

THE ADDITION

A Publication of Ketel Thorstenson, LLP

WINTER 2024

Volume 30 Issue 1

CONTENTS

**Guidelines for Deferral of
Livestock and Crop Insurance
Proceeds**
PAGE 1 & 3

**Series LLCs: The Pros, the Cons,
and the Unsettled from the CPA
perspective**
PAGE 2 - 3

Retirement Plan Audit Needs
PAGE 4 - 5

Top 10 Tax Questions
PAGE 6 - 7

Avoiding the Year End Scramble
PAGE 8 - 9

Promotions, New Hires & Interns
PAGE 10 - 11

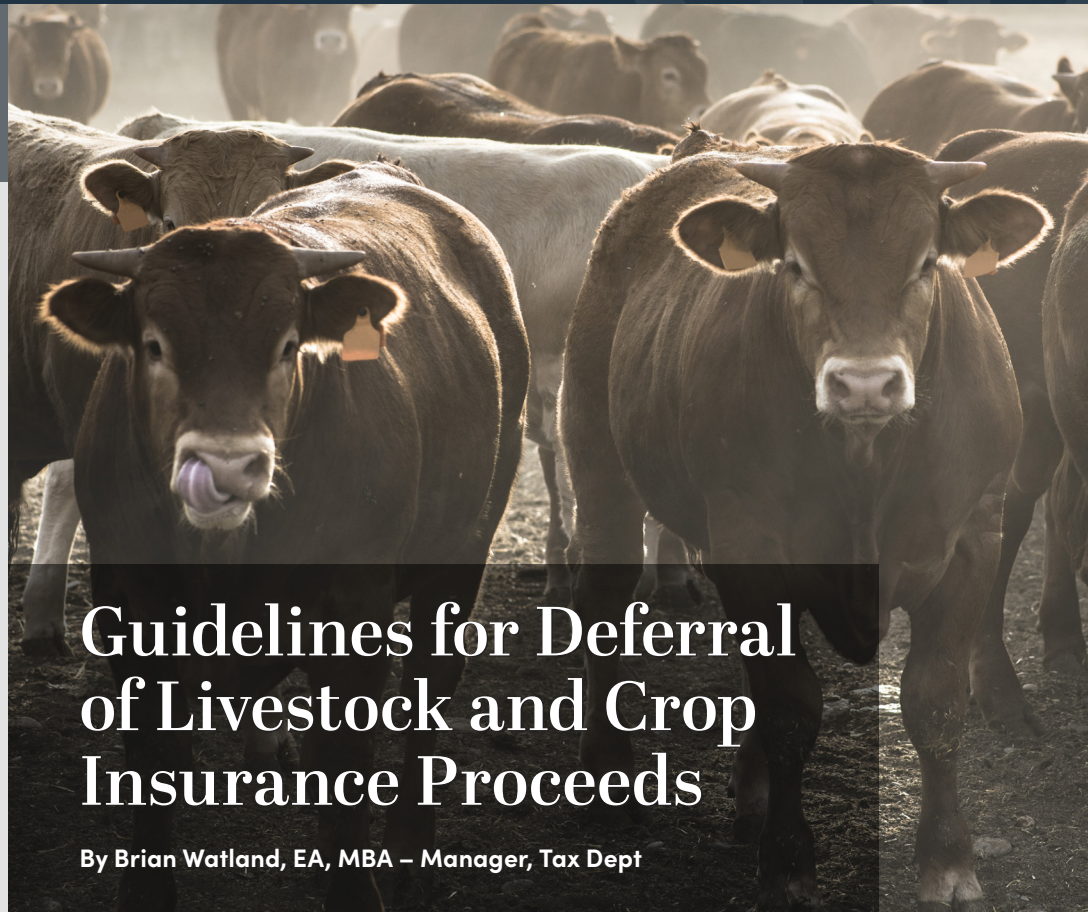


RAPID CITY, SD
810 Quincy Street
(605) 342-5630

SPEARFISH, SD
741 N Main St., Ste 230
(605) 642-7676

GILLETTE, WY
305 S. Garner Lake Road
(307) 685-4433

WWW.KTLLP.CPA



Guidelines for Deferral of Livestock and Crop Insurance Proceeds

By Brian Watland, EA, MBA – Manager, Tax Dept

The weather impacts all of us, but it impacts the farmer and rancher financially. Many farmers and ranchers have recently been impacted by major drought throughout most of the US. The IRS provides tax relief by allowing for the deferral of income under certain circumstances. There are two options available when electing to defer income from livestock that have been sold because of a drought or other weather-related conditions.

