

## Identity Theft

By : Cheryl L. Pfundtner, CPA

We continue to hear of new identity theft breaches. It is critical to protect your personal financial information. This article will discuss the known scams and identity theft issues related to tax information and what to do if your personal information is compromised.

*You receive a telephone call from someone claiming to be an IRS representative and telling you that you need to pay right away or they will take legal action or send the police.* Do not give them any information and do not confirm whether they have your correct Social Security number. Take their name and phone number and tell them you will have your accountant or lawyer call them back. Trust me, the next thing you will hear is a dial tone.

*Have you received an email from someone claiming to be with the IRS and within the email is what looks like an official IRS logo?* Do not respond. Do not click on any links. The IRS never contacts taxpayers by email. The first contact is by US Postal Service mail.

*You are notified by a company that you deal with regularly that your identity has been compromised by a data breach.* Check your credit for free an-

nually at [www.annualcreditreport.com](http://www.annualcreditreport.com). Place a freeze with the credit reporting bureaus to prevent anyone (including yourself) from opening a credit card account in your name and Social Security number. If you know that your identity has been compromised contact the police and file a report. Complete an IRS Form 14039 Identity Theft Affidavit and request an Identity Protection Personal Identification Number (IP PIN). An IP PIN is a unique six-digit number that a victim of ID theft uses to electronically file their individual income tax return.

*You are notified by us that your return has been rejected for electronic filing because your Social Security number was used on a previously filed tax return.* We will help you complete the IRS Form 14039 Identity Theft Affidavit and produce a paper return to mail in to the IRS. You should also file a report with law enforcement and check your credit report and/or report the identity theft incident to the credit reporting agencies to place a fraud alert or credit freeze. With a police report the credit freeze is free but without it can cost as much as \$10 depending on your state.

Here are some other suggestions to protect your personal information.

1. Never carry your Social Security Card in your purse or wallet.

2. Change your passwords for online banking and your brokerage accounts and use strong passwords that combine upper- and lowercase letter, numbers and special characters. And do not use the same passwords for multiple sites.
3. Shred all paperwork with personal information before you throw it away. This would include unsolicited credit applications that you receive in the mail.
4. Review bills and bank statements carefully for unusual transactions.
5. Check your credit report annually.
6. Do not give out your Social Security number to someone who has called you and who is not familiar to you.
7. Do not include your Social Security number in an email to anyone or attach a document that contains your Social Security number in an email to anyone. If you are corresponding with us, please use our secure portal or fax any documents with sensitive information.

Nearly 2,000 people were convicted in connection with refund fraud related to identity theft over the past few years. We all need to be ever vigilant over our personal financial data.

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## Featured Client



Amyotrophic Lateral Sclerosis (ALS), commonly referred to as Lou Gehrig's disease, was first described in 1869. This motor neuron disease attacks both the upper and lower motor neurons causing atrophy throughout the body. The last decade increased knowledge about the disease, but no cure has been found. However, Organizations such as the Wisconsin ALS chapter are working tirelessly to fight the disease and ultimately find a cure.

The Wisconsin ALS chapter began as a local support group and became an official member of the ALS Association in 1987. The chapter has been supporting ALS patients and their families ever since. Their mission is to lead the fight to cure and treat ALS through global research and to empower people with the disease and their families to live fuller lives by providing them with compassionate care and support. Over the course of a year the chapter hosts a number of events to raise awareness around the state for various causes.

The Wisconsin ALS chapter currently receives no government funding and relies on the kind Midwestern values in all Wisconsinites to fund their mission. Events are designed to raise funds for various needs. The *ALS Evening of Hope* is a dinner, dance, and auction to raise money for research. Since the first *Evening of Hope* event in 1993 the chapter has raised \$1.9 million and 100% of the proceeds have been donated to research studies. Other events such as the Chasin a cure Tailgate Party, Hal's Toast to Hope and various Walks around the state of Wisconsin to Defeat ALS all help the Organization raise awareness and gain support from the community. The money raised from these local events all stays in Wisconsin and is used for things like research, to raise awareness and for medical items and needs to increase the quality of a patient's life.

