a simplified method for self-certifying the reason for a waiver, which includes a sample self-certification letter to be presented to the trustee, administrator or custodian who would accept the rollover. The following are acceptable hardships justifying the waiver for missing the 60-day deadline:

- An error was committed by the financial institution making the distribution or receiving the contribution.
- The distribution was in the form of a check and the check was misplaced and never cashed.
- The distribution was deposited into and remained in an account that the individual mistakenly thought was a retirement plan or IRA.
- The individual's principal residence was severely damaged.
- One of the individual's family members died.
- The individual or a family member was seriously ill.
- The individual was incarcerated.
- Restrictions were imposed by a foreign country.
- A postal error occurred.
- The distribution was made due to an IRS levy and the proceeds of the levy have been returned to the individual.
- The party making the distribution delayed providing information that the receiving plan or IRA required to complete the rollover despite the individual's reasonable efforts to obtain the information.

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In August 2016, after spending over a year deliberating upon its preliminary release, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14 “Not-for-Profit Entities (Topic 958).” This update is the culmination of the work of the FASB Not-for-Profit Financial Statements Project and comprehensively addresses the accounting model utilized for nonprofit entities for the first time in over 20 years. The resulting ASU has the effect of updating, but not overhauling, the current financial statement model used by nonprofit organizations. This article details the largest components of this update, discusses transition dates and strategies, and provides implementation and readiness tips for organizations.

What is in the new standard?

The key changes in the new standard:

- enhance information about the liquidity and availability of financial resources. An additional disclosure will add qualitative information about how an organization manages its liquid available resources and its liquidity risk. In addition, new quantitative disclosures will require presentation of information that communicates clearly the availability of an organization’s financial assets at the statement of financial position date to meet cash needs for general expenditures within one year;
- improve presentation and disclosure for net asset classes by streamlining the classes into two categories, instead of the current three. The new categories will simply be net assets with, and without, donor restrictions. The new standard reemphasizes disclosure requirements about net asset restrictions and adds new disclosure requirements about net asset designations. It also revises and strengthens accounting disclosures for underwater endowments. Finally, the ASU eliminates implied time restrictions for capital gifts;
- allow free choice between the direct method and the indirect method in presenting operating cash flows. Organizations are no longer required to present an indirect method reconciliation if they choose to present the direct method;
- require better information about expenses and expense allocation. This new requirement forces presentation of expenses by nature as well as by function, including a related analysis. Regardless of whether the organization chooses to display this information in the notes or in a separate statement of functional expenses, the effect of this requirement is that all organizations will now be presenting a statement of functional expenses (at present, only Voluntary Health and Welfare Organizations have this requirement). In addition, the ASU requires qualitative information about cost allocation and improves guidance on allocation from management and general expenses; and
- improve reporting of investment returns by requiring reporting net of external and direct internal investment expenses and eliminates the disclosure requirement for netted investment expenses and investment return components.

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When does it become effective?

The effective date of this new update is for fiscal years beginning after December 15, 2017. As a result, this update will generally need to be in place for calendar years ending December 31, 2018 or fiscal years ending 2019. Early adoption is permitted; however, in the year of adoption, all provisions need to be adopted at once. In the year adopted, for comparative years presented, organizations need to apply all provisions retroactively. The only exceptions to this is that for comparative information presented, an organization can choose not to present the analysis of expenses by nature and function (unless already required) and the disclosures around liquidity and availability of resources. In the next couple of years, organizations will need to determine when they will adopt the ASU.

How can nonprofits prepare?

Organizations should start to evaluate how they will be affected by this update. We recommend organizations:

- prepare for the enhanced liquidity disclosures by preparing the required qualitative and quantitative disclosure based on the most current audited financial statements and evaluate what it might say to readers of their financial statements. Organizations can use the time until adopting the new rules to determine how the disclosure will best benefit the organization. Our expectation is that this new disclosure will prompt discussion at the management and board levels of nonprofit organizations and may provoke useful and meaningful conversation on what it reveals. It is better to have these discussions now rather than later;
- that currently do not present a statement of functional expenses spend time now considering how they will include such a statement in their next financial statements. It will take time to design procedures for allocating and presenting these expenses in a timely manner and in more detail than may be required on the Form 990;
- with both temporarily and permanently restricted net asset classes consider how the presentation of their financial statements will be affected by the reduction in the presentation categories. There are new options for presentation of board-designated net assets in this regard. Organizations with underwater endowments should explore the new disclosures in this regard and evaluate how they reflect upon the organization;
- for which investment returns are a significant and material component to the financial statements evaluate how their current financials would be changed to reflect the new rules on netting investment returns and costs; and
- examine if switching to presentation of the cash flow statement using only the direct method would provide more useful information about the operations of the organization to users of the financial statements.

