BOTTOM LINE BULLETIN

KOS
KESSLER ORLEAN SILVER
CERTIFIED PUBLIC ACCOUNTANTS

August 2017

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Sign up for the KOS Blog!

KOS
NEWS

KOS is celebrating quite a few birthdays this August!

Kara Haugh – 9th
Veronica Teitz – 15th
Maya Gavrilovic – 16th
Anne Ruzicka – 17th
Cheryl Comrov – 19th
Sanford Alper – 21st

Thank you for your years of dedication!

Ryan Usalis – 2 years
Samantha Walker – 1 year

Welcome New Hires!

Kara Haugh as A&A Staff Accountant
Larissa McNair as Accounting Services Staff

Illinois Tax Changes Included in Budget Legislation

Geoffrey Harlow, Partner
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Effective July 1, 2017, the Illinois individual income tax rates for individuals increased to 4.95%, up from 3.75%, and the corporate income tax rate increased to 7%, up from 5.25%. The law also added phase-outs for certain tax credits and the standard exemption, and de-couples Illinois from the federal Domestic Production Deduction.

On the plus side, the law increased the K-12 education expense credit limit from $500 to $750, added a tax credit up to $250 for amounts spent by teachers for instructional materials and supplies for classroom-based instruction, and reinstated the Research and Development Tax Credit.

For the first time in recent memory, Illinois is applying a phase-out to certain tax credits and the standard exemption. If you are filing a joint federal return and your federal adjusted gross income exceeds $500,000 ($250,000 for all other filing statuses) you are not allowed to claim the standard exemption allowance, the K-12 Education Expense Credit, and the Illinois Property Tax Credit.

What may this mean now? Taxpayers will need to review the amount of Illinois income tax being withheld from their wages as well as nonwage income that is subject to Illinois income tax. This may include submitting a new IL-W-4 to recalculate the amount that should be withheld for the remainder of the year.

In addition, for anyone basing their 2017 estimated payments on their actual 2017 tax, third and fourth quarter Illinois estimated payments will need to increase. KOS can help you calculate the revised payment amounts.

Since the law became effective on July 1, Illinois allows taxpayers to calculate their 2017 tax by either (1) using a blended income tax rate that works out to around 4.35% for calendar-year individuals and around 6.13% for calendar-year corporations, or (2) by applying the old rate to income earned before July 1 and the new rate to income earned after June 30 (specific accounting).

Expect KOS to ask you to estimate how much of your income was earned before July 1, to determine if using specific accounting or the blended rate will produce a lower Illinois tax liability. If more of your income was earned before July 1 specific accounting can reduce your Illinois tax.

Continued

KOS NEWS

Congratulations to **Larry Krupp** on his marriage to his fiancé, Laurie Lichko. We wish many years of happiness to the newlyweds!

Proud parents **Jeff and Terry Arnol** celebrated the marriage of their daughter, Alyssa, to Aaron Kaufman. All the best for a joyful life together!

Alan and Doree Kalfen are happy to announce the engagement of their son, Steven, to Allison Walter. Best wishes to the happy couple!

Applause goes to **Geoff Harlow** on his being quoted in the July 13, 2017, Chicago Tribune article, "Illinois Income Tax Hike, 6 Tips to Manage or Minimize How Much You'll Pay." Please click on the KOS blog link above to read more.

We are proud to announce the following promotions: **Maya Gavrilovic** to Manager, **Karen Martin** to Supervisor, **Daniel Hinterlong, Cam Kinley** and **Jeremy Ou** to Senior Staff, and **Garrett Kubacki, Colin McDaniels** and **Inna Olinevich** to Staff 2.

Illinois Tax Changes Included in Budget Legislation

Continued

Planning related to the new tax rates is tricky, as we still don't know if or when federal tax reform will be enacted. "Wait and see" is wise, as it's likely that the impact of any federal changes will be greater than the impact of the Illinois tax increase. We'll know more as the year progresses.

