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Certified Public Accountants and Consultants



# IDENTITY THEFT ISSUES, TAX PLANNING IN AN ELECTION YEAR AND OTHER IMPORTANT ISSUES RELEVANT TO BANKERS

*Presented by:*

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## **OVERVIEW OF THE DAY**

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- **Identity Theft Issues**
- **Tax Planning in an Election Year**
- **Understanding Your Clients' Financial Affairs**



# IDENTITY THEFT ISSUES



## IDENTITY THEFT ISSUES

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- What is identity theft?
  - *Hybrid crime consisting of the unauthorized use of someone's personal information and the original theft of that information*
  - *In 25% of theft cases, the victims know the thief*
  - *Age 29 and younger is the fastest-growing demographic at risk for identity theft*



## IDENTITY THEFT ISSUES

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- **Favorite targets**
  - *Bank account information*
  - *Birth dates*
  - *Medical information*
  - *Social Security numbers*
  - *Addresses*



## IDENTITY THEFT ISSUES

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- **Common Methods of Stealing Information**
  - *Simple theft of wallets/purses/mail*
  - *Dumpster diving*
  - *Over-the-shoulder spying at ATMs/checkout lines*
  - *Skimming scams*
  - *Phishing scams*



## IDENTITY THEFT METHODS

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- **What is Skimming?**
  - *Theft of a credit/debit card information while its being used in an otherwise legitimate transaction*
    - Occurs on handheld device or on point of sale device
  - *Estimated annual cost to consumers/businesses = \$8 billion*



## IDENTITY THEFT METHODS

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- **What Phishing?**
  - *An attempt by someone pretending to be a trustworthy person/entity to acquire sensitive information via electronic communication*
  - *Designed to play off emotions*





## IDENTITY THEFT METHODS

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- **Signs to Look for to Avoid Phishing:**
  - *A stress on urgency*
  - *Generic greetings and misspellings*
  - *A promise or award that seems too good to be true*



## **COMMON USES OF STOLEN INFORMATION**

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- **Parents exploit child's clean credit history to obtain financing**
- **Medical identity theft (to obtain medical care, buy drugs or submit fake billings to Medicare in someone else's name)**
- **Reporting someone else's SSN for employment purposes**
- **Filing fraudulent tax returns**
- **Making fraudulent purchases and opening new bank accounts**
- **Obtaining false credentials, i.e. drivers licenses and ID cards**



## TAX-RELATED CONCERNS

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- **Tax Fraud**
  - *One of the fastest growing types of identity theft*
  - *Usually involves using stolen Social Security numbers to commit “employment-related” or “refund-related” fraud*
  - *Taxpayers legally responsible for info filed on returns*



## TAX-RELATED CONCERNS

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- **IRS Telephone Scams**
  - *Scammers make unsolicited calls*
  - *Callers try to scare their victims*
  - *Caller ID spoofing*
  - *Cons try new tricks all the time*



## TAX-RELATED CONCERNS

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- **IRS Will Never:**
  - *Demand immediate payment*
  - *Demand payment without giving taxpayer the opportunity to question or appeal amount*
  - *Require a certain payment method*
  - *Ask for credit card numbers over the phone*
  - *Threaten arrest by police for not paying*



## **HOW TO TAKE ACTION**

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- **Do not give out any information**
- **Hang up immediately**
- **Report the call to the TIGTA and the FTC**
- **Do not agree to meet with someone or invite them to your home**



## EFFORTS TO COMBAT IDENTITY THEFT

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- **Enhanced measures to combat tax fraud have resulted in positive results**
  - *Of the \$30 billion bogus refund claims filed in 2013, the IRS recovered 81% of fraudulent claims*
    - Over \$6 billion of fraudulent refunds



## **SOCIAL MEDIA AND PERSONAL INFORMATION**

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- **Avoid “Overshare” and TMI**
- **Common pieces of information prone to oversharing:**
  - *Full birthdates*
  - *Current locations*
  - *Relationship statuses*





