July 31, 2018

More Web Purchases Subject To Sales Tax

The Supreme Court in a recent decision has held that internet sellers who make over $100,000 in sales or 200 transactions in a state within a year are required to collect sales tax.

The decision is not retroactive and will be the basis for states to enact laws to comply with the decision and thereby collect additional billions in Sales taxes per year.

Of course, you should remember that even if you did not pay a sales tax to the seller, you were still obligated to disclose the purchase to your resident state and pay a use tax. *Kiplinger Tax Letter 6/29/18.*

Mixed News For A Cattle Ranching Operation

A couple operated a cattle ranch and incurred large losses for 15 years and had substantial income from other sources. The Tax Court said that because the enterprise was operated in a business like manner by implementing various methods to try to control losses and taking efforts to reduce expenses and generate income, because they hired a ranch manager, met with experts and kept separate financial records that the ranch was a for profit activity.

However, the losses were not currently deductible because they were passive. The couple could not show that they devoted more than 500 hours per year to the ranch. Nor did their involvement rise to the level of regular, continuous and substantial. *Robison, TC Memo 2018-88.*

Chill Winds Blow in Chicago

One could argue it is the worst of times in the Windy City. The result of high municipal and state taxes, municipal and state debt, and other costs of doing business have led the municipality and its major suburbs to bleed population, and growth in home prices was last among the 20 largest US cities. These are alarming trends when demographers tout the global shift toward urbanization. Real estate markets are rising (except in suburban New Jersey) and the country is in the midst of one of the longest expansions in our history.

The numbers show for year ended June 30, 2017, Chicago lost 3,805 residents, shrinking the population to 2.7 million from the 3.6 million in 1950. The decline will be used in the upcoming mayoral election to argue that Chicagoans are voting with their feet about Mayor Rahm Emanuel's performance. Comparison is made to Los Angeles which gained 19,000 residents and New York City, Boston and Philadelphia which each gained approximately 7,000 each. *Real Assets Adviser July/August 2018.*

Anecdotal information shows that businesses are leaving Illinois and moving to the neighboring lower tax states of Indiana and Ohio.

Home Storage

Self employed retailers or wholesalers who stash products at home can write off the part of your home regularly used for storing inventory or product samples. Two methods may be used for the write off. You can allocate actual costs or deduct $5 per square foot up to 300 square feet.

Using your home for storage of business records does not qualify for the write off says the Tax Court in the case of a self employed mechanic who stored customer records for state smog inspections in the garage at his house. He owned a separate service station but it lacked the necessary storage space. The Court, in a questionable decision, denied his home storage because he is not in the business of selling goods and his paperwork is not inventory. *Najafpir T.C. Memo 2018-103 Kiplinger Tax Letter 7/27/18.*

I Am Not A Terrorist

A rule designed to stop terrorists, money launderers and other criminals has caused banks to close accounts of some law-abiding customers. Some bank customers have had their checking accounts blocked by Citigroup after not responding to a notice asking for personal information to verify the accounts, part of the bank's efforts to comply with the government mandated rules referred to as KYC "Know your customer."

The rules are designed to make it harder for money launderers, terrorists, and other criminals to finance illicit activities, hide funds, or move dirty money around the globe.

But, just as airport security inspects every passenger no matter how harmless they seem, banks review and monitor millions of small accounts and transactions, even those of long time clients. The process can end up ensnaring long time clients. The difficulty and complexity of these reviews are exacerbated by advances in technology that have fundamentally changed the way people interact with banks. More customers are opening accounts or interacting through mobile apps rather than by walking into a branch and presenting identification.

Banks have been obligated to collect identification information on their customers for decades to help law enforcement track possible criminal activity. The 2001 USA Patriot Act adopted after the 9/11 terrorist attacks added new requirements.

More recently, regulators have fined or cited a number of large banks for having insufficient procedures to monitor customers and transactions. The US Treasury Department's Financial Crimes Enforcement Network, or FinCEN, has adopted new due diligence guidelines this past May.

We suggest, if you find it too difficult to deal with the larger banks, then open an account at a smaller local bank who will be more appreciative of your business. *Wall Street Journal 7/14-15/18 p. B8.*

As always, if you have any questions about these or any other matters, do not hesitate to call us.

Remember, We’re Here For You!