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INSIGHT

2024: A Year of Change

From an expanded IRS, AI, and business planning regulations, 2024 is a year of dramatic change in the industry. The year presents a new chapter to the Technical Resource Center as we expand our services to Canada and Mexico. Join us to learn about these changes and more.

For Technical Resource Center services please visit the TRC at agn.org

For all inquiries, please contact Faiz Jaffar at fjaffar@agn.org

CONTRIBUTING FIRMS:

CLARK SCHAEFER HACKETT BUSINESS ADVISORS · JAMES MOORE · SISTERSON CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS · MEADEN & MOORE · PRV Prieto, Ruiz de Velasco, S.C. · taxconnex · LippesMathias LLP ATTORNEYS AT LAW agn technical RESOURCE CENTER

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IRS Controversy – 5 Reasons Why Your Client Could Be an IRS Target

DAVID ALBRECHT
TAX CONTROVERSY LEADER

CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

The IRS recently announced their goal to increase to 90,000 FTEs to provide them with the bench to focus on partnerships, high-income earners, large corporations, and promoters. The increased workforce will likely zone in on the following areas:

1. Individuals with high income

The High Wealth Initiative will focus on incomes $400,000+ and more emphasis on $1 million+.

2. Partnerships using Artificial Intelligence (AI)

Large Partnership Compliance will include 3,700 people the IRS expects to hire using its funding under the Inflation Reduction Act and will focus on Partnerships with $10 million+ in assets, and a higher focus on $10 billion+ in assets.

3. Digital assets

Targeted using the John Doe summons and proposed regulations of broker reporting. The IRS Virtual Currency Compliance Campaign has shown a 75% non-compliance rate from digital currency exchanges.

