THE KT ADDITION

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UPDATE ON SOUTH DAKOTA ONLINE SALES TAX COLLECTION

CARRIE CHRISTENSEN, CPA, MANAGER

In the wake of the Wayfair case, the South Dakota Legislature met for a special session on September 12, 2018 to discuss issues related to remote sellers and e-commerce. Senate Bill 1 and Senate Bill 2 were signed into law by Governor Daugaard. For more information relating to South Dakota v. Wayfair, see my July 31, 2018 blog post at www.ktllp.com/blog.

Carrie Christensen, CPA, Manager

Senate Bill 1

Senate Bill 1 (SB1) will go into effect on November 1, 2018. SB1 removes the injunction currently prohibiting South Dakota from enforcing the collection of sales tax from remote sellers meeting the thresholds defined in Senate Bill 106 (SB106). The removal of this injunction does not apply to the three sellers involved in the recent U.S. Supreme Court case (Wayfair, Overstock, and Newegg). As a reminder, SB106 requires remote sellers (businesses without a physical presence in South Dakota) to collect and remit sales tax to the state of South Dakota once they either:

1. Have annual gross sales of $100,000 delivered to customers in South Dakota or
2. Engage in 200 or more separate transactions per year of goods or services delivered to customers in South Dakota.

Additionally, SB1 eliminates the State's ability to sue remote sellers as it will no longer be necessary with the passage of this bill. The bill also includes a clause declaring a state of emergency as of the signing date.

Senate Bill 2

Senate Bill 2 (SB2) will go into effect March 1, 2019. SB2 defines the following key terms relating to online sales:

• Marketplace – any means by which any Marketplace Seller sells or offers for sale tangible personal property, products transferred electronically, or services for delivery into this state, regardless of whether the Marketplace Seller has a physical presence in the state

*(**Update on South Dakota Online Sales Tax Collection** continued on page 2)*

*(**Update on South Dakota Online Sales Tax Collection** continued from page 1)*

• Marketplace Provider – any person that facilitates a sale for a Marketplace Seller through a Marketplace by:

- Offering for sale by the Marketplace Seller, by any means, tangible personal property, products transferred electronically, or services for delivery into this state and
- Directly, or indirectly through any agreement or arrangement with third parties, collecting payment from a purchaser and transmitting the payment to the Marketplace Seller.
- An example of a Marketplace Provider is Amazon.

• Marketplace Seller – a retailer that sells or offers for sale tangible personal property, products transferred electronically, or services for delivery into this state, through a Marketplace that is owned, operated, or controlled by a Marketplace Provider.

SB2 requires marketplace providers to collect and remit sales tax to the state of South Dakota for a Marketplace Seller if the Marketplace Provider:

1. Is also a seller meeting the SB106 thresholds described above or
2. Facilitates the sales of at least one Marketplace Seller that meets the SB106 thresholds or
3. Facilitates the sales of two or more Marketplace Sellers that when the sales are combined meet the SB106 thresholds, even if the Marketplace Sellers do not meet the thresholds separately.

SB2 does allow for a five percent margin of error allowance until June 30, 2024. This relief is granted to Marketplace Providers if the failure to collect or remit sales tax is due to incorrect or insufficient information provided by the Marketplace Seller. The five percent allowance does not apply if the Marketplace Provider and Marketplace Seller are related parties.

How to Become Licensed

Remote sellers and Marketplace Providers meeting the requirements in the bills discussed above should register for a South Dakota sales tax license at http://sd.gov/taxapp. Alternatively, remote sellers and Marketplace Providers can register with multiple states through the Streamlined system at www.streamlinedsalestax.org.

Additional information relating to remote sellers and Marketplace Providers is available on the South Dakota Department of Revenue website at www.dor.sd.gov. The tax professionals at Ketel Thorstenson, LLP are also here to assist you. Please call the professionals at KTLLP with any questions or concerns at 605-342-5630.

THE LAND OF OPPORTUNITY ZONES

Jess Weaver, CPA, Senior Manager

Opportunity Zones are a new tax incentive coming from the Tax Cuts and Jobs Act (TCJA). These zones were created with the intent to connect private investment capital to economically distressed communities. Designated opportunity zones have been assigned in South Dakota, with an opportunity zone residing right in downtown Rapid City (see map). These Qualified Opportunity Zones for all 50 states can be found on an interactive map at the www.cdfifund.gov website.