Option 1:

A taxpayer may be eligible to defer excess 2023 sales of market and/or breeding livestock and report that amount as income in 2024. The following criteria must be met:

- The principal business of the taxpayer is farming.
- The taxpayer is a cash basis taxpayer.
- Drought, flood, or other weather conditions resulted in the taxpayers' area being designated as eligible for assistance by the federal government.
- The sale of the excess livestock would not have occurred if it were not for the weather conditions.

LIVESTOCK DEFERRAL GUIDELINES
CONTINUES ON PAGE 3



Series LLCs: The Pros, the Cons, and the Unsettled from the CPA Perspective

You may have heard about or even been advised to consider using a “Series LLC” structure. This article provides an overview of this new legal structure and the pros and cons from an accountant’s perspective. Please review this opportunity with your business attorney.

By Tom Alvarez, CPA, MBT – Director, Tax Dept

Background

Since the passage of the first Limited Liability Company (LLC) legislation by the State of Wyoming in 1977, LLCs have catapulted to the top tier of available entity legal structures. Therefore, it was inevitable that creative offshoots would sprout from the basic LLC structure such as the Series LLC concept.



Tom Alvarez, CPA, MBT
Director, Tax Dept

Delaware enacted the first Series LLC legislation in 1996, inspired by and modeled after the Delaware statutory trust vehicle, which allowed a single investment company to be formed as a trust with separate series.

What are Series LLCs?

Series LLCs generally consist of a parent or “Master” umbrella LLC under which unlimited numbers of Child (or “series”) LLCs can be formed, permitting each of the Child LLCs to have separate assets, liabilities, operations, members, and managers. This type of legal structure was authorized in South Dakota on November 15, 2020.

This structure is very similar to a traditional holding company — with parents and subsidiaries. The alternative to Series LLCs is to have “brother-sister” LLCs which merely have mirrored ownership.

The Pros of Series LLCs

- In some cases, Series LLCs are simpler to administer internally since there is only one legal entity rather than several legal entities to track.

- An ideal use for Series LLCs, for example, would be for someone owning several rental properties, or perhaps for a fast-food franchisee with multiple locations. The Series LLC (and wholly owned Children LLCs) only needs one income tax return, while a “brother-sister” LLC ownership would require one for each location.
- There may be decreased professional fees since there will not be separate LLCs to form. However, see the related “con” below for situations in which Series LLCs may result in higher professional fees.
- In South Dakota, there can be reduced annual state filing fees, since only the Master LLC needs to make annual filings, while Child LLCs do not.

Attorneys have informed us that even though Child LLCs are under one Master LLC, each Child LLC should only be liable for its own debts. Therefore, creditors of the other Child LLCs and Master LLC cannot gain access to its assets and vice versa.

It is also important for your attorney to review bankruptcy laws with respect to these new legal entities.

The Cons and Unsettled Legal Areas Applicable to Series LLCs

- If the Child LLC is not entirely owned by the Master, a separate partnership return will still need to be filed for each Child. As such, Series LLCs are the most beneficial when the Master is the 100% owner of each Child. Because a wholly owned LLC is ignored for income tax purposes, only one tax return will need to be filed.
- For interstate Series LLC businesses, states without Series LLC legislation may choose to ignore the Series LLC and seek to consider each Child as a separate LLC entity. Furthermore, even for those states with Series LLC legislation, a state may interpret an out-of-state Series LLC business in a manner different from the resident state's interpretation. These are legal issues which should be discussed with your legal counsel.
- Series LLCs may cause tax accounting nightmares for businesses operating in several states. For interstate businesses, if one Child has a loss and another has income, and both operate in the same state, the state's apportionment rules may result in the 'loss' LLC's members paying tax that they wouldn't otherwise.
- Regarding professional fees, if the characteristics of individual subunits may be complex, folding them under one LLC umbrella may result in increased professional fees as advisors may spend additional time addressing the unique aspects of Series LLCs. This is particularly true if the Child LLCs are not 100% owned by the Master LLC.