Power chairs, lifts, wheel chairs, ramps, walkers and other items are purchased for local ALS patients to assist the families with some of the financial expenses.

Last year the ALS Ice-Bucket challenge campaign swept the nation during the summer months. Remember all your Facebook friends tagging you in their posts nominating you out to dump cold water on your head or donate \$100 to ALS? Even though not everyone chose the donation route, the campaign did more than just raise awareness nationwide. The campaign was able to educate millions of people about ALS and the hurdles that need to be overcome when dealing with the disease as well as preventing and treating the disease. The challenge raised over \$115 million since July 29, 2014. The national campaign raised awareness for the disease and the Wisconsin chapter continues to educate the public and promote awareness around the state.

SJA has partnered with the Wisconsin ALS chapter since 1999 and all members of SJA understand the importance of this Organization. Managing Shareholder Barry Sattell's mother passed away from ALS and a former partner of SJA is currently serving on the board of directors. The firm's staff, family and friends volunteer by helping count donations from the Milwaukee walk. SJA takes pride in being able to help the Organization. SJA performs the Wisconsin ALS annual audit, prepares the organization's annual information returns and provides consulting and advisory services.

For more information and ways to donate please visit the Wisconsin ALS chapter website at <http://www.alsawi.org/>: Lets strive to cure the disease and together we can make a difference!

## SJA in the community

Barry S. Sattell, CPA/PFS won the Five Star Professional award for professional excellence.

Some enthusiastic staff members joined in the Famous Racing Sausage Walk at Miller Park in August. A picture of the crew is to the right.

A continuous effort to donate by Sattell, Johnson, Appel & Co., S. C. is Blue Jean Friday. Money is donated on a monthly basis to various charities through this effort.

One of our associate auditors donated time to a Make A Difference Class to teach them the value of money and finances.



# Personal Representative's Role in Tax Planning

By: Steve Feurer, JD, CPA

Estates can choose a fiscal year end, that is, a year other than the calendar year. Often an estate will choose the longest year possible, hoping that the estate can be closed within that period of time and only one tax return is required. The tax consequences of having only one tax return are generally desirable. If the estate's income exceeds its deductions, the trust will pay no income tax because the distributions carry out the income to the beneficiaries. And choosing a fiscal year after December shifts the income to the beneficiaries' next tax year. If the estate's deductions exceed its income, the excess deductions are carried out to the beneficiaries, who can claim them on their personal tax returns.

But if the estate cannot be closed in less than twelve months, the personal representative should summarize the estate's income and expenses month by month. These summaries aid in choosing the initial tax year in a manner that deductions are not wasted and, if the estate has income, that the tax burden is minimized. An estate reaches the top tax bracket – and may be subject to the tax on net investment income – when its income reaches about \$12,000, so distributing income to beneficiaries usually saves income taxes. Special situations may require careful planning, such as when the estate receives a dis-

tribution from an IRA or other retirement plan, or owns an interest in a pass-through entity, such as an S corporation, LLC, or partnership.

Let's say the decedent died in October, 2014 and you determine the first tax year should end June 30, 2015. What should you do? First, the estate's books and records should reflect that decision. Second, the estate needs to file its income tax return by October 15, 2015.



## Matt's Minute

By: Matthew P. Goihl, CFP® , ADPA<sup>SM</sup>

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## Managing Bonds in a Rising Interest Rate Environment

The prospect of rising interest rates has been an ongoing concern for bond holders for quite a long time now. As you may know, interest rates and bond prices are inversely related, so an increase in rates means a drop in bond values. With the Federal Reserve talking more in recent months about raising rates, investors have been rushing to trade in their long-term bonds in favor of short term bonds and bond funds, which are less sensitive to interest rate risk. The logic makes sense; we don't want to be caught off-guard by another big rate shock.

But how should we be thinking about the duration of bonds in our portfolios? Should all our funds be invested short term? This is a really important question because if everybody is moving in the same direction, is it really a great idea to follow? And if everyone runs out to buy short-term bonds, doesn't that drive up the price of short-term bonds?

