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# Views from a Tax Perspective

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1

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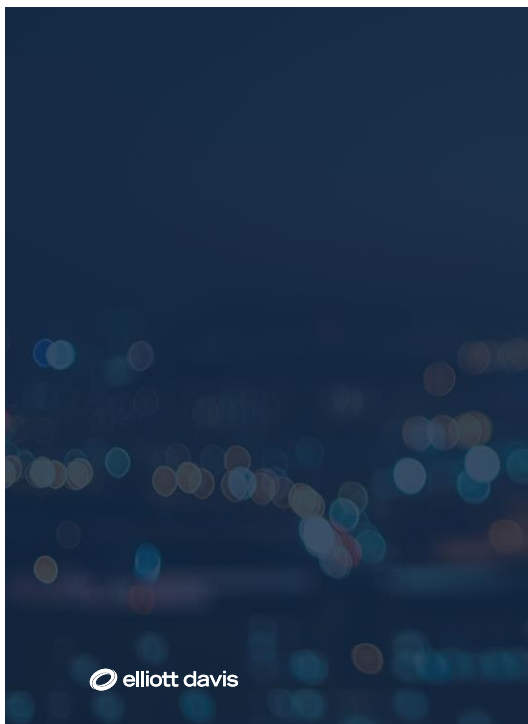
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## Trending Topics

- Developments at the IRS
- CARES Act
- Tax Reform Update
- IRS TE/GE 2020 Accomplishments Letter
- Payroll Tax Update
- Hot Topics



3



## Developments at the IRS

4

## IRS Structure: Static for 20 Years!

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- Collection and enforcement has changed (e.g., e-filing)
- But, overall structure overall has been static
- Aging IT Systems
- Budget cuts

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5



## IRS Struggles in 2020

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- Still dealing with tax reform
- Customer service
- A large and growing amount of uncollected taxes
- Information security
- And now the CARES Act

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6

# Taxpayer First Act

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**Signed on July 1, 2019 by the President**

**Contains various reforms to the IRS**

- Creation of Independent Office of Appeals
- Improvement of taxpayer services
- Reforming rules related to enforcement
- Modernization of agency structure and technology
- Provision of better cybersecurity and identify protection



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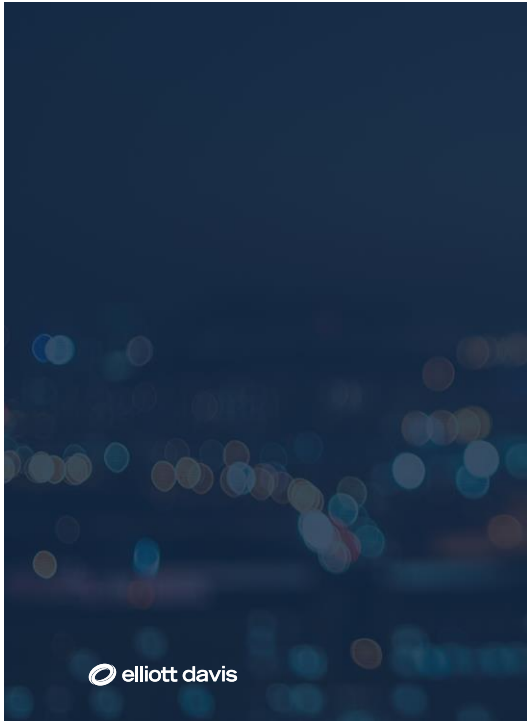
# Mandatory E-Filing of Form 990

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- Mandatory e-filing for all 990-series returns
  - Previously, there were thresholds on the electronic filing mandate
- Effective for tax years beginning after July 1, 2019
- Includes:
  - 990
  - 990-EZ
  - 990-PF
  - 990-T, which has not been previously accepted by the IRS for e-file



8



## CARES Act

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9

## Extended Tax Deadline

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- IRS Notice 2020-23: extends tax filings and payments to July 15
- Form 1040
- Form 990 series – final extended deadline or initial deadline
- Applies to all taxpayers with a tax return filing deadline or payment due between April 1 and before July 15.