## BUSINESS RESPONSIBILITIES

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### ■ 6 Data Security Tips

- *Collect and keep only what you need*
- *Require secure passwords and authentication and protect data during transmission*
- *Segment your network and monitor who is trying to get in/out*



## BUSINESS RESPONSIBILITIES

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### ■ 6 Data Security Tips

- *Secure network remote access and test applications and websites for common vulnerabilities*
- *Make sure your service providers implement reasonable security measures*
- *Put procedures in place to keep your security current and react quickly to threats*



## SIGNS OF TAX-RELATED IDENTITY THEFT

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- **Most-common Signs of Tax-related Identity Theft:**
  - *Taxpayer attempts to file electronically but IRS rejects the return, stating another has been submitted with the same SSN*
  - *Taxpayer receives a letter from the IRS saying a return has been filed when the taxpayer has not yet filed, or multiple returns were filed*
  - *Taxpayer receives a notice of balance due, refund offset or collection actions taken for a year in which no return was filed*



## WHAT TO DO IF IDENTITY THEFT IS DETECTED

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- **The key is to act fast to prevent (or contain) misuse**
  - *Send your completed Identity Theft Report to the credit reporting agencies and request they block any fraudulent transactions from appearing on a credit report*
  - *Report a misused Social Security Number*
  - *File a police report*



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# TAX PLANNING IN AN ELECTION YEAR



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# *Hillary Clinton (D)*

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## DEMOCRATIC CANDIDATES

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### Hillary Clinton (D):

- **Promises no personal tax increases for taxpayers making less than \$250,000**
  - *Intends to “tax the wealthy at even higher rates..”*
- **Backs the “Buffet rule”**
  - *Would raise taxes to 30% on all Americans making more than \$1 million regardless of the character of income*
  - *Suggests a 4% surcharge on those with an annual income that exceeds \$5 million*



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# ***Bernie Sanders (D)***

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## DEMOCRATIC CANDIDATES

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### **Bernie Sanders (D):**

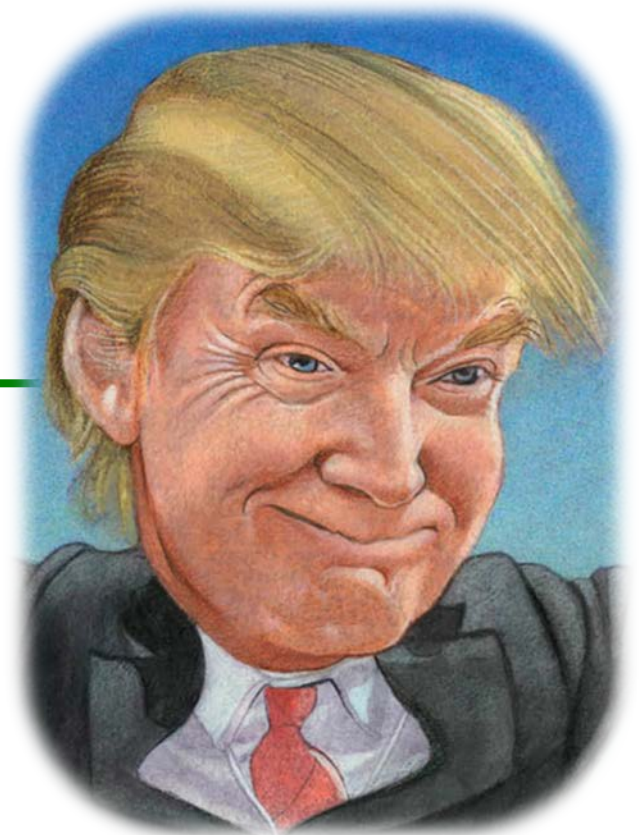
- **Create universal healthcare for citizens**
- **Tuition-free education from public colleges/universities**
- **Believes U.S. tax system should be much more progressive**
  - *More taxes on wealthiest Americans*
  - *Supports a top marginal tax rate of 54.2% as compared to the current 39.6%*



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# *Donald Trump (R)*

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## REPUBLICAN CANDIDATES

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### Donald Trump (R):