Opportunity Zones are a mechanism through which investors with capital gain tax liabilities can invest in Qualified Opportunity Funds (QO Fund) to receive preferential tax treatment. These funds can be used to make real estate investments and to purchase equity in businesses. Investors have the possibility to defer all gains from the sale of any property, possibly reduce the amount of gain recognized and in many instances permanently exclude the appreciable gain in a QO Fund from taxation.

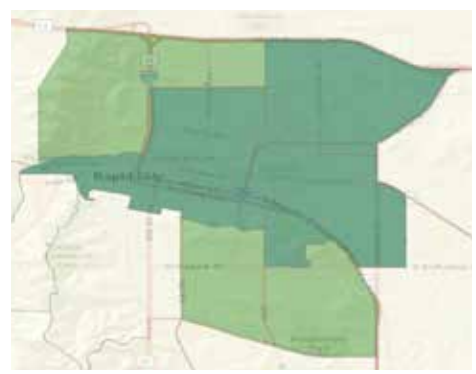
The investor must invest in a fund within 180 days after the sale or exchange of the capital asset. The fund entity can be a partnership, a corporation or a limited liability company. Eligible gains include sale of stocks, real estate, business interests, etc. Like property does not need to be exchanged to qualify for the deferral, for example, an investor can sell stock for a gain, invest in a QO Fund and purchase real estate.

QO Funds are separate entities established by the investor group to transfer gain and purchase a new investment. The current law allows for self-certification of an entity as a QO Fund. There is no maximum cap on the amount which can be invested.

Let's look at an example. On January 2, 2018, ABC Corp. sells property to an unrelated party and has a resulting gain of $1 million, which ABC Corp then reinvests in InvestFund, a qualified opportunity fund, on March 30, 2018. ABC defers the gain until December 31, 2026, at which time ABC must recognize the deferral gain due to TCJA requirements even though the investment in the fund has not been sold. ABC Corp sells its investment in InvestFund on April 2, 2030, for $3.5 million. Since ABC has held the investment for 10 or more years, it may elect to treat the basis as $3.5 million and no gain is recognized.

Jess Weaver, CPA, Senior Manager

Those expecting to pay large capital gains, real estate developers and business buyers should all take note. Call us today with questions.



S CORPORATION FRINGE BENEFITS

Jani Zweber, EA, Manager

In an S corporation, employee fringe benefits paid on behalf of a 2% shareholder are subject to special rules.

A 2% shareholder is any person who owns more than 2% of the corporation's outstanding stock on any day during the S corporation's tax year, considering both direct and constructive ownership.

The related-party stock attribution rules also apply to the S corporation. Under these rules, your spouse, parents, children and grandchildren are considered to own the same stock as you. Furthermore, if you employ them in your S corporation, their fringe benefits are subject to the same rules.

Let's take a closer look at some of the most common favorable fringe benefits.

1. Health Insurance

In order for a 2% shareholder in an S Corporation to receive a full deduction for health insurance premiums paid on behalf of the employee, the employee's spouse, or their dependents, the following steps must be followed:

1. The S corporation must pay the insurance premiums, either directly or through reimbursement to the shareholder.

2. The S corporation must include the health insurance as wages not subject to FICA on the shareholder's W-2.

3. The cost of the health insurance premiums are deducted on the shareholder's individual return, using the self-employed health insurance deduction on page 1 of their Form 1040.

Warning No. 1 – Greater than 2% shareholders cannot participate in a Section 125 Plan. The shareholder's participation will destroy the S corporation's tax-favored Section 125 cafeteria plan. If the 2% shareholder participates in the Section 125 plan, not only is the plan disqualified, but the benefits will be taxable to themselves and all employee participants.