As you can see, the ultimate answer depends on the specific facts of the situation. We do advise that you bring in your attorney and tax advisor to assist you in evaluating whether this type of structure is best for your situation.

LIVESTOCK DEFERRAL GUIDELINES CONTINUED FROM PAGE 1

In general, it's common to use the average head sold in the prior three years to determine the number of livestock sold under normal business practices. This calculated average is generally used as a base to determine the excess head sold. Ketel Thorstenson (KT) can assist with this calculation to determine the amount of eligible deferral.

Option 2:

This option allows the postponement of gain on livestock sold in 2023 by purchasing replacement animals within a two-year period. It only applies to draft, breeding, or dairy animals. The replacement period is extended to four years if the taxpayers' area has been designated as eligible for assistance by the federal government in the future year.

There are a few rules that a taxpayer must follow when replacing their livestock:

- The replacement livestock must be the same type and the same sex as the deferred livestock.
- The number of head replaced does not have to be the same as the number of head deferred.
- The taxpayer must spend replacement costs equal to the amount of the gain deferred.

In some cases, it may not be feasible for a taxpayer to reinvest the deferred gain back into livestock. If this is the case, the taxpayer is allowed to replace the deferred livestock with other tangible property, which can include vehicles and equipment. Land is not eligible.

If the livestock is not replaced, an amended return will need to be prepared for the deferral year to report the income.

Deferral of Crop Insurance:

A taxpayer is also able to defer crop insurance proceeds for one year. In order to qualify, it must:

- Be customary practice for the taxpayer to sell more than 50% of the crop in the year following the harvest.

- They must also report income on a cash basis.
- They must receive crop insurance proceeds in the same year as the damage occurred.
- The insurance must be for damages and not lost revenue.

If this election is made, insurance income from all crops must be deferred, there is no option to choose how much to defer.

These deferral options can provide much needed tax relief to farmers and ranchers who are already facing tough times. However, the process can be complicated as there are many regulations, elections, and tests that apply. In addition, deferral may not always be advantageous based on type of livestock sold, future years income being greater than current year, future tax law changes, economic conditions, etc.

Please don't hesitate to contact your ag tax professional at KT if you believe you may be eligible for any of these deferral options. We are here to help you through this process.

To see a list of counties designated as effected by drought: <https://www.irs.gov/pub/irs-drop/n-23-67.pdf>



Brian Watland, EA, MBA
Manager, Tax Dept

KT is Here to Solve Your Retirement Plan Audit Needs

By Austin Eichacker, CPA – Senior Manager, Audit Dept

Employee benefit plan audits such as 401(k), 403(b), and ESOPs can be a daunting and stressful process, especially for those who have not been audited previously. KT is here to help alleviate that stress through our knowledgeable and experienced staff. Whether you have a benefit plan that has recently met the requirements for an audit or have been getting audited for multiple years, we can help you understand common benefit plan deficiencies, how to best resolve them, and how to reduce the chance of future deficiencies.



So why KT?

Firm Experience:

- During 2023, KT conducted approximately 50 employee benefit plan audits, including 401(k), 403(b), and ESOP plan audits. The Department of Labor (DOL) released an audit quality study in 2023 which showed that, on average, 30% of audit firms had one or more major deficiencies with respect to Generally Accepted Audit Standards (GAAS). The study showed the more plan audits a firm conducted, the lower the deficiency rate. Audit firms who conducted less than 24 Plan audits had, on average, a 15% higher deficiency rate compared to firms who conducted between 25 – 99 plan audits.

- KT has continued to receive clean opinions on our external peer reviews. KT has not had any significant findings related to employee benefit plan audits as a result of these examinations.
- KT is part of the AICPA Employee Benefit Plan Audit Quality Center, and we regularly attend the AICPA annual employee benefit plan national conference.

We have knowledgeable staff with specific training who receive continued professional education:

- KT has dedicated employees who specialize in employee benefit plan audits and attend regular professional education training.
- Our employees stay up to date on evolving regulations and help to ensure your plan can be safeguarded from potential noncompliance. In doing so, we can avoid potential penalties and lost earnings, which may occur if errors are not corrected in a timely manner.

