The Quill

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GASB Statement No. 84, Fiduciary Activities
By Brenton Corriveau

The Governmental Accounting Standards Board (GASB) issued Statement No. 84, Fiduciary Activities, in January 2017. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, with earlier application encouraged. The purpose of this Statement is to enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities and to clarify whether and how business-type activities should report their fiduciary activities. GASB 84 addresses: 1) the categorization of fiduciary activities for the financial reporting; 2) how fiduciary activities are to be reported; and 3) when liabilities to beneficiaries must be disclosed.

Fiduciary is defined as a person (or entity) who holds a legal or ethical relationship of trust with one or more other parties (person or group of persons). Typically, a fiduciary prudently takes care of money or other assets for another person (or entity). GASB 84 provides criteria for state and local governments to use to identify whether an activity is fiduciary and should be reported as a fiduciary fund type in the basic financial statements. GASB 84 provides the criteria for three types of activities: 1) fiduciary component units; 2) pension and OPEB arrangements that are not component units; and 3) other fiduciary activities. There are four types of fiduciary funds that must be reported. The four funds are: 1) pension (and other employee benefit) trust funds; 2) investment trust funds; 3) private-purpose trust funds; and 4) custodial funds. The first three fiduciary funds are existing fund types, as defined by GASB 34. The custodial fund category is new, and replaces what are currently known as agency funds. The criteria for custodial funds differs from that of agency funds, therefore some former agency activities will no longer qualify as fiduciary activity. GASB 84 provides three flowcharts to help determine whether an activity is fiduciary or not.

So how does GASB 84 impact the financial statements? Once a government has determined which activities are fiduciary, those activities should be reported on the government's basic financial statements. In addition, any impacted governments should present a statement of net position and a statement of changes in fiduciary net position. The four types of fiduciary funds mentioned above need to be reported, and one column is presented for each fiduciary fund type. An exception to the requirement is related to a business-type activity that typically expects to hold custodial assets for three months or less.

Bonus Depreciation through the Tax Cuts and Jobs Act
By Eiranne Christy

Bonus depreciation is an incentive that certain companies can elect to use in order to deduct a large portion of the purchase price from qualified assets. Historically, bonus depreciation was 30% in 2002 and went up to 50% in 2003. In 2018, the Tax Cuts and Jobs Act has increased the first year bonus depreciation allocation from 50% to 100% on certain qualified assets.

The Tax Cuts and Jobs Act amended Section 179, which allows taxpayers to expense up to a certain amount from a new asset the year it's put into service. Before the amendment, the maximum expense amount was $500,000. The Tax Cuts and Jobs Act amended this to $1 million. The Tax Cuts and Jobs Act also amended Section 168, which allows taxpayers to elect bonus depreciation on qualified assets. Bonus depreciation started in 2002 to stimulate the economy and it allowed a 30% deduction from the cost of the asset in the first year that the asset was put into service. This regulation increased in 2003 to 50% and has now increased to 100% with the Tax Cuts and Jobs Act. If a company decides to not take advantage of bonus depreciation, they must elect not to do so on all property within a class, such as all 7-year Modified Accelerated Cost Recovery System (MACRS) property. If they elect not to take bonus depreciation, they can still elect to take Section 179 depreciation up the cost of the asset, to the maximum allocation of $1 million.

Editor: Parker Madden

Bonus depreciation cannot be taken on all new assets, just certain qualified property. First, the property must have been acquired before September 27, 2017 and placed in service after January 1, 2018. In order to elect Section 168 bonus depreciation your asset must meet some requirements. The first requirement is that the asset must have a specific recovery period of 20 years or less. Secondly, the property can be new or used, but must be new to the taxpayer. The term "new" is specified to mean that neither the taxpayer, nor a related party, had previously depreciable interest in the property. The Tax Cuts and Jobs Act intended to but failed to allow for QIP, or qualified improvement property to be expendable under bonus depreciation. Qualified improvement property is any interior improvement to a nonresidential real property that is placed in service after the building is placed in service. This does not include the enlargement of a building, any elevator or escalator, or the internal structural framework of the building. Congress initially intended for qualified improvement property to have a 15-year life, but because of a technical correction, it was kept at 39 years, which makes it ineligible for bonus depreciation. For more information, you can visit the IRS website at www.irs.gov or contact your tax professional at RKO.

Qualified Parking – Nonprofit organizations

By Rory O'Brion

Much has been written about the new tax laws signed into legislation last year. However, one of the most significant changes to both taxable and non-taxable organizations came under Code Sec. 274(a)(4), in which certain expenses for "qualified transportation fringes" would become nondeductible. Amongst the provisions in this regulation, certain expenses related to employee parking could potentially be taxable to tax-exempt organizations (nondeductible for taxable organizations). There are two main situations under this new law that could lead to a non-profit organization having to be "taxed" on certain expenses paid. The first situation is when an employer pays a third party for employee parking spots on or near the employer's location. The most basic example of this would be an employer paying the monthly cost of an employee to park in a nearby parking garage. The IRS now says costs paid by the employer on behalf of the employee to a third party are generally taxable to the organization. This taxable amount is based on the organization's annual cost paid to a third party, however if the amount paid for an employee's parking exceeds the IRS monthly limitation exclusion ($260 for 2018) per employee, the excess amount must be treated by the organization as compensation and wages to the employee. Once the annual cost is determined, the tax liability is equal to 21% of the total annual cost.