Warning No. 2 – According to the IRS, earned income of a more than 2% shareholder in an S corporation under which an insurance plan is established is the shareholder's Medicare wages (Box 5 of Form W-2) from that corporation. Since health insurance premiums are not included in Medicare wages, this definition of earned income effectively requires a 2% shareholder have cash wages subject to FICA taxes that equal or exceed the premiums in order for the 2% shareholder to receive the full health insurance deduction on his or her individual return.

Warning No. 3 – Beware of Employees. The S corporation can pay for or reimburse the 2% shareholders' individually-owned insurance but the S corporation

Jani Zweber, EA, Manager

may not pay for or directly reimburse the non-managerial employees for such policies.

An S corporation which directly pays for or reimburses employees for employee-arranged health insurance premiums (as opposed to paying premiums for company-arranged group coverage) faces stringent Affordable Care Act penalties.

2. Health Reimbursement Arrangements (HRAs)

A shareholder-employee who owns more than 2% of the shares can't gain an extra benefit from a Section 105 plan or other HRA.

If the S corporation reimburses the more than 2% shareholder-employee using a health reimbursement plan or account, it simply creates more taxable income to the shareholder. Likewise, if health insurance costs are included in the

(*S Corporation Fringe Benefits* continued on page 5)

(*S Corporation Fringe Benefits* continued from page 4)

reimbursement, the shareholder treats the health insurance costs included in his or her W-2 as discussed in No.1 above.

For medical reimbursements other than health insurance, the S corporation reports the income as wages on the W-2, the shareholder itemizes those deductions as a medical expense on Schedule A of Form 1040 (federal income tax form used to report an individual's gross income).

3. Health Savings Accounts (HSAs)

The S corporation treats contributions to the more than 2 percent shareholder-employee's health savings account (HSA) as W-2 income; however it is exempt from Social Security and Medicare, and the shareholder-employee deducts the HSA on his or her Form 1040.

4. Disability Insurance

The S corporation treats the premiums paid for an income replacement disability policy on a more than 2% shareholder-employee as wages for withholding tax purposes that are exempt from FICA and federal unemployment taxes.

Under this requirement, the more than 2% shareholder-employee has constructively paid the disability premiums personally because of the W-2 treatment, and that means he or she collects the disability income tax-free.

Fringe benefits that are not as beneficial to the S corporation shareholder:

- While some fringe benefits give your S corporation a tax deduction for the compensation, the benefit is compensation on the shareholder's W-2. Effectively, this gives the shareholder zero tax benefit from the fringe benefit.
- These benefits increase the corporation's share of the FICA taxes on the compensation it has to add to the 2% shareholder's W-2.
- The benefit increases the 2% shareholder's personal FICA taxes because of the compensation added to the W-2.

These non-beneficial fringe benefits subject to FICA taxes include:

1. Group Term Life Insurance

Shareholder-employees cannot deduct the group term life insurance on their personal return. To see whether it is a good or bad the idea to cover a more than 2% shareholder-employee with group term life insurance, you need to compare the cost savings (if any) of the group insurance with the additional FICA taxes paid by both the corporation and the shareholder.

2. Qualified Moving Expense Reimbursements

For tax years beginning January 1, 2018 and before January 1, 2026 tax reform eliminates the fringe benefits and tax deductions for moving expenses. This applies to both employees and shareholder-employees who own more than 2 percent.

3. Meals and Lodging

Meals and/or lodging that are provided to a more than 2 percent shareholder-employee for the company's convenience (for example, because the shareholder-employee must be on the company premises for overnight duty) are treated as wages subject to FICA and are not deductible on the shareholder's personal tax return.

However, this benefit is tax exempt if paid to a non-managerial employee, or one that is a shareholder who owns less than 2% of the shares.

4. Qualified Employee Achievement Program

The 2% shareholder may not deduct the value of the achievement award on his or her personal income tax return.

5. Qualified Adoption Assistance

If the 2% shareholder is paid the adoption assistance fringe benefit and it's included on the shareholder's Form W-2, the shareholder can claim the adoption credit allowed by the tax code on his or her personal income tax return.

For more information on how to report these and other fringe benefits on your federal and state payroll reports and Form W-2, please contact your KTLLP advisor.

Join the conversation online.

HOW HAS THE TAX CUTS AND JOBS ACT AFFECTED THE AFFORDABLE CARE ACT?