10

## Stabilization Funds

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- \$13.953 Billion allocated to Higher Education
- Department of Education disbursed funds directly to Institutions through Title IV System.
- 50% of funds must be used exclusively to provide direct emergency aid to students for food, housing, course materials, technology, health care and child care.
- Institutions may use their portion of the funds on a broadly defined basis, including lost revenue, technology costs associated with transition to distance education, defraying expenses.
- Institutions must retain current employees to the “maximum extent practicable”.



11

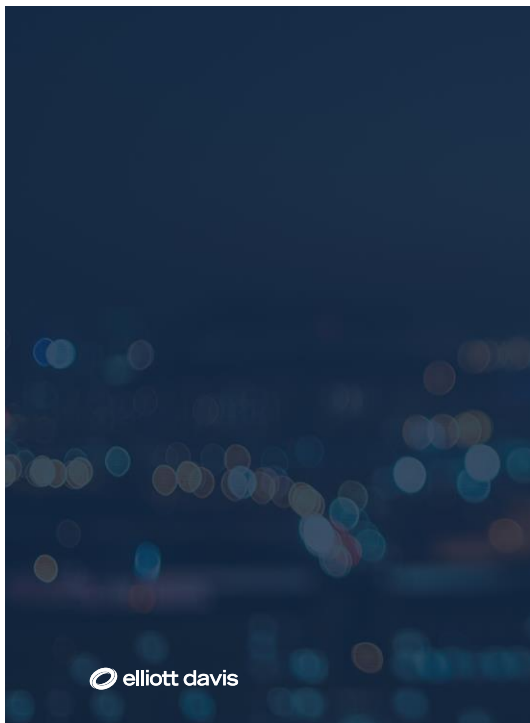
## Student Financial Aid Grants

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- Higher Education Emergency Relief Fund Grants
- Emergency Federal Supplemental Educational Opportunity Grants
- Grants are qualified disaster relief payments under Section 139 of the IRC and are not includible in gross taxable income.
- To the extent the financial aid was used to pay for tuition or course materials, the amounts can't be counted as qualified education expenses for claiming the American Opportunity or Lifetime Learning Credit and the Tuition and Fees Deduction.
- Form 1098-T Reporting – Guidance will be forthcoming.

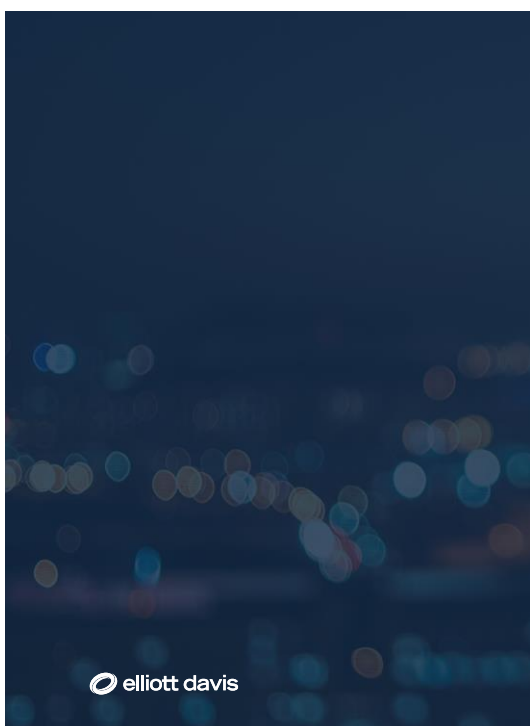


12



## Polling Question

13



## Tax Reform Update

14

# PARKING TAX WAS REPEALED!



15

## Impact on Charitable Contributions

- Increase in standard deduction has less taxpayers itemizing
- This may eliminate tax incentive for small donations
- Charitable contribution deductions fell 36% from 2018 to 2019 from \$160B to \$103B. (*IRS Tax Statistics*)



16



## Unrelated Taxable Income – Silos

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- Eliminates opportunity for loss activities to offset profitable activities
- Now, losses can only be used to offset income from that same unrelated trade or business



17

## UBTI – Proposed Regs re: Silos

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- **Notice 2018-67**
  - Released August 2018 as interim guidance
- **Proposed Regs – issued April 2020**
  - Identification of unrelated business activities (NAICS Codes)
    - 2 digit vs. 6 digits
  - Investments, in general, are classified as one activity – subject to 2 tests:
    - De-minimis test
    - Control test