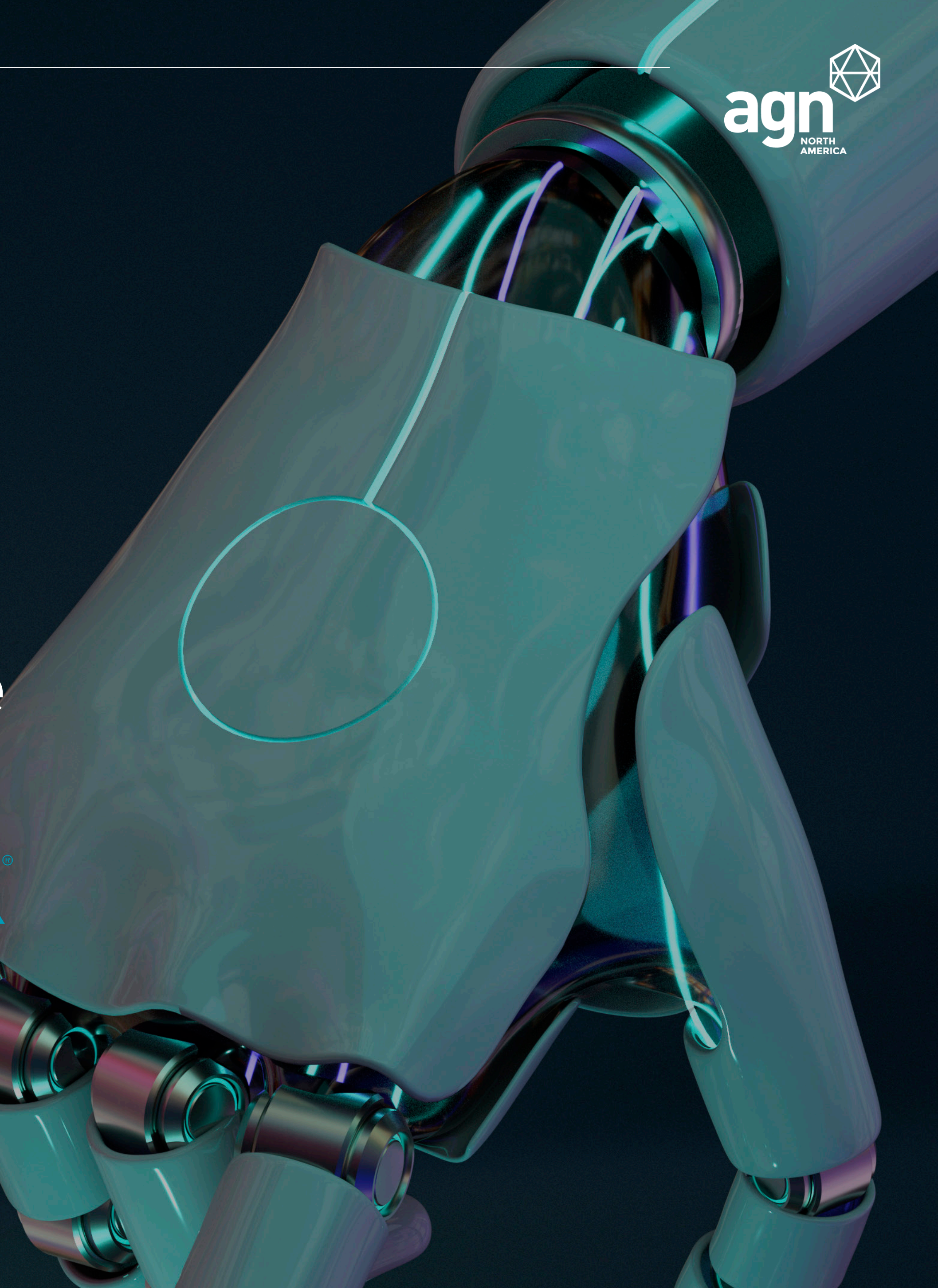
4. Offshore accounts/ FBAR non-filers

Targeting individuals who conceal accounts in offshore banks, brokerage accounts, and nominee entities.

5. Large ERC claims

- Increased scrutiny on ERC claims, especially claims $100,000+.
- More emphasis around audits of claims, especially $1 million+
- Investigating fraud and identifying promoters of fraudulent claims.
- Substantial penalties and interest for improper ERC claims.

> *The High Wealth Initiative will focus on incomes **$400,000+** and more emphasis on $1 million+*



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Where AI and Automation Fit In with Your Sales Tax Compliance Process

taxconnex

Sales tax is a major obligation for many businesses. As with most obligations, you probably ask, "Can automation help me?"

In short, the answer is yes but, sales tax rates and taxability rules differ by state (and even locality) so trying to automate the entire process can lead to big mistakes. So where does automation fit?

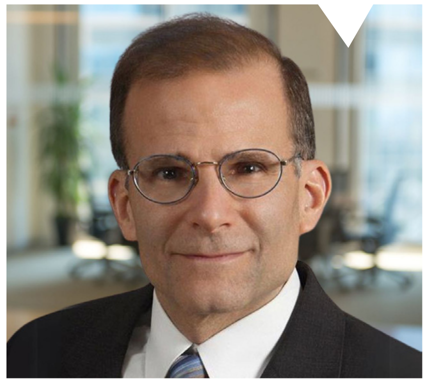
With Your Tax Engine. Software that has the rates and taxability rules built-in helps automate the process of deterring taxability based on ship-to location as well as getting the correct tax rate on the invoice.

Automation can even help, at times, to track your nexus footprint. But leaning on automation for too much of a continually evolving process can lead to big mistakes.

Learn more about some of the flaw's businesses are faced with when trying to automate their entire sales tax compliance process.

Click **here** to read the full article.

LLC's and the S Election: How to Wreck an M&A Transaction



JOSEPH P. NICOLA, JR.
TAX PARTNER

SISTERSON
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

On October 7, 2022, the IRS issued Revenue Procedure 2022-19, in which it provided very important guidance on certain failures under Subchapter S. The revenue procedure permits taxpayers to self-correct by attaching a voluminous set of documents and statements to Form 1120S for the year of correction, rather than going through the IRS' expensive ruling process. Either way, however, the impact on the M&A process can be significant.

Take, for example, an LLC that has made an S election. At the date of the election, it is quite likely that the operating agreement includes the standard boilerplate language requiring liquidating distributions in accordance with positive capital accounts. If such is the case, the election is invalid under the second class of stock rules. Why? The entity has a governing document that potentially requires disproportionate distributions, and this creates a second class of stock. So, if the members want to sell the business (e.g., membership units), a well-advised purchaser in an M&A transaction will call time-out and require correction prior to completing the deal. While self-correction may reduce the period of delay, caution is advised. Remember, M&A transactions move quickly; any delay can be dangerous. The IRS has repeatedly ruled that disproportionate distributions by S corporations do not create a second class of stock if the corporation's governing provisions confer equal rights to distribution and liquidation proceeds. Conversely, S corporations that make proportionate distributions will nonetheless be in violation if the governing documents confer differing rights to distribution and liquidation proceeds.

> *"My advice: Avoid the mess and review the operating agreement now."*

Business Tax Planning: Can you Deduct 2024 Employee Bonuses?

JOHN VANDUZER
CPA - PARTNER

JAMES MOORE

In business tax planning, 2024 employee bonuses can indeed be deducted in the current year as long as they're paid within 2½ months after the tax year's end. While this offers a significant tax advantage, there are three key conditions to meet.

Firstly, this deduction option is only available for accrual-basis taxpayers. Businesses using cash accounting must deduct bonuses in the year paid, regardless of when they were earned.

Secondly, the tax benefit doesn't apply to bonuses paid to related parties. In corporations, this includes individuals owning over 50% of the company. In S corporations, partnerships, and LLCs, it extends to shareholders, partners, or members.