KIM RICHTERS, ASSOCIATE

Since the Affordable Care Act (ACA) was passed, there has always been confusion: who needs coverage and who is exempt, how much and when are penalties imposed, and what are the employer's responsibilities? To make matters more complicated, the Tax Cuts and Jobs Act (TCJA) included a modification to ACA that many people may easily misinterpret or completely miss in light of the numerous other changes.

The goal of the ACA was to ensure all individuals and their dependents have access to minimum essential coverage that is "affordable" to them. This could be obtained through their employer, the Healthcare Marketplace, or directly through insurance agencies. If someone did not have qualified coverage and did not meet an exemption such as a short gap in coverage or they were under the poverty threshold, they would face a penalty. The penalty itself was a confusing calculation. Essentially the penalty was the greater of a) $695 for each adult per year (1/2 that for each dependent) or b) 2.5% of the taxpayer's household income over a threshold amount.

There are two major changes in the TCJA that affect the ACA. First, the penalty explained above is permanently repealed effective January 1, 2019. This essentially makes obtaining health insurance coverage a voluntary action as there is no longer a penalty associated with not being covered. Second, for the first time since the ACA was enacted, the IRS is now requiring taxpayers to specifically state they had minimum essential coverage. In prior years, this portion of your return could be left blank without repercussions. Starting January 1, 2018, this must be disclosed or the tax return could be rejected and the taxpayer may be assessed the individual mandate penalty.

Since this is not effective until 2019, you must maintain coverage for yourself and your dependents if you do not qualify for an exemption listed in the ACA, or face a penalty. Further, the ACA itself is not repealed, only the penalty associated with minimum essential coverage has been. Two important conclusions from that are 1) the Marketplace and the premium tax credits are still available if you qualify and 2) none

Kim Richters, Associate

of the requirements for employers have changed. Employers with more than 50 full-time equivalent employees are still required to offer affordable minimum essential coverage and meet reporting requirements such as 1095-B and 1094/1095-C. Failure to do so will result in penalties to the employer that have not been repealed.

For further answers to your questions, don't hesitate to contact the Tax Team at KTLLP.

THE CHILD AND DEPENDENT CARE TAX CREDIT AND THE CHILD TAX CREDIT

KIA SMITH, CPA, SENIOR ASSOCIATE, QUICKBOOKS PROADVISOR

Are child/dependent care costs 100% deductible?

I was recently meeting with a new client to gather their information to prepare their individual tax return, and we came across child care expenses. The client asked, "Are these costs fully deductible on my tax return? Do I also get the Child Tax Credit?" My response was, "Sorry they are never deductible, but there are fantastic tax credits." The Child Tax Credit and the Child and Dependent Care Tax Credit are two different credits. The Child Tax Credit can only be claimed on a minor dependent child under age 17. The Child and Dependent Care Tax Credit applies when you are paying for care for someone under the age of 13 or a spouse, or a dependent whom is unable to care for themselves.

Please note these are tax credits, not tax deductions. A tax credit reduces your tax bill dollar for dollar, which makes it more beneficial.

To claim the child and dependent care tax credit, you must meet all of the following tests:

1. Qualifying Person Test: A qualifying child under age 13 or a person physically or mentally unable to care for oneself.
2. Earned Income Test: The taxpayer must have earned income during the year. If filing a joint return, both taxpayers must have earned income.
3. Work-Related Expense Test: The expenses were used to allow you to work or look for work.
4. Payment Test: You must be making the child/dependent care payments.
5. Provider Identification Test: You must provide the name address and taxpayer identification number for the care provider.
6. Joint Return Test: Your filing status must be single, head of household, or qualifying widower. If you're married you must file a joint return.

How to figure the Child and Dependent Care Credit?

There is a dollar limit for the amount of child and dependent care costs that are eligible for the credit. If you have only one child/dependent, the most you can claim is $3,000, and for two or more children/dependents the maximum amount is $6,000.

Your credit can range from 20% to 35% of your allowable costs. If your adjusted gross income is below $15,000, your allowable costs are multiplied by 35%, while if you are on the top end of the chart with income above $43,000, then your allowable costs are multiplied by 20%. There is no phase-out above the 20% threshold, which means high-income taxpayers are still eligible.