If you have money that you'll need in the next couple of years, it seems reasonable to keep that invested in short term bonds. But what about money where you have a longer time horizon, maybe five years or more? This depends on how you view bonds. Are they simply ballast to help offset stocks in your portfolio, or do you see this as the guaranteed fixed portion of the portfolio?

Part of the answer (to avoid interest rate risk) lies in diversification. Just like stocks, bonds should be diversified as well. You can invest in foreign bonds, high yield (junk) bonds and more credit-sensitive bank-loan funds. The other part of diversification has to do with duration. Keeping some funds in a total return bond fund and some portion short-term is also a reasonable strategy.

If you have the opportunity, the best solution is to own individual bonds where the maturities are laddered to mature every three months spread over

a five to seven year period. When funds are needed, you draw from the next bond due to mature and leave the longer term, higher yielding bonds alone.

### **Professional Disclaimer**

*This presentation is intended to provide general financial planning and tax planning topics of interest. The information provided here is for general purposes only and should not be considered an individualized recommendation or personalized advice. Be certain to contact your professional advisor before acting on any information contained herein.*

# Tax Tidbits

By Steve Feurer, JD, CPA

## Bitcoins:

You might remember that IRS treats virtual currencies such as Bitcoins as property rather than as a currency (see our October 2014 issue). As a result, paying for goods or services with a virtual currency results in a gain or loss equal to the difference between the fair market value and the tax basis of the virtual currency given in exchange for the goods or services. There are many unanswered questions relating to virtual currencies, including:

- Must taxpayers specifically identify which units of the virtual currency are being used in paying for goods and services, or may a simplifying convention be used, such as assuming the units acquired first are used first (first-in, first-out or “FIFO”)?
- Are there any circumstances when a virtual currency will not be treated as property?
- If you donate a virtual currency to charity, might you need to obtain an appraisal?

If you have had, or plan to have, any transactions in virtual currencies, please contact us so we can assist you in setting up a system to account for those transactions.

## Room taxes:

Do you rent out your vacation home? If so, you should be aware of the possibility that the rents are subject to a room tax. A room tax is a tax on the renting of sleeping rooms at hotels, motels, resorts, inns, bed & breakfasts and other lodging facilities. Wisconsin has 1,851 municipalities, each of which is authorized under state law to impose a room tax of up to 8%. As of 2010 267 Wisconsin municipalities had enacted a room tax. The number of municipalities adding room taxes increased at an average of eight per year from 1987 through

2010. If you are unsure whether you should be collecting a room tax, please contact us.

## Crowdfunding:

Soliciting online contributions for a project is generally known as “crowdfunding.” The practice began with artists seeking backing for projects that likely would not otherwise be profitable, and has expanded to the point where it sometimes is an alternative to venture capital. Although IRS has not directly dealt with crowdfunding, we thought it would be helpful to list tax issues crowdfunding raises.

Certain payments made via a payment card (or credit card) or a third party network (such as PayPal) need to be reported to IRS and to the payee (via Form 1099-K). If a payer’s payments to a payee do not exceed \$20,000 or 200 transactions in a calendar year, they do not need to be reported.

Is the amount received from crowdfunding included in gross income? Gross income is defined as “all income from whatever source derived.” The presumption is that an amount received is gross income. It is up to the taxpayer to rebut the presumption by demonstrating, for example, that the amounts are gifts or, if the contributors get a piece of the business, that they are capital contributions. If the amounts are not gross income because they are gifts, the donors must consider whether the transfers are subject to gift tax. Note that the definition of what is a gift that avoids recognizing gross income is different from the definition of what is a gift for purposes of filing gift tax returns.

Are your expenses incurred in connection with the project deductible? That depends, in part, whether the project is a “trade or business,” which requires an expectation of making a profit. If there is no reasonable expectation of making a profit, the hobby loss rules prevent you from creating a loss from the activity.