Conclusion

The Windes Nonprofit group looks forward to assisting nonprofit organizations and fellow professionals in implementing this new accounting standard as it becomes effective. To that end, we will present a workshop aimed at nonprofit organizations on the new rules in January 2017. If you are interested in attending the workshop, please contact us at **solutions@windes.com.**

For more information or questions about this article, please contact Michael Barloewen at **mbarloewen@windes.com** or toll free at **844.4WINDES** (844.494.6337).

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Remedies to Missing the 60-Day Rollover Requirement

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In addition to the above, the IRS must not have previously denied a waiver request for a rollover of all or part of the distribution. Also, the rollover must be made to the plan as soon as practicable after the reason or reasons for the delay no longer prevent the taxpayer from making the contribution. This requirement is deemed to be satisfied if the contribution is made within 30 days.

A self-certification is not a wavier by the IRS of the 60-day rollover requirement. However, contributions may be reported as a valid rollover unless later informed otherwise by the IRS. A copy of the certification should be kept in the taxpayer's files and be available if requested during an audit.

If a taxpayer does not meet the requirements for self-certification, an application may be submitted for a private letter ruling waiver according to the procedures outlined in Revenue Procedure 2003-16 and Revenue Procedure 2016-4. In that case, a taxpayer must file the application and pay the user fee of $10,000 and wait for the ruling before making the late rollover contribution.

For questions or more information, please contact Connie Lee at **clee@windes.com** or **844.4WINDES** (844.494.6337).

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Lance Adams Receives the Long Beach City College Foundation President's Award

Audit and Assurance Partner Lance Adams was presented with the Long Beach City College (LBCC) Foundation President's Award by College Superintendent-President Eloy Ortiz Oakley at the Fall Board of Governors meeting on September 22. The President's Award recognizes members of the LBCC Foundation's Board of Governors for exemplary service to the Foundation and College. Lance has served on LBCC Foundation's Board of Governors since 2009. He most recently served as Audit Chair for the Foundation for a number of years until stepping down this fall. "We are so grateful to Lance," said Elizabeth P. McCann, Executive Director for the Foundation. "He has gone above and beyond serving the Foundation in his role as Audit Chair, helping us with a significant project. Without his work and expertise, we could not have made the progress that we have under his leadership."

Windes in the Community

Team Spirit Walk for Breast and Ovarian Cancer

For the 13th consecutive year, Windes has been a sponsor of the Team Spirit Long Beach Walk for Breast and Ovarian Cancer. The event, held on September 24, raised more than $165,000 for support programs and treatment options for breast and ovarian cancer. All of the money raised at this event stays in Long Beach and helps support treatment programs at the MemorialCare Todd Cancer Institute at Long Beach Memorial Hospital.

Windes tax manager Kim Rokicki (in pink with son Cole) is a member on the Founders Committee of Team Spirit. Joining Kim, from left to right, are Windes executive assistant Pam Koss, tax partner Susan Laputz, and tax manager Erin Carlson with her son Michael.

Windes Goes the Extra Mile at the Long Beach Marathon

The Jet Blue Long Beach Marathon and Half Marathon is an international event supported by numerous local businesses and nonprofit organizations. Windes is proud to be a part of this Long Beach tradition, handing out water and cheering on participants as they pass the 13th mile-marker. This year's October 9 race hosted more than 20,000 participants and was attended by thousands of spectators. This is the 11th consecutive year that Windes employees and their family members have volunteered at the Long Beach Marathon.

Standing from left to right – Katherine Stephens, Megan Lasswell, Janet Hadeen, Jonathan Arriola, Sabrina Trang, Rebecca Christiansen, Guy Nicio, Jessica Barrington, Phillip Barrington, Sara Khatib, Audrey Yabko, James Cordova
Sitting from left to right – Deanna Trang, Dennis Hadeen, Erin Carlson, Daniel Tran

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