- **Simplify tax code and cut taxes at all levels of income**
  - *Reduce number of brackets from 7 to 4 (0%,10%,15%,25%)*
  - *Wealthiest Americans would benefit*
- **Tax plan is estimated to reduce revenues by 9.5 trillion over 10-year period**



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***Ted Cruz (R)***

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***John Kasich (R)***

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# UNDERSTANDING CLIENTS' FINANCIAL AFFAIRS



## **UNDERSTANDING FINANCIAL STATEMENTS**

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- **Level of service**
- **Footnotes**
- **Accounting for income taxes**



## LEGAL STRUCTURE OF BUSINESS ENTITIES

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- **C Corporations**
  - *The only entity that pays tax on its own income*
  - *Double taxation is the problem*
  
- **Pass-through entities**
  - *S corporations, Limited Liabilities Companies (LLCs) and Partnerships (General and Limited Partnerships)*
  
- **Sole proprietorships**





## **UNDERSTANDING THE DIFFERENCE**

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	<b>C Corp</b>	<b>S Corp, LLC, Partnership</b>
<b>Net Income</b>	<b><u>\$ 150,000</u></b>	<b><u>\$ 250,000</u></b>



## **UNDERSTANDING THE DIFFERENCE**

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	<b>C Corp</b>	<b>S Corp, LLC, Partnership</b>
<b>Net Income before Tax</b>	<b>\$ 250,000</b>	<b>\$ 250,000</b>
<b>Tax Expense</b>	<b>100,000</b>	<b>104,000</b>
<b>Net Income after Tax</b>	<b>\$ 150,000</b>	<b>\$ 146,000</b>



## **THE TAX MAN – WHEN TO BE CONCERNED?**

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- **Federal income tax – filing and paying**
- **State income tax – filing and paying**
- **State sales tax – should your client be concerned?**
- **Payroll tax issues – don't be careless in this area!**



## **WHAT YOU NEED TO PAY ATTENTION TO:**

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- **Restrictions within your own document**
- **Read and understand the financial statements that are prepared by outside parties**
- **Communicate with your client's outside advisors**
- **Be aware of distributions made (tax and non-tax)**



## TAX ISSUES AFFECTING ALL TAXPAYERS

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- As professional advisors, matters we ALL be should aware of:
  - *Office security issues*
  - *Safeguard home computers and phones*
  - *Be aware of where you are with client information*



## TAX ISSUES AFFECTING ALL TAXPAYERS

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- As professional advisors, we need to help clients when:
  - *Dealing with the IRS*
  - *Dealing with the PA Department of Revenue*
  - *Tax notices are received*
  - *Trust fund tax issues are present*
  - *There are nexus issues/filing obligations*



## BUSINESS BLUNDERS

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- **Tax mistakes that cost our clients money**
  - *Ignoring international tax savings strategies*
  - *Failing to understand the graduated tax rate system*
  - *Failing to plan around large transactions*
  - *Failing to file tax returns in other taxing jurisdictions*
  - *Failing to understand the sales tax laws*
  - *Failing to understand the laws (i.e. DPAD)*



## BUSINESS BLUNDERS

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- Tax mistakes that cost our clients money
  - *Failing to understand how pass-through entities work*
  - *Failing to plan for current/future changes in the law*
  - *Giving payroll tax responsibilities to an unqualified person*
  - *Failing to have a long-term exit strategy*
  - *Using an inexperienced tax professional*





## INDIVIDUAL TAX PLANNING STRATEGIES

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- U.S. Tax Income is not a singular system, rather it is multi-dimensional
  - *Regular income tax system*
  - *Alternative minimum system*
  - *Self-employment tax system*
  - *Net investment tax system*
  - *“Pass-through” tax system*



## INDIVIDUAL TAX PLANNING STRATEGIES

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- **Regular tax system – two basic precepts**
  - *Assumes that any and all sources of economic income and gain are taxable*
  - *Assumes there are no deductions allowed against any of the reported income unless specifically authorized and allowed by a provision of the IRC*