18

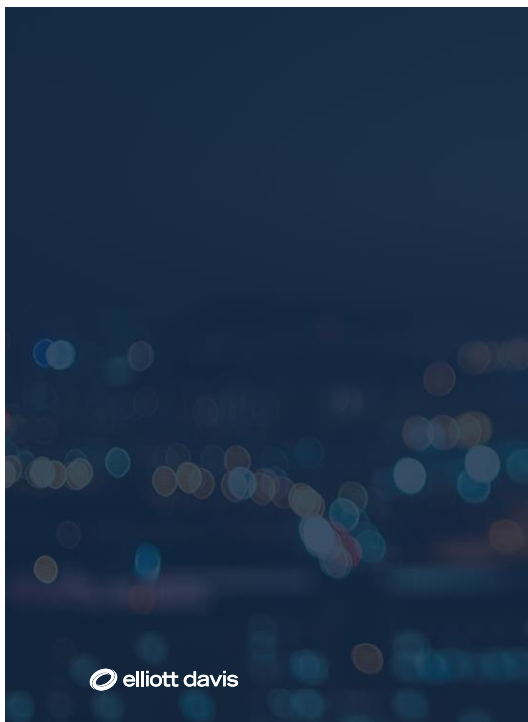
## UBTI – Proposed Regs re: Silos

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- Allocation of expenses
  - Reasonable method for indirect expenses
  - Gross to gross expense allocation is not permitted
  - Further guidance expected
- Ordering and application of NOL's
- IRS accepting comments through June 23, 2020
- Regs to be finalized by October?



19



TE/GE Fiscal Year

2020 Accomplishments Letter

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20

## Accomplishments Letter Highlights

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- Published March 23, 2020
- Tax-Exempt and Government Entities Division of IRS
- Highlights TE/GE accomplishments for FY 2019, including high-priority issues and emerging risks going forward



21

## IRS Update

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- TE/GE hired 200 people – 5% increase in staffing
- Enhancement of information technology/modernization
- Robotics processing automation for certain manual processes
- Expanding educational efforts, “soft” letters, and compliance checks



22

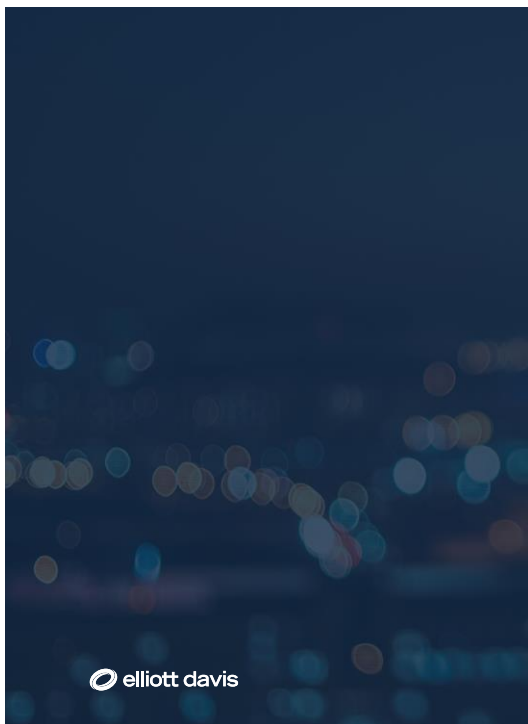
# Examinations

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- 3,675 exams completed – 990 series
- 60 organizations – exempt status revoked without protests
- 315 Tax-exempt bond exams closed



23



## Polling Question

24

## Determinations

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- 101,880 exemption applications closed
- 92,000 entities granted tax-exempt status
- 86,000 – charities: 501(c)(3)



25

## Compliance Strategies

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- Employment tax issues
  - Backup withholding – 1099
  - W-2/1099 reporting
- Unrelated business income
- Self-dealing by private foundations
- For-profit entities that converted to 501(c)(3) status



26

## Data-Driven Approaches

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- Procedures and models to analyze data from returns to identify areas of noncompliance
- IRS claims demonstrated effectiveness
- Discrepancies on Form 990 can trigger an examination
- Current priorities:
  - Query sets – continuing to improve compliance query sets based on 990 information



