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Welcome to the first edition of The Newsletter from Scott H. Novak, Attorney at Law. The Newsletter is designed to bring timely and interesting topics to accountants and attorneys. Comments and suggestions are always welcome. Feel free to call or write at any time.

How do you plan when there is such a high likelihood of tax reform in not-too-distant future? With a Republican president-elect who is gunning for tax reform and a Republican controlled House and Senate, tax reform looks virtually assured. Many of you are likely to remember when the tax code went from the Internal Revenue Code of 1954 to the Internal Revenue Code of 1986. Will there be an Internal Revenue Code of 2017 or will there be fewer changes, mainly to tax rates? Donald Trump's website shows that he wants to collapse the current seven individual tax rates to three tax rates – 12, 25 and 33 percent. The corporate tax rate would be reduced to 15 percent. Trump's plan would close special interest tax breaks and cap deductions at \$100,000 for single filers and \$200,000 for married filers. The standard deduction would be \$30,000 for married couples and \$15,000 for single individuals with the idea that many taxpayers will have no need to itemize. The plan would eliminate the highly controversial carried interest rules that allow some of the wealthiest amongst us to pay a much lower tax rate than the rest of us and would eliminate the estate tax all together. That is not especially good news for those of us who do estate planning work or for the people that populate that department at IRS, but is particularly good news for successful business owners and farmers. On a related note, you may have heard that New Jersey is raising the estate exemption amount from \$675,000, where it has been stalled for many years, to \$2 million in 2017. The New Jersey estate tax is being eliminated altogether starting in 2018. Inheritance tax stays.

Have you ever wondered how producers choose the locations to shoot movies, television shows and commercials? There are, of course, many reasons, including access to good crews and stage facilities, the ambiance of a particular city or location, access to hotels and restaurants. But one of the primary drivers is film tax credits. It is no accident that right now, New York is extremely busy shooting approximately 5 feature

films and 38 television shows. New York has an incentive program that pays a 30% refundable state tax credit, capped at \$420 million per year for 2010-2019, with a 10% bonus for production expenditures in some upstate counties (program limited to \$5 million per year from 2015-2019) and up to 35% for certain post-production expenditures. There are many rules and limitations, but these incentives are keeping many people in the New York tri-state area employed at good jobs in the film industry. Some of us live in New Jersey and on rare occasion see film production trucks making a commercial or doing some other shoot. So what are the credits that New Jersey provides to film makers? Zilch. New Jersey currently has no incentive program at all. Rather than an incentive, the State of New Jersey offers an exemption from sales tax for many of the items that a production purchases, rents or leases within the state. Not quite the same as a refundable expenditure credit. A few states are considered to be at the front of the pack with the incentives that they offer. More specifically, Alabama, Georgia, Kentucky, Louisiana, Massachusetts and Pennsylvania offer incentive programs that are very attractive to film makers.

Foreign accounts have gotten a lot of attention from the IRS over the last several years. The resolution of these complex matters for taxpayers have kept tax controversy attorneys busy over the same time period. IRS has brought in \$10 billion and 100,000 taxpayers through its various offshore programs since 2009. In cases where the statute of limitations has run for the IRS to be able to go after a former foreign account holder, they may have other tricks up their sleeve that they can rely on. Take, for example, a taxpayer who had a foreign account that has been closed for 7 years. The taxpayer had created a foreign corporation to hold the funds overseas, as was a common strategy. The time period to assess income tax has passed (three-year statute of limitations) and the time period to assess FBAR penalties has passed (six-year statute of limitations). But since the taxpayer had a controlled foreign corporation, Form 5471 was required and as you may have suspected, was never filed. The statute of limitations on this form? There is none. The penalty for not having filed it? \$10,000 for each year and if not filed in the time frame in which the IRS asks for them, \$10,000 for each 30 days that they remain outstanding. In nearly all cases of this nature, a penalty abatement letter from you is warranted – the worst that can happen is that penalty abatement is denied. It should be noted that a penalty abatement letter in this arena must have a statement that indicates that you are signing the letter under penalties of perjury. For a really good article about how the rich hide their money over seas, see the New York Times article from November 30, 2016 entitled, “How to Hide \$400 Million.”

Happy and healthy holidays to you and your families. May the New Year bring creativity and growth to your practices with a renewed excitement for the work that we all do.