KT has substantial experience in benefit plan audits and can offer meaningful improvements to your internal processes:

- Avoid the ‘well that’s always how we’ve done it’ and having incorrect routine transactions in place. In initial year audits, we commonly find regular plan practices which were improperly setup which result in noncompliance and potential fines, and penalties for the Plan Sponsor.
 - Some examples of common problems found during audits include provisions over participants’ eligibility, improper definition of compensation, timing of remittances, and not taking into consideration updated IRS limits. The correction of these errors resulted in additional plan funding of hundreds to thousands of dollars.
- Inform you of any changes in DOL and IRS guidance and regulations including how this may affect your internal processes and benefit plan audit.

- Many plan sponsors do not think about internal controls when it comes to their employee benefit plan. However, proper controls can help ensure that the plan continues to stay compliant with the plan document, IRS, and DOL regulations, and protect the plan participant’s interests. Even plans that have been around for years have opportunities for improvement and could benefit from evaluating their internal control processes and procedures.

Competitive pricing and flexible scheduling

- Pricing varies depending on Plan provisions and sizes.
- We can collaborate with you to find the optimal time to conduct our audit.

Note on 2024 Revised Audit Requirements:

The DOL and IRS require these audits to be conducted annually for those plans that have over 100 participants with account balances. (Note: this is a change in 2024. Previously the requirement was over 100 eligible participants, plus those non-eligible participants with a remaining account balance.)

KT will help ensure you have a quality, meaningful audit experience. We are here to make sure your Plan and Plan participants are in good hands.



Austin Eichacker, CPA
Senior Manager, Audit Dept

Top 10 Tax Questions

By Jennifer Konvalin, CPA – Partner, Tax Dept

10

10. I contributed money to my kids' 529 education plans. What is the deduction for that?

A: Federally, none. The money grows tax free and comes out tax free as long as it's used for qualified educational expenses. In certain states with a state income tax, there are possible deductions on the state return.

8

8. I have a home office as a self-employed person or business owner. How do I deduct that?

A: First, the home office must be considered your primary place of business. Secondly, your home office must be used exclusively as a home office and not be doing double or triple duty as a dining room table and home school area as well for example. There are many other items to consider and discuss around home offices with your tax advisor.

9

9. I am an employee for an organization and receive a W2. I also work from home and have some work expenses I pay for. Where do I deduct those?

A: Unfortunately, under the current tax law, there is no deduction for these items. The goal of congress was for employees to not have to pay for expenses that should be covered by the employer.

7

7. I donated my time to a charity. What is my deduction for that?

A: Unfortunately, there is no deduction for time. You can only deduct actual costs of dollars spent.

6

6. If I take a distribution from my business, how is that taxed?

A: In general terms, it is not taxed directly, unless it is a dividend from a C-Corp. If you have basis in your Company's equity, there won't be a tax consequence from the distribution. This is because you pay tax on the net income from the business in the year in which it's earned. If you have retained cash in the Company's bank accounts, you have already paid tax on that, so taking it out as a distribution doesn't affect the tax situation.

5

5. I donated money to someone's GoFundMe campaign. That counts towards my charitable donations, right?

A: No. This is not considered a charitable contribution by the IRS. A qualified charitable deduction must be a donation to a 501(c)(3) organization, a qualified not for profit organization, a charitable fund, or donor advised fund.

4

4. I gifted money this year to my kids or a family member. What is my tax deduction for that?

A: There is no tax deduction for gifting money to family members. Nor is it income to the recipient. However, there is an informational filing requirement (Form 709) if such gift is over the annual exclusion amount of \$18,000 for 2024.

3

3. Do I really have to make estimated tax payments?

A: No, you don't have to. I always say no one in dark sunglasses and a black suit will show up at your door if you don't. However, you may be subject to penalties if you haven't paid enough tax, and those penalties really sting with the IRS penalty rates at approximately 8%. To avoid penalty, the rules require you to pay tax throughout the year as you earn the income. Or you can use a "safe harbor" that requires you to pay between 100-110% of your prior year tax liability. You can pay the tax by withholding paychecks, retirement payments, etc. And if withholding is not enough, you will need to make quarterly estimated tax payments.

2

2. I don't want to or can't pay my full tax liability right now. Can we extend my return so I can pay it later?

A: An extension of your tax return only extends the time to file the return and not the time to pay any estimated tax liability. If you don't pay what you think you may owe with your extension, you may be subject to much higher additional penalties and interest when you file.