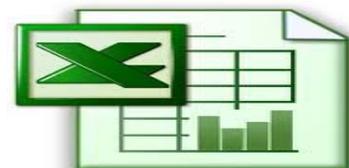
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## IT CORNER

The Digital Elements of your Will / By: Steve Smith

An important part of a comprehensive estate plan (planning ahead for incapacity and death) is preparing a complete list of your passwords, online accounts, and other digital property—and keeping it up to date. This list helps fiduciaries and family members find your valuable and significant online accounts and digital property, keep administration costs down, provide for a smooth administration, and ensure no property is overlooked. This will also allow them to lay your online accounts to rest. If your spouse handles all of the online transactions for your family, how would you go on if he or she passed unexpectedly?

A list tucked under your keyboard is a big NO-NO, it’s entirely unsecure, and it’s very easy to fall out of date. My strong recommendation is to keep a spreadsheet with all of your pertinent information, and encrypt that file. You will only need to retain and remember that one password. You can then either tell that one password to the right people, or tell them where to locate it. If you choose to keep a written list, keep it in a secure location, like a safe deposit box or a home safe. Think of the inherent value of what you’re protecting, and how much damage could be done to your life, both electronic and financial, if it were breached. Protect this information accordingly.



# Tax Tidbits

Continued from Page 4

In other words, the expenses of a hobby are deductible only to the extent of the income from the hobby.

Even if the project is a “trade or business”, some organizational and start-up expenditures must be capitalized.

### Same Sex Marriage:

Since the Supreme Court struck down a portion of the Defense of Marriage Act (DOMA) in *U.S. v. Windsor, et al.*, a same sex couple whose marriage was valid where performed was required to file their federal return as “married” beginning with their 2013 tax year. But if the couple lived in a state that did not recognize same-sex marriage, they had to file their state return as unmarried.

In *Obergefell v. Hodges*, the Supreme Court held that the U.S. Constitution requires all states to issue licenses for same-sex marriages and recognize lawful same-sex marriages performed in another state. As a result, state income tax filings should be simpler because same-sex couples will also be considered “married” for state income tax purposes.

Same-sex couples should review how they have filed their federal tax returns. If they filed their 2013 returns as unmarried, they should file an amended 2013 return as married. They should consider amending 2012 and prior returns if doing so results in a refund.

Same-sex couples who are not married should be aware that they could pay more federal tax as a married couple (the “marriage penalty”). Couples with similar paychecks that make between \$40,000 and \$150,000 probably will not have much, if any, marriage penalty. Those couples that would pay more federal tax if they marry might decide that the benefits afforded married individuals under Social Security and federal gift and estate tax might outweigh the “marriage penalty.”



## Featured Employee

Eric Matschull, Audit Manager, has been with our firm since July 2010. Prior to that time, he was an auditor at another public accounting firm in the area. A graduate of the University of Wisconsin-LaCrosse in December 2007, he majored in accounting and passed the CPA exam in 2008.

Eric grew up in Greendale and has an older sister and two younger brothers. He married Amanda in 2011 and they moved into a home that they built near Cedarburg. Last year they welcomed their first child, a daughter named Elise.

In his free time, Eric enjoys spending time with his wife and daughter, playing golf, and exploring the great outdoors.



## Getting to Know Us EMPLOYEE SPOTLIGHT

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We offer a full range of services to our clients, including auditing and accounting, tax, information systems consulting, management advisory, litigation support, business valuation, fraud examination and financial planning. Our affiliated company [SJA Financial Advisory, LLC](#) offers comprehensive fee only financial planning services and investment management.

At Sattell, Johnson, Appel, & Co., S.C. Certified Public Accountants we are continuously striving:

- To render to our clients outstanding service with the highest standards of ethical conduct
- To be a catalyst in our clients' success
- To provide exceptional opportunities for career advancement and personal growth of our team
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We are also proud members of both the [AICPA - American Institute of Certified Public Accountants](#) as well as the [WICPA - Wisconsin Institute of Certified Public Accountants](#)

111 Heritage Reserve Dr., Suite 100  
N72W13272 Appleton Ave.  
Menomonee Falls, 53051-5701  
Phone: 414-273-0500  
Fax: 414-273-0184  
www.sattell.com

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