27

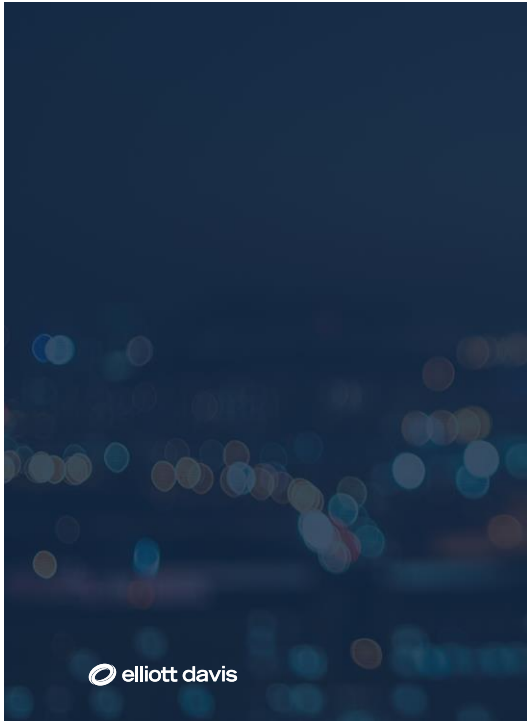
## Referrals, Claims and Other Casework

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- 1,700 cases closed
- Referrals:
  - Internal and external sources that allege noncompliance, including noncompliance with employment taxes and bond rules
- Claims
  - Address request for refunds of overpayments – not previously reported or allowed
- Other Casework:
  - Examine entities that received exemption after filing 1023-EZ



28



## Payroll Tax Update

29

### New for 2020

- Revised Form W-4 is effective January 1, 2020: *Employee Withholding Certificate*
- Revised Input Sections:
  - Filing Status
  - Multiple Jobs?
  - Child or Dependent Care Tax Credits
  - Non-job income (interest, dividends, capital gains, rental, spousal income)

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30

## Disclosures to Employees

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- Explain new Form W-4 and when required
- No IRS requirement to complete new Form W-4, but employers can require as part of payroll policies and procedures
- Old Form W-4 elections are still valid: *Employee Withholding Allowance*
- Link to IRS “Tax Withholding Estimator” at [www.irs.gov/W4app](http://www.irs.gov/W4app)
  - Old withholding calculator only benefited single-wage earners receiving a W-2
  - New withholding calculator helps workers, retirees and self-employed individuals



31

## Withholding Compliance Lock-In Letters

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- Lock-In Letter – special order from the IRS to withhold taxes at a required minimum rate
- 60 days after letter – withholding must begin at specified rate
- IRS is redesigning the Lock-In Letters to reflect the changes in the redesigned 2020 Form W-4
- Link to IRS Withholding Compliance Questions & Answers [www.irs.gov/businesses/small-businesses-self-employed/withholding-compliance-questions-and-answers](http://www.irs.gov/businesses/small-businesses-self-employed/withholding-compliance-questions-and-answers)



32



## 2020 Form 1099 - NEC

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- Nonemployee Compensation
- Form 1099-NEC replaces Form 1099-MISC **Box 7**
- Income from a payor who classifies the recipient as an independent contractor rather than an employee
- Subject to self-employment tax
- Filing due dates 2-1-20 (both to recipients and IRS regardless of filing method)



33

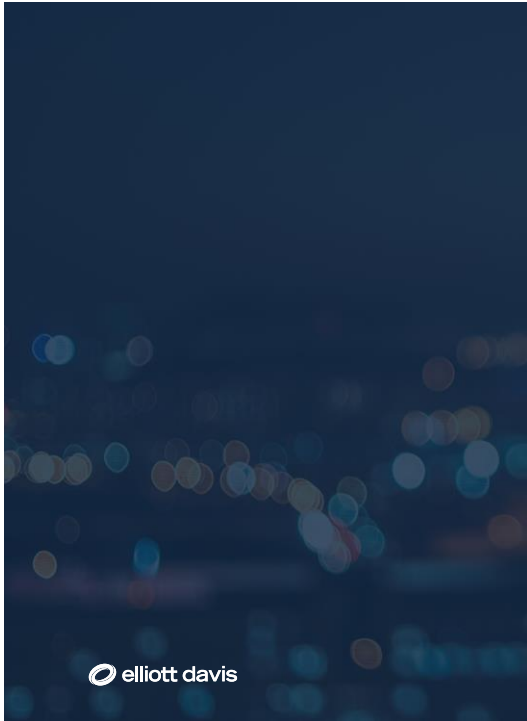
## 2020 Form 1099 - MISC

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- Redesigned Form 1099-MISC
- **Revised Box 7** relates to direct sales of \$5,000 or more of consumer products to a buyer for resale (check box only – no dollar amount)
- Filing due dates 2-1-21(recipients), 3-1-21(paper to IRS) and 3-31-21 (electronic to IRS)