1

1. I don't want to extend my tax return because I fear it could cause me to be audited.

A: Statistically, there is no connection between extended returns and returns being audited. Returns filed both before the deadline and during the extension period are just as likely to be audited based on the contents of the return versus the timing of the return.

These answers don't cover everything. Be sure to consult with your KT tax advisor as everyone's tax situation is unique.



Jennifer Konvalin, CPA
Partner, Tax Dept

As for extending, there are direct benefits. First, it allows you more time to make sure you have accounted for all income and deductions possible. Second, it gives us more time to see how the current year is going. This might give us more reasons to accelerate or hold back on depreciation write-offs. Third, it allows us more time with you, our clients, to be sure we have addressed everything with you that can be considered for your tax return and planning needs.

Avoiding the Year End Scramble

By Amanda Dennis – Manager, Accounting Services Dept

An African proverb states, “The best way to eat an elephant in your path is to cut him up into little pieces.” Preparing for business taxes at the end of the year can seem like eating an elephant – an overwhelming task. Cutting up the work into smaller pieces, and keeping up on it throughout the year, can make the task manageable. It can also highlight business opportunities or pitfalls that might not be apparent if the accounting tasks are left to the last moment.



Which areas should be kept up to date and what are the benefits?

Deposits/Accounts Receivable

When customer payments are received, deposits should be made as soon as possible, and promptly recorded in the accounting software. Electronic payments and automatic bank feeds into the accounting system can further simplify this process. Timely invoices, accurate records, and up-to-date deposit information improves cash flow, allows the business to quickly follow-up on outstanding or missing payments, and identifies customers who are falling behind on invoices.

Payments/Accounts Payable

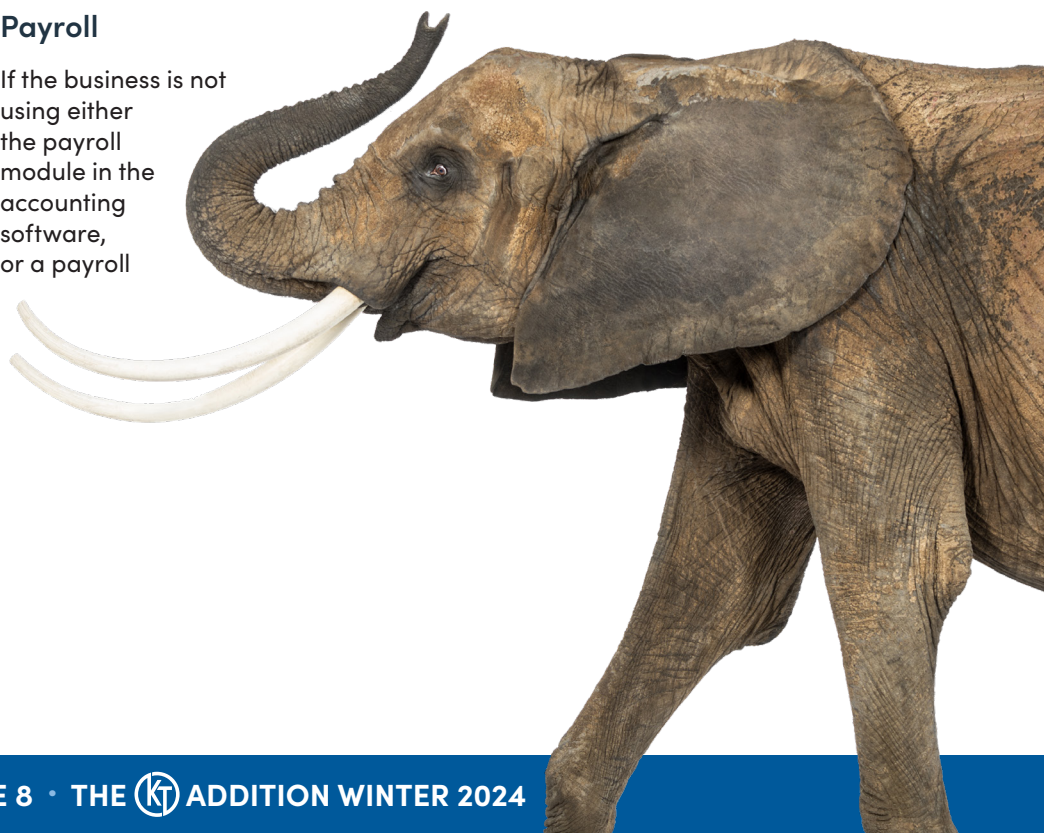
Vendor invoices should be entered into the accounting software promptly. If the invoice is for services provided, a W-9 should be requested from the vendor, for 1099 purposes at year end. If a large invoice is received for a piece of equipment or other asset that will be capitalized and depreciated over time, make a copy for your tax accountant. Accurate records in this area allow the