For example, if it otherwise makes sense to use the blended rate of 4.35% for 2017 income, accelerating income into 2017 from 2018 will result in an Illinois tax savings of 0.60%, compared to the 4.95% rate that will apply for all of 2018. However, if federal tax reform legislation is enacted but made effective January 1, 2018, it's likely that the reduction in the 2018 federal tax rate will be significantly greater than the 0.60% potential Illinois savings if the income is accelerated into 2017. If this is the case you're better off paying the lower 2018 federal tax and the higher 2018 Illinois tax.

Of course if federal tax legislation is enacted effective in 2017, then accelerating income into 2017 to take advantage of the lower Illinois rate will likely make sense. Please contact your KOS Advisor if you have any questions.

RSVP Today!

Fifth Annual KOS Women's Professional Empowerment Event
Thursday, September 28th
8:00 -10:30am

This Year's Speakers Are:
Katrina Calihan – Leadership Coach
Tammy Cook – Self Management Coach
Lee Ann Piano – Leadership Trainer & Coach

Chevy Chase Country Club
1000 N. Milwaukee Avenue, Wheeling, IL
Breakfast Buffet Will Be Served
Cost: Free

RSVP by September 12th
events@koscpa.com

KOS is Hiring!

Help us spread the word! We are actively seeking exceptional candidates for the following positions:

- Tax Interns to work next busy season; February to April 15, 2018
- Temporary Front Desk Receptionist; August 28th to October 16, 2017

KOS will be on-campus during the month of September for interviews and attending career fairs at the following schools: University of Illinois at Chicago (UIC), Northern Illinois University (NIU), DePaul, Illinois State University (ISU), and College of Lake County (CLC).

Tell your friends, networks and college age kids to spread the word and check out KOS for a career in accounting. Visit www.koscpa.com/careers for more information and apply online!

Managing Your Finances the Easy Way

Lais Gruman Castello, Accounting Services Staff

As a young professional in the accounting field, I understand the importance of keeping accurate records and forming good financial management habits. There are many free online tools available to help you feel confident managing your money, such as LearnVest and Mint.com.

First, why use one of these programs and what do they do? Ostensibly, to help you stay on top of your finances by bringing everything together and seeing everything in one place so it is easier to understand and manage. Among other things, you can track and pay bills, budget, categorize your spending, create reports, set goals, receive alerts, etc.

I first learned about Mint.com when I was working on a project for college. My professor described how a simple phone app could assist people in managing their finances. I decided to give the online tool a chance.

I started using Mint.com, but through an online search, I learned according to PCMag that LearnVest and Mint.com are the highest rated personal money managing online tools. In addition to being free, they are quick, secure and help track your spending to monitor where your money is going. They also include effective tools for analyzing credit card debt repayment options and expenses trends over time. You have the ability to link your banking and credit card accounts, bypassing the manual entry process if you want to.

The set up process for these two tools takes about fifteen minutes. After you sync your bank accounts, credit cards, loans and investments accounts, it won't take long to learn how to navigate the websites and start monitoring your transactions. The apps will automatically sort your spending into different categories, such as rent, gas and groceries. Since activity is tracked, planning applications are available that help create budgets, easy to understand charts, and disbursements reports. Both programs offer mobile apps to stay connected to your money and monitor your spending when you are away from your PC.

A disadvantage of LearnVest is that there are no bill-pay reminders or credit score information, a couple of features offered by Mint.com. A downside of Mint.com is that you cannot create or manage alerts from its mobile app as you can with their website.

Overall, using personal financial management tools is a very good way of staying on top of your finances. For young professionals trying to keep on top of rent, car payments, and bills, it will make your money management experience easier, more enjoyable, and make you more conscious of your expenditures. If you have any concerns, please contact your KOS Advisor.

How to Safeguard Your Computer Network

Steps for improving security measures

Would you ask a salesperson to hold onto your wallet or pocketbook while you go shopping in their store? Of course not. Yet, in effect, some small-business owners are doing virtually the same thing with their computer networks when they conduct business online. It is almost like giving hackers a license to steal your money.