Kia Smith, CPA, Senior Associate, QuickBooks ProAdvisor

The Child Tax Credit has different rules. To claim this credit, the IRS has six requirements:

1. Qualifying Person Test: The child/dependent must meet the definition of a qualifying child.
2. Age Test: Was the child under age 17 be 12/31?
3. Support Test: Did you pay for over half the support for the year.
4. Residence Test: Did the child live with you for over half the year?
5. Dependent Test: Is the dependent claimed on your tax return?
6. Citizen Test: Was the child a US citizen?

(*The Child and Dependent Care Tax Credit and the Child Tax Credit* continued on page 8)

(*The Child and Dependent Care Tax Credit and the Child Tax Credit* continued from page 7)

How to figure the Child Tax Credit?

New for 2018: The credit has increased to $2,000 per qualifying child, and the refundable portion is $1,400. The AGI income-phase outs have also increased to $200,000 filing single and $400,000 for married filing joint. This will mean that more taxpayers will be able to apply these credits than ever before.

New for 2018 is a $500 nonrefundable credit for certain non-child dependents, and children who do not qualify for the $2,000 child tax credit because they are over 16 years old. As you can see while these two credits sound similar, they are very different, and that can cause some confusion. If you have questions or would like to sit down to discuss your particular situation, please contact a KTLLP professional.

WHAT IS A BANK RECONCILIATION AND WHY IS IT IMPORTANT?

ALI EDDY, MANAGER, QUICKBOOKS PROADVISOR

Do you know what is really in your bank account? Do you know within days if a customer's check bounced? Do you confirm that the teller is depositing your money into the correct business bank account? My theory is to trust, but verify with the process of reconciliation.

Reconciling is a way to compare bank records to your records. This process should be done at least monthly and may be done on a weekly or daily basis if needed.

To reconcile your bank account in QuickBooks, from the task bar click on banking, reconcile, and choose the bank account, statement date, and ending balance. Look at each transaction. If the transaction matches both the QuickBooks file and bank statement, click the item in QuickBooks and use a highlighter to mark the item on the bank statement. Do this process for each deposit and each check/withdrawal. After marking off each item, the difference between the cleared balance and ending balance should be zero. The difference is shown in the bottom righthand corner of the reconcile screen in QuickBooks.

If there is a discrepancy, first look at the total deposits and total checks to see if the totals match the totals on the bank statement. This will help you narrow your search instead of looking back through each item again. Then, find which item(s) needs to be adjusted and why. This could be due to a number of reasons such as a typo, bank error, duplicate entry, or even fraud. After determining the reason for the discrepancy, you can edit the item or enter a journal entry to make the difference between your ending balance and cleared balance zero.

Reconciling the bank account is important for producing accurate and up-to-date financial statements, sales tax returns, quarterly payroll reports, and annual tax returns. It is normal to see minor differences due to the timing of outstanding checks and deposits, but you should be able to explain each outstanding item easily. This same process should also be applied to your credit card statements.

Adding bank reconciliations to your accounting routine will not only improve the accuracy

Ali Eddy, Manager, QuickBooks ProAdvisor

of your financial statements but better assist in evaluating the cash flow of your business.

CALL THE KTLLP QUICKBOOKS PROADVISOR TEAM WITH ANY QUESTIONS.

Join the conversation online.

UNCLAIMED PROPERTY: ARE YOU IN COMPLIANCE?

KIMBERLY BECK, ASSOCIATE

Almost every business produces Unclaimed Property. If steps haven't been taken to identify, notify, report, and remit on an annual basis – now is a good time to start. The cost of noncompliance may be steep and result in a higher risk of being audited.

What is Unclaimed Property?

Unclaimed property include the financial assets in a business' possession that belong to another business or individual. Examples include uncashed checks (including payroll), refunds and credits, inactive bank accounts, insurance proceeds, safe deposit box contents, and utility deposits.

How Does Property Become Unclaimed?

There are many ways in which property could become unclaimed. It might be due to a terminated employee forgetting to pick up the final check, an employee or vendor change of address, or because the owner simply did not know about the property.