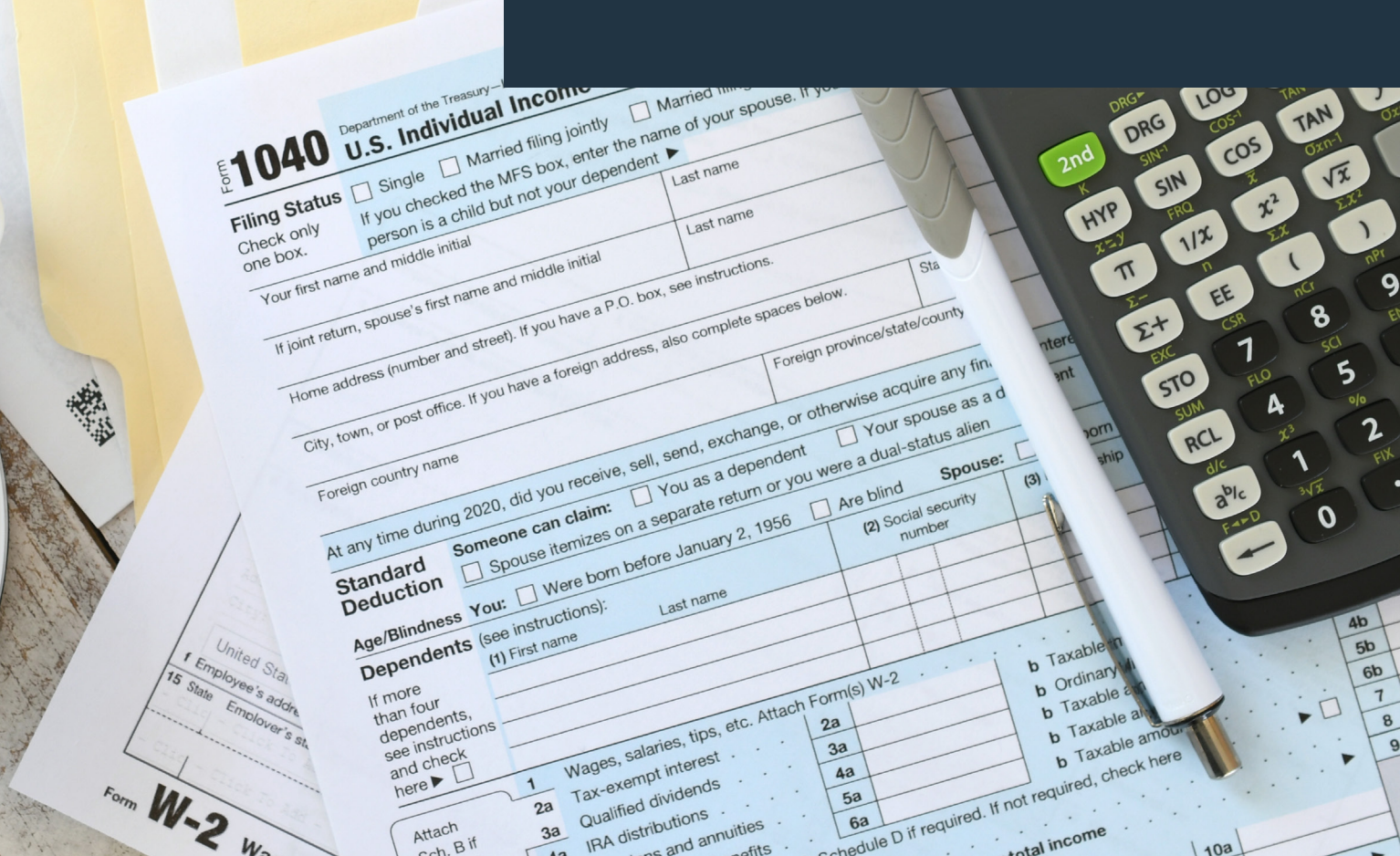
business to take advantage of vendor discounts for timely payment, eliminate double payment of invoices, identify price increases early on, and recognize trends in vendor payments like large increases or decreases in frequency and/or amount. In addition, when January comes and 1099 information is due, you are prepared.