The second situation, and more complex to determine, are employers that own or lease all or a portion of a parking facility where its employees park. There are also two instances under this provision that need to be evaluated. First, an organization that owns or leases all or a portion of one or more parking facilities must identify the number of spots in the parking facility exclusively reserved for the organization's employees (reserved employee spots). The IRS states that employee spots in a parking facility may be exclusively reserved by a variety of methods, including but not limited to, specific signage (ex. "Employee parking only") or a separate facility or portion of a facility segregated by a barrier to entry or limited by terms of access. If this situation exists, the organization will likely have a tax liability related to nondeductible expenses to maintain the parking facility and allocate those to the reserved spots. Expenses that may be included are, but not exclusive to, repairs, maintenance, utility costs insurance, property taxes, interest, snow removal, ice removal, leaf removal, trash removal, cleaning, and landscaping costs, to the extent they relate directly to the parking facility or lot. However, the IRS has recently provided a reprieve to those organizations that have reserved employee spots by allowing them to change their parking arrangements (remove signage, access to, etc.) to decrease or eliminate their reserved employee spots and treat those parking spots as not reserved employee spots retroactively to January 1, 2018, if this is done on or before March 31, 2019. If the organization has no specific reserved employee parking spots, the next step is to determine the "primary use" of the parking facility, using the primary use test. If the primary use of the remaining parking spots (after backing out any reserved spots) is for the general public, then the total parking expenses are excepted from being taxable to the organization. The IRS defines "primary use" as being more

than 50 percent of the actual or estimated use. This estimation should be based on use during normal business hours on a typical day. In short, if the number of available parking spaces in a parking facility or lot, is used primarily by employees (50 percent or more of the available spaces), then the IRS considers that parking facility or lot to be for the primary use of the employees and expenses associated will be taxable based on further pro-rata calculations.

There are many nuances to these new rules, and each situation needs to be evaluated on an individual basis. All tax exempt organizations should address their parking situations to determine their exposure, if any, under these rules. Our tax preparers understand the new rules and can help guide you through your determination if assistance is needed.

Cyberattack Prevention Planning

Every year we experience new challenges in the world of computer hacking - as well as new solutions. Cyber hackers have become aggressive, and so business owners must be more vigilant. Because clients are the source of your revenue, it is critically important to ensure their data never gets into the wrong hands.

According to a recent survey conducted by the Better Business Bureau, more than half of small business owners reported they would no longer be profitable just one month following a data breach.

According to Bill Fanelli, the chief security officer for the Council of Better Business Bureaus and co-author of the report, a primary vulnerability for small businesses is the carelessness of its employees. In fact, Fanelli observed that one of the most cost-effective prevention tools – employee education – is used by less than half of the companies surveyed. All it takes is for just one employee to click on a nefarious link or open an infected attachment for a cyber attacker to walk through an open door to your business.

In many cases, business owners simply need to make employees aware of the types of behaviors that enable hackers to breach system security. To this end, the easiest prevention plan is to periodically conduct brief training sessions to reiterate the importance of:

- **Choosing a strong password**
- **Changing the password often**
- **Installing software updates as soon as alerts are received**
- **Avoiding opening suspicious emails or online links**
- **Never downloading unauthorized software or apps on company computers or smartphones**

Firms should conduct a full assessment to protect their business from data breaches at least once a year. Also, it is recommended that business owners ensure all transactions are secured through solutions such as:

- **Automated Clearing House payments – an electronic network for financial transactions**
- **Secure Point of Service terminals – an electronic device used to process card payments**

One way to help protect your financial transactions is to consult with your small business banker for a review of your current transaction management services to ensure you're doing all you can to protect your business and your customers.

How to Develop a Cybersecurity Plan
Consider using this five-step approach to help prevent your firm from being vulnerable to a data breach:

- **Devise a step-by-step written communication plan detailing how your firm will conduct ongoing monitoring and maintenance, and recover normal operations should a cyber attack occur**
- **Identify at-risk assets, such as systems, data and financial operations**
- **Protect each asset by using tools such as IT security, off-site/cloud backup and vendor protection measures**
- **Develop an automatic alert system to detect incidents that indicate current or imminent threats to system integrity and lost or compromised data**
- **Create a response plan that encompasses worse-case scenario and contingency planning, staff training, written procedures, reporting and outreach communications to staff, vendors, customers and the public, if necessary.**

Cybersecurity might not be your area of expertise, but your customers rely on you to keep their data safe. It's important to take precautions to minimize your risk from this ever-growing danger.

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Firm Announcements

Jennifer Conners, Timothy Gill, and Rory O'Brion have **joined the partner group** of Runyon Kersteen Ouellette. Jen and Tim came to RKO in 2003 and 2007, respectively, and have each specialized in the firm's governmental practice. Rory also came to RKO in 2007 and has specialized in the firm's non-profit and employee benefit plan practices.

Runyon Kersteen Ouellette announces the following **promotions**
Parker Madden from Supervisor to **Manager**
Marcus Pratt from In-Charge to **Senior Accountant**
Miranda Carroll from Assistant Accountant to **In-Charge**
Brenton Corriveau and **Sarah Smith** from Staff Accountant to **In-Charge**
Jenny Duve from Assistant Accountant to **Staff Accountant**
Congratulations!

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