34



## Hot Topics

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35

## Be Aware!

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- The IRS reads *your* website – and other websites where your organization is highlighted
- The IRS is focused on Fringe Benefits
  - Complimentary Tickets (donors, employees, retirees, former board members)
  - Use of Athletic Facilities
  - Non-cash fringe benefits for employees separated from service
  - Board of Trustees Expense Policy / Taxation of Fringe Benefits / Payroll and not AP

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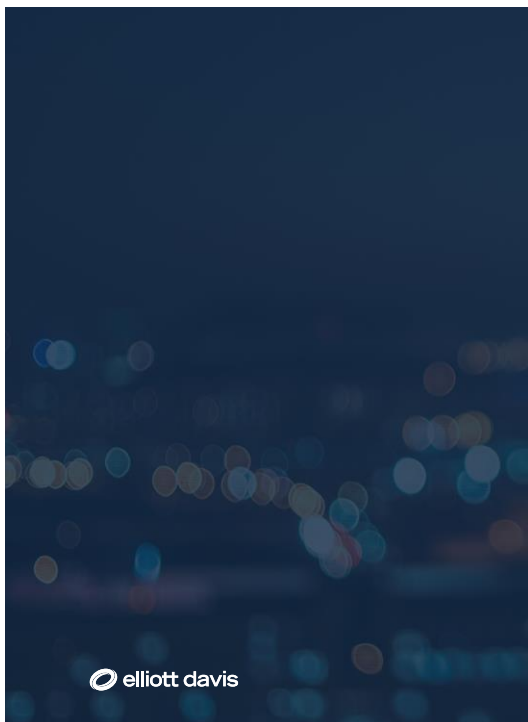
36

## Other Areas

- Worker Classification Questionnaire / Policy
  - W-2 and 1099-Miscellaneous issued to employee in same year or alternate years
- Unrelated Business Income Questionnaire / Policy
  - Advertising versus Qualified Sponsorship
  - Bookstore – convenience exception / internet sales
  - Sports Camps
- Gift Acceptance Policy
- Status of Form 1098-F – applicable to orders and agreements that become binding after January 1, 2022