Reporting and Deadlines

There are five simple steps to ensure compliance:

1. Review records regularly
2. Make a reasonable effort to contact the Owner
3. Prepare the report
4. Submit the report and remit
5. Retain records

Kimberly Beck, Associate

Review Records Regularly

The easiest way to consistently identify outstanding payables is to review the bank reconciliation on a monthly basis, research the outstanding checks, and document the adjustments.

When researching, the goal is to determine the date of last contact or activity for each customer account or outstanding amount owed to a client, customer, vendor or employee. Once the research is complete, the next step is determining if the property is considered unclaimed.

Property is Unclaimed if both of the following are true:

1. The property has been uncashed for 1-3 years
2. There has been no contact with the Owner during the 1-3 year abandonment period

Deadlines

June 30 – Annual cutoff date for required dormancy period falling between the dates of July 1 and June 30

Nov. 1 – Deadline for filing report and remitting unclaimed property. Property may be remitted any time after the June annual cutoff date

Unclaimed property should not be reported until it has reached the end of the dormancy period.

Source: SDCL43-41B-18(d)

(Unclaimed Property: Are You in Compliance? continued on page 10)

(Unclaimed Property: Are You in Compliance? *continued from page 9)*

Property Categories	Number of Years Dormant
Wages/Commissions	1
Utility Deposits/Refunds	1
Safe Deposit Boxes	3
Checking/Savings Accounts	3
Traveler's Checks	15

South Dakota Unclaimed Dormancy Matrix (Excerpt)

The complete Dormancy Table is located on the Unclaimed Property Division's website under Reporting Guidelines. However, this is only a guide. Refer to the Unclaimed Property law (SD43-41B) when reporting.

Make a Reasonable Effort to Contact the Owner

Before reporting and remittance, due diligence should be exercised in efforts made to notify and return the property to the owner. Notices are to be sent no less than 60 days prior to reporting. The requirement of due diligence only applies to amounts of $50 or more – the State does not have a minimum for the requirement to report. If these attempts do not produce any activity or claim, the property should then be reported to the State.

What to include in the notification(s):

1. Statement/Identification of property being held.
2. Information regarding change of address/name of the Holder (if applicable).
3. Statement the property will be transferred to the state.
4. Letters must be sent no less than 60 days prior to transfer.

If the Owner of the property establishes activity or claim prior to the property being remitted, the Unclaimed Property Division must be notified.

Preparing the Report

All property not previously reported to the Unclaimed Property Division and unclaimed for the applicable period of dormancy should be included in the report. Holders are required to report all available Owner information - including last known address, the date last contacted, and a description of the property. Submitting as much information as possible will reduce the need for further contact by the state.

Submitting Report and Remittance

Property reports must be submitted to the Unclaimed Property Division via a secure file transfer portal in the NAUPA format via the Unclaimed Property Division's website under Submit a Report. A PDF copy of the NAUPA Standard Electronic File Format can be found on the NAUPA website under Reporting. Holders failing to submit a report will be subject to a penalty.

Retain Records

A record of the name and last known address of the Owner must be maintained for ten years after the property becomes reportable. If audited, and this information is unavailable, penalties may be incurred.

Voluntary Disclosure

The State offers a Voluntary Disclosure Program for those who haven't been compliant or who have discovered unclaimed property which should have been reported. This program provides a way to report those over-looked properties - without penalty or interest. Further details regarding this program are available on the Unclaimed Property Division's website under Reporting Guidelines.

Government and Public Entities

Government and Public entities have some differing guidelines. The Public Entities Reporting Manual is available in digital form on the Unclaimed Property Division's website under Reporting Guidelines.

Resources

SD Unclaimed Property Division Website: https://southdakota.findyourunclaimedproperty.com

NAUPA Website: https://www.unclaimed.org

SD Codified Laws: https://sdlegislature.gov/statutes/Codified_Laws/Default.aspx

DO I NEED A CURRENT BUY-SELL AGREEMENT?