## INDIVIDUAL BLUNDERS

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- **Tax mistakes that cost YOU money**
  - *Failing to understand the graduated tax rate system*
  - *Failing to plan around large transactions*
  - *Failing to use tax-free savings strategies (retirement, college)*
  - *Failing to understand the Alternative Minimum Tax (AMT)*



## INDIVIDUAL BLUNDERS

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- **Tax mistakes that cost YOU money**
  - *Missing legitimate tax deductions*
  - *Failing to think about your tax position during the current year*
  - *Preparing your return yourself or using an inexperienced tax professional*



## FEDERAL TAX REFORM

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- **Tax system is (and has been) broken**
  - *Promise of a “fix” has never been fulfilled*
  - *Has Republican-controlled House and Senate been more successful in these efforts?*
  - *How will leadership changes affect progress?*

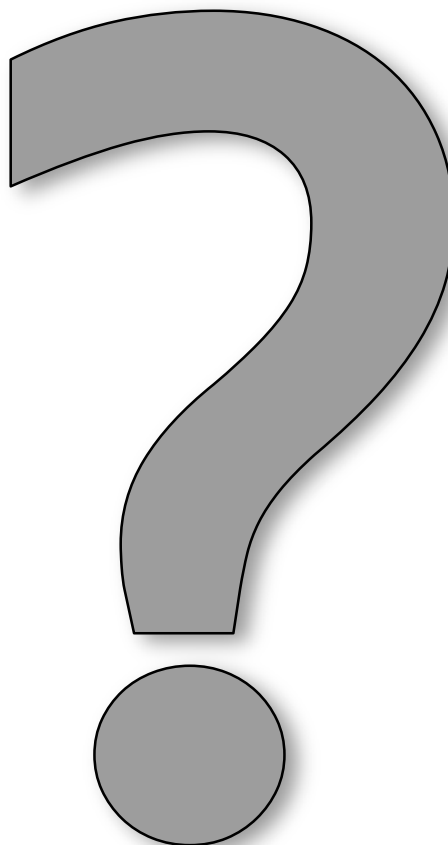


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## **PENNSYLVANIA TAX REFORM**

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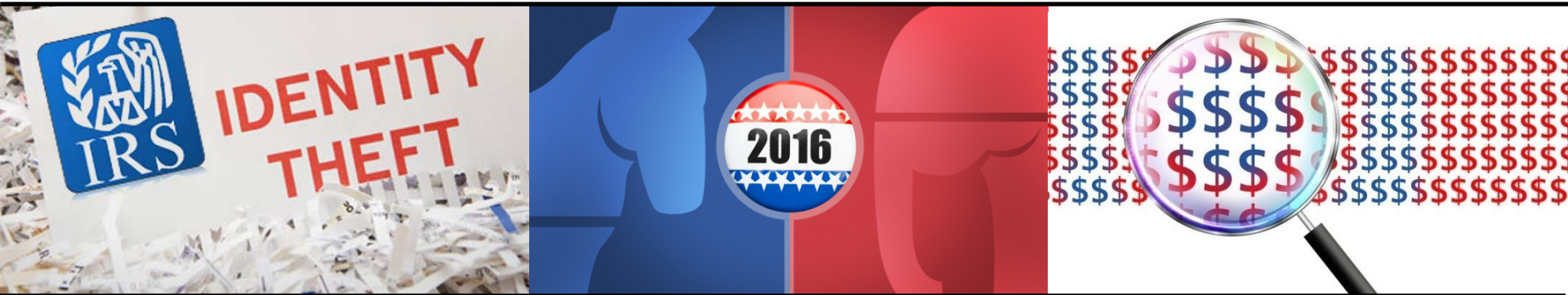
## **HOW CAN WE HELP YOU?**

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- **Audit/Assurance services**
- **Tax Services (businesses and individuals)**
- **Business Valuation Services**
- **ERP Solutions Services**
- **Transaction-Related Issues – Mergers & Acquisitions**



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