Thirdly, the most challenging criterion is that bonuses must be "fixed and determinable" by Dec. 31. This means the bonus must be earned, the company's obligation to pay established, and the amount ascertainable.

A common hurdle arises if bonuses depend on the recipient's employment status at the payment date. To navigate this, IRS guidelines suggest using a bonus pool with a fixed aggregate amount and reallocating forfeited bonuses.

Click [here] to learn more about deducting 2024 employee bonuses. Connect with a [business tax CPA] to help you plan carefully and avoid ambiguity.

Partner 54, Where Are You?

In a large passthrough entity (PTE), it can be difficult to keep track of all the comings and goings of the owners. However, it's important to do so for several reasons.

First, you might have a filing requirement in a state in which you are not doing business. Many states, including New York, New Jersey, and Pennsylvania, require a partnership (and sometimes an S corporation) to file returns in that state if they have an owner who lives there, even if the company has no other contact with the state.

Second, you might have a nonresident withholding requirement. When an owner moves out of the state where the business is conducted, the PTE is usually required to pay nonresident withholding on behalf of that owner, file a composite return on the owner's behalf, or pay passthrough entity tax (PTET - more on that later). Failure to do so can create significant interest and penalties, as well as administrative headaches, even if the owner already paid the tax on the income attributed to them on their nonresident individual return.

Third, you might have to adjust your apportionment. If an S corporation shareholder is also an employee, or if a partner or LLC member receives guaranteed payments, and they move to a different state, that could cause a change in apportionment factors for those states that have not switched to a sales-only apportionment formula.

Finally, you might have to reconsider your PTET filings. If your partnership elects to pay the PTET in, say, Ohio, but you have a partner who lives in Pennsylvania, that partner may not get a credit against their Pennsylvania tax for the PTET paid to Ohio by the partnership. Trading a credit for a deduction of the same amount is not effective tax planning.

Given all of these factors, it might be a best practice to send out residency inquiries to each PTE owner each year to make sure the correct forms are filed and payments are made.

DAVID HARRIS
SENIOR MANAGER

MEADEN & MOORE

New 2024 Federal Business Reporting Requirements – Corporate Transparency Act

Beginning in 2024, the federal government will require businesses to report information on their company, and the key decision makers within their business.

Starting January 1, 2024, any company formed in the U.S. has 90 days to provide identifying information to the Treasury Department's Financial Crimes Enforcement Network ("FinCEN").

Companies formed before 2024 will have until January 1, 2025 to provide this information. FinCEN has set up an online portal so this information can be provided electronically to the federal government.

In addition, the department has a list of exemptions of businesses that will not be required to file this information. These include publicly traded companies, large reporting companies, inactive entities, and certain subsidiaries.

Looking for more information regarding this new requirement? Read more about this in our recent article: **How Will New Reporting Requirements Impact Your Business in 2024? →**

> *"The required information includes the personal information of the beneficial owners of a company."*

LippesMathias LLP
ATTORNEYS AT LAW

Meet The Canadians

AGN is proud to announce that the Technical Resource Center has come to Canada.

Thanks to our new partnership with PRV we are now able to provide tax assistance in Mexico, making the TRC North America wide!

Let's meet the experts...

Steven Sun
Tax Partner, Dougan Irwin Associates, Nanaimo
Expertise - General personal, corporate and trust tax compliance

James Ma
Tax Partner, Rolfe Benson, Vancouver
Expertise - Estate Planning and Cross Border Assignments

Christa Gillis
Tax Partner, Logan Katz, Ottawa
Expertise - Domestic and International tax

Glenn MacMillan
Tax Partner, Adams + Miles, Toronto
Expertise - International Tax Planning for Foreign Entities

Meet Prieto, Ruiz de Velasco, Mexico

Maria Inés Rangel
E. Alejandro Ramírez

Prieto, Ruiz de Velasco (PVR) is a Mexican accounting firm founded in 1943. We provide high quality auditing, tax advisory, bookkeeping, payroll and taxes outsourcing, transfer pricing studies and consulting services.

Our ethics, values and professionalism are the fundamental basis in the relationship with our clients. We work hard to understand their individual needs and provide efficient solutions. This combination of empathy and knowledge has helped us build lasting client-relationships in Mexico, United States and in other countries.

Our goal is to broaden these relationships to discover opportunities for ongoing collaboration in diverse projects.

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PRV
Prieto, Ruiz de Velasco, S.C.

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For all inquiries, please contact Faiz Jaffar. For Technical Resource Center services please visit the TRC at agn.org

Faiz Jaffar
Member Services Manager
AGN North America

P: 303-743-7880, x105 (option 5)
E: fjaffar@agn.org
www.agn.org

For further information, or become involved, please contact:

AGN International
Email: info@agn.org | **Office:** +44 (0)20 7971 7373 | **Web:** www.agn.org