ERICKA HEISER, MBA, CVA, DIRECTOR

As business owners, you are busy bringing in new customers, taking care of existing customers, grooming employees, managing inventory, analyzing financials and the list goes on. When do you take the time to focus on succession planning, your 5, 10, or 20 year plan, expanding to a new location or developing a new product or service? Being a responsible business owner means you must pay attention to all of the day-to-day details, but it also means that you need to ensure the long-term health of your company.

When do you talk with your partners about what happens should the "proverbial bus" hit one of you? My intent is not to scare you! However, to be honest, my intent might be to make you a little uncomfortable if you have not (a) thought about it, (b) discussed it with your partner(s), or (c) worked with your attorney to create a document that outlines all aspects of what you wish to occur should one of you becomes disabled or dies.

If you already have a buy-sell agreement in place, kudos to you! However, I caution you from simply "checking the box" that you have an agreement. If it has been more than five years since you and your partner(s) have reviewed the agreement, and certainly if it has been more than ten years, it is time to pull it out of the file cabinet, brush the dust off it, and ensure ALL components are still applicable.

A buy-sell agreement outlines the steps that will be taken if an owner leaves the business, sells his/her shares, retires, or passes away, for example. These are called "triggering events." It is a contract among shareholders that determines what happens to the business equity using previously determined understanding among the owners. The objective is to create a document that is well thought out and very specifically outlines a set of instructions of what to do when triggering event occurs. The whole point of having a buy-sell agreement is to prevent misunderstandings and keep you OUT of court! It is not the time to be vague! The agreement should not need interpretation. If the language is vague and you find yourself in court against your partner, it doesn't matter what your intent was. The judge or the jury will decide how things will happen. Do YOU want to decide or do you want a JUDGE to decide?

Your skilled attorney will assist you with overall agreement including specifics of the transactions in the occurrence of a triggering event. That is his/her area of expertise. Work with a skilled and credentialed valuation analyst to determine the price of the stock when the triggering event occurs. The agreement can incorporate a formula to

Ericka Heiser, MBA, CVA, Director

determine the stock price or it can simply state that a qualified business appraiser will determine price. Because appraisers employ significant judgment, I have seen agreements call for appraisals from two different business appraisers, of which their concluded values will be averaged. While this is an option, it may be too expensive for your situation.

Tip: Work with a skilled attorney who will listen to your wishes and concerns.

In my next article, I will outline options for determining stock price in the occurrence of a triggering event and components of value that need to be considered and outlined in a buy-sell agreement. Please stay tuned for my next article outlining more detailed information of buy-sell agreements from a business appraiser's perspective!

HOW THE TAX CUTS AND JOBS ACT AFFECTS FARMERS AND RANCHERS

Katie Finnegan-Larson, EA, Manager

The Tax Cuts and Jobs Act has several changes for farmers and ranchers.

• Like-kind exchanges, deferral of gain on sale, can only be used for Real Property. Equipment like-kind exchanges are reported as a sale and purchase (2 separate transactions).

- Equipment trade-in value is the sale price of the equipment. Replacement equipment is valued at the selling price before the trade-in is considered.

• Depreciation rules have changed.

- New and used equipment purchased in the tax year qualifies for 100% first year bonus depreciation (old rule was new purchases only).
- If the bonus is not used, Sec 179 is still available for new and used equipment. The limit is $1 million with the phase out threshold at $2.5 million.
- Double Declining balance depreciation is available for 3, 5, 7 and 10 year property with the repeal of the 150% declining balance depreciation method.
- The depreciable life for new equipment is 5 years (old rule was 7 years).
- The depreciable life for used equipment remains at 7 years.

• Real Estate taxes allocable to the business are not subject to the $10,000 limitation, the limitation applies to personal property tax only, deducted on the Schedule A as an itemized deduction.

• Business interest is fully deductible as long as gross receipts are less than $25 million.

• Net operating losses (NOL) have a couple of changes starting after December 31, 2017 and before 2026:

- NOL generated can carryback up to $500,000 (MFJ) or $250,000 (single).
- NOL carryback is for 2 years only (was 5 years) for farm and ranch only.
- NOL carryforward is indefinite (was limited to 20 years).
- NOL carryforward can only offset 80% of income (prior rules allowed 100%).