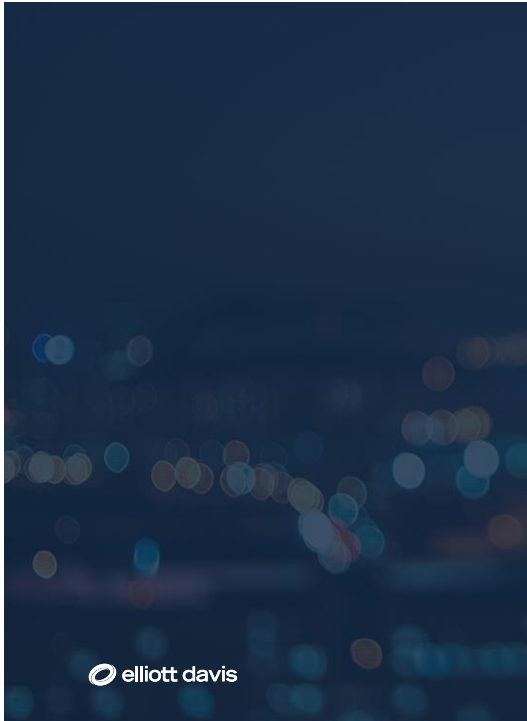


37



## Polling Question

38



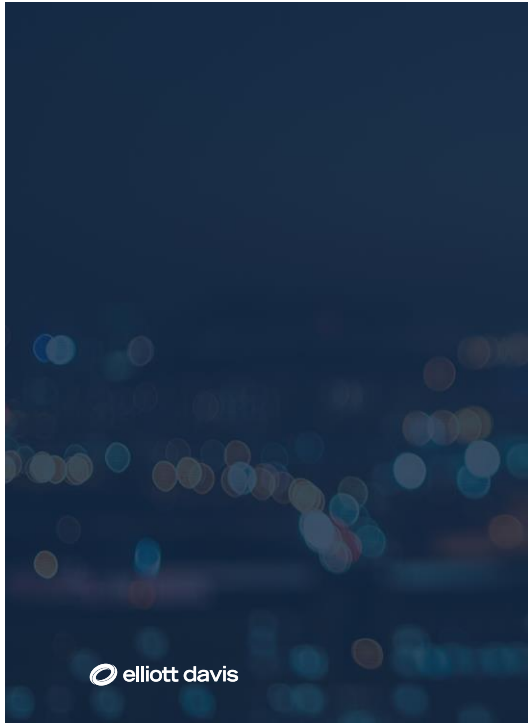
## In Summary

39

## Scrutiny continues

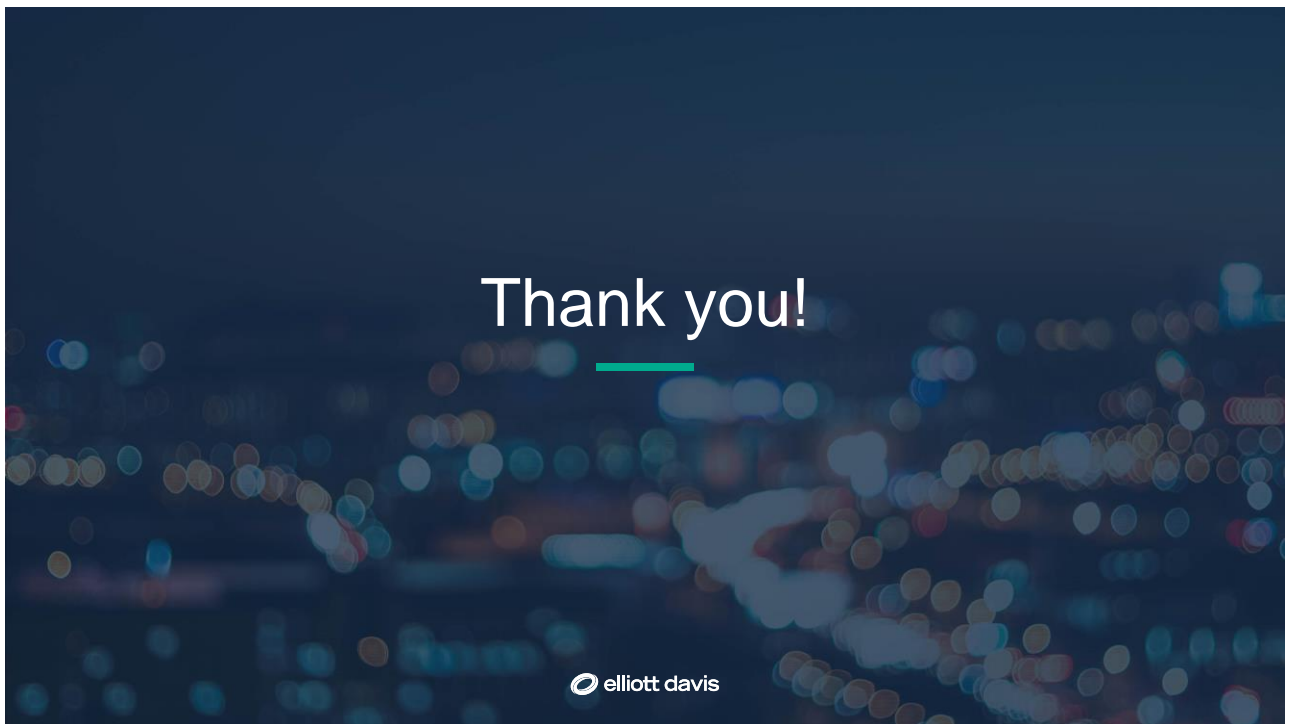
- More efficient and effective IRS
- But COVID-19 has been a drain on the IRS
- Payroll appears to be top priority again
- Focus on UBTI
- Suggestion - be **Proactive!**

40



Questions?

41



42