What are the potential dangers? There are several ways outsiders may be able to gain access to a company's network. One possibility is to use a password-guessing program that seeks and identifies Internet addresses. Another type of program allows users to scan multiple host computers for vulnerabilities. Also, be aware that hacking may occur from "inside" sources, such as your own employees or others who have access to the business premises or your computer network.

What's more, certain sophisticated computer programs originally designed as theft deterrents may be used for illicit means. In many cases, the hackers are more innovative than the creators. And that is bad news for business owners.

How can you try to stop online thieves in their tracks or, at the very least, slow them down? Consider implementing the following safety measures as part of a comprehensive security program:

- Maintain physical security. Is it possible for someone to walk up to your network and shut the entire system down with one flip of a switch? The network server should be kept in an area that is off-limits to most personnel. You might even install security software that limits access to the keyboard and screen.

- Install a firewall. A firewall simply separates the Internet from your company's computer network. In effect, it screens or blocks outside intrusions that look suspicious. Firewalls can also be used to partition one department of your company from another.

- Review your list of network users. Make sure that passwords are changed on a regular basis. Instruct your employees to use nonsensical passwords rather than common words or family names. In addition, supervisory privileges should be limited to a select group of high-ranking employees or officers. Is file sharing rampant? This may give outsiders easy access to sensitive data.

- Seek protection against computer viruses. The most common method is to install software that can help protect you against the type of viruses that could infect your network. Keep current with the latest updates. Also, keep an eye out for new innovations and improvements.

Naturally, there are no absolute guarantees that these precautions will provide the security you need in all cases. At a minimum, however, taking these steps can result in a good first line of defense. If you don't have the necessary expertise to address these issues yourself, assign responsibility to a qualified staff member or third party.

What's the Tax Payoff from Gambling?

Losses may offset annual winnings

Do you enjoy the thrill of gambling? Whether you end up winning or losing, it is important to understand the main tax rules related to your gambling activities. Otherwise, you may end up owing considerably more tax than you normally would have to pay.

Background: On the federal level, gambling winnings constitute taxable income. It does not matter how and where you win—it could be at a church raffle or the racetrack or a casino aboard a cruise ship. In any case, you owe tax on the income to the federal government. Depending on the type and amount of your winnings, the payer might provide you with a Form W-2G and may withhold federal income tax from the payment.

On the other side of the coin, gambling losses are deductible on your federal tax return, but only up to the amount of your winnings. For example, if you win $10,000 in a lottery this year and then lose $12,000 at the blackjack and craps tables in Las Vegas, your deduction is limited to $10,000. Conversely, if you lose $7,500, the entire loss is deductible, resulting in tax on $2,500 of gambling income.

Although gambling losses are deducted as miscellaneous expenses, at least you avoid a special tax law floor. Generally, miscellaneous expenses are deductible only to the extent that your annual total from all sources exceeds 2% of your adjusted gross income (AGI). But the 2%-of-AGI limit does not apply to gambling losses.

As you might imagine, taxpayers may try to play fast and loose with these rules, so the IRS stays on its toes. You must keep records to back up your claims in case the IRS challenges gambling loss deductions. If you do not have the proper records, you may be leaving tax money on the table.

What sort of records do you have to keep? This can vary according to the gambling activity, as shown below:

- Bingo: A record of the number of games played, cost of cards purchased and amounts collected on winning cards.
- Keno: Copies of the keno tickets that were validated by the gambling establishment, copies of the casino credit reports and copies of the casino check-cashing records.
- Racing (e.g., horse, harness and dog): Records of the number of races, amounts of wagers and amounts won.
- Slot machines: A record of the machine number and all winnings by date and time the machine was played.
- Table games (e.g., blackjack, craps and roulette): The number of the table where you played and casino credit card data indicating where credit was issued.

Note that these records may be supported by other means (e.g., unredeemed ticket stubs from the racetrack). However, the supporting records must be legitimate.

Finally, special rules apply to those who gamble professionally. Among other requirements, you must be engaged in the activity with the intention of turning a profit. If you qualify, the activity is generally treated like a business, so you may be able to deduct an annual loss. Seek our firm's guidance if you have any questions.