• Qualified Business Income Deduction (QBID):

- The flow-through deduction from cooperatives (formally DPAD), will still be deductible by the individual.
- The QBID is a deduction against taxable income but does not affect self-employment taxes.
- The Qualified Business income does not include capital gains (an example would be sale of breeding stock).
- The simplest explanation for the QBID is 20% of Qualified Business Income (QBI).
  ◊ This method is used when taxable income for a single taxpayer is below $157,500 and married taxpayer is below $315,000.
- If taxable income is above the thresholds, the initial QBID for each of the taxpayer's trades or businesses is the lesser of 20% of QBI, or the greater of 50% of W-2 wages, not including commodity wages, or 25% of W-2 wages plus 2.5% of qualified property.
- Rental income will qualify for the QBI deduction if the property is rented to a commonly controlled trade or business.

Katie Finnegan-Larson, EA, Manager

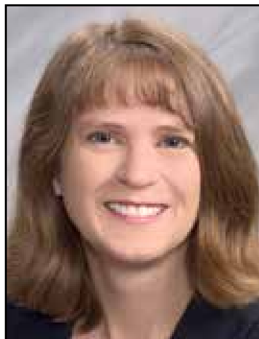
The Tax Cuts and Jobs Act has many tax saving features. We will continue to inform you as the proposed regulations get defined and made permanent. We would encourage you to visit the KTLLP Tax Team for your tax planning needs before the end of the year.

KT News

We can't do what we do without the help of a GREAT TEAM. Meet some of them.

— NEW HIRES —

Nicole Laub, Associate, Accounting Services Department



Elizabeth Davis, Associate, Accounting Services Department

Nathaniel Deziel, Associate, Audit Department

Trevor Clark, Associate, Audit Department

Brendan Walker, Associate, Audit Department

Dayna Reffner, Administrative Assistant, Tax Department

— CPA EXAM PASSING —

Josh Newman, Senior Associate Audit Department

Thanks to all our staff who helped with fall recruitment. We had a great time visiting the campuses of the University of South Dakota, the University of Wyoming, and Black Hills State University.

KT News

We can't do what we do without the help of a GREAT TEAM. Meet some of them.

— PROMOTIONS —

Josh Newman,
Senior Associate,
Audit Department

Keegan Stock,
Senior Associate,
Tax Department

Nikki Ritzen,
Senior Associate,
Accounting Services Department

Stacy Huether,
Senior Associate,
Tax Department

Ali Eddy,
Manager,
Accounting Services Department

Carrie Christensen,
Manager,
Tax Department

DJ Adelman,
Manager,
Audit Department

Jeanne Schneider,
Manager,
Accounting Services Department

Sarah Davis,
Manager,
Accounting Services Department

KTLLP CORE VALUES:

About 6 months ago the staff at Ketel Thorstenson started working on redefining the firms core values. It started with a survey of the staff, included a retreat with managers and senior managers, a review by the partner group, and ended with a committee doing the final touches.

We are excited to reveal our core values:

Be Excellent
Provide exceptional and accurate professional services delivering premium value and exceeding expectations.

Be Innovative
Offer knowledgeable teams dedicated to delivering strategic solutions to ensure our people, clients, and communities reach their fullest potential.

Be True
Foster our strong foundation of being a dependable, honest, and accountable resource generating continued trust.

Be Friends
Nurture a supportive environment promoting genuine interest, giving back, growth, and success.

Be Different
Encourage diverse thoughts and opinions through collaboration while delivering a variety of services and creating strategic relationships.

KTLLP along with the SD CPA Society and other firms helped sponsor a Movies Under the Stars event at Main Street Square. Staff volunteered by setting up fun math themed games and prizes for the families attending.

KTLLP staff are passionate about supporting area school children, and donate annually to the Black Hills Federal Credit Union School Supply Drive.

PO Box 3140
Rapid City, SD 57709

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for your business.

Ketel Thorstenson, LLP is honored to be your chosen accounting firm and we value the opportunity to work with you. The confidence you have placed in our services is truly appreciated.

The partners of
Ketel Thorstenson, LLP

Join the conversation online.

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Certified Public Accountants/Business & Personal Consultants

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