Payroll

If the business is not using either the payroll module in the accounting software, or a payroll

provider that provides an import into the software, record payroll payments promptly. Keep employee address information updated. Trends in overtime and payroll costs will be easy to see when this information is up to date. When quarterly and year end reports are due, information is ready for submission.





Bank Reconciliations

If the items above are already complete, most accounting software makes this step simple. Bank reconciliations help the business identify:

1. Old outstanding checks that should be voided or reissued.
2. Missing deposits, which could indicate poor cash handling patterns or internal fraud.

3. Cash flow challenges that need to be addressed.
4. Opportunities for investment of excess cash in the bank.

Bank reconciliations should be performed by someone other than the person responsible for making deposits and payments to protect both business assets, and the staff in these positions.

Financial Statement Review

Once the other steps are done, reviewing the financial statements each month is like taking the pulse of your business. You can identify areas for expense reduction before they get out of control. You can see potential sales, investment, or growth opportunities in a timely fashion and act promptly to take advantage. Financial statements that compare the current year to the prior year's activity can show trends and comparisons that help with short- and long-term planning.

In conclusion, as Brianna Wiest said in 101 Essays That Will Change the Way You Think, "Everything is hard, but you choose your hard." Which hard do you want? The hard of keeping up on

the accounting tasks, or the hard of doing all the accounting tasks at the end of a year? The hard of capitalizing on valuable business opportunities because you had the knowledge and information to capitalize on them, or the hard of missing them?



Amanda Dennis – Manager,
Accounting Services Dept



New Partners



Carrie Christensen, CPA, MBA
Partner, Tax Department

- Specializes in hospitality, real estate, and medical industries
- Leads KT's IRS Correspondence Experts team

Brady Larsen, CPA
Partner, Tax Department

- Specializes in agriculture, small business, and ACA compliance
- Lead's KT's Ag team, and Tax staff development



New Hires



Joshua Drake
Associate, Tax (Remote)



Alana Koskan, CPA
Senior Associate, Accounting Services



Morgan Lewis
Associate, Accounting Services



Jon Marek
Associate, Accounting Services



Dalton Pfarr, CPA
Associate, Tax

Lisa Baker
Senior Associate, Accounting Services

Hailey Ochsner Kluz
Seasonal Administrative Assistant

Breanna Lee
Coordinator,
Accounting Services

Ben Truesdale, CPA
Seasonal Associate, Tax (Remote)

Interns

Camilla Busklein – BHSU – Accounting Services

Brady Gillette – BHSU – Tax

Alex Kolbeck – USD – Tax

Taylor McSherry – BHSU – Tax

Nadalyn Poss – BHSU – Accounting Services

Ryan Schroeder – Augustana – Audit

Sydney Theobald – BHSU – Tax



YOUR GOALS.

Our Expertise.

The experts at KT specialize in the agriculture, construction, hospitality, non-profit, and government industries.



We also have teams and individuals who focus on estate and gift planning, medical, gaming, manufacturing, real estate, financial institutions, employee benefit plans, and rural electric cooperatives, just to name a few. Or as we like to say, "If it's happening in the Black Hills region, we have someone who can help you!"

LEARN MORE – VISIT
WWW.KTLLP.CPA/OUR-EXPERTISE

Thank You for Your Business!

We are honored that you have trusted Ketel Thorstenson, LLP with your accounting, tax, and financial needs. Your confidence is truly appreciated!

JOIN THE
CONVERSATION
ONLINE.



**KETEL
THORSTENSON**
CPAs • ADVISORS

The KT Addition is a publication of Ketel Thorstenson, LLP. It is published for clients, advisors, and friends of the firm. The technical information included is necessarily brief. No final conclusions on these topics should be drawn without further review and consultation with a professional. Please direct inquiries about the newsletter to the Editor - chris.seljeskog@ktllp.cpa.