THANK YOU!

All of us at Morrow & Co. LLC want to take a moment to thank you for being a client of our Firm. Tax season is an exceptionally strenuous time for a CPA firm, not only for our firm, but for every firm across the nation. In reality, every project we touch has a due date and that is how our work is prioritized.

While we chose this crazy profession, we thought we might share with you some of the unique issues that have come our way this year. First of all, due to identity theft and tax return fraud, the IRS is requiring more and more documentation to verify identities, substantiate child tax credits, earned income credits and the American Opportunity Credit. What was once a simple return is no longer so simple. Secondly, for the first time, the due date of S-Corporations and Partnerships was changed from April 15 to March 15. Finally, the continued late arrival of 1099 forms from brokerage houses decreases the already short window of time to complete returns by their due date. While we attempt to do all that we can before the due date, including your return, extensions are sometimes an unavoidable part of the process.

The biggest challenge, however, was the loss of my father Frank who was my partner and founder of our firm. He was a prolific worker and a wealth of knowledge. While we hired additional experienced staff to compensate for his absence, my Father is simply irreplaceable. With any tax season being the most demanding time of the year for any firm, this year has been unlike any other. While he can never be replaced, rest assured that we are continuing to make changes to adjust to his absence and build on the legacy that he has left us.

We value you as a client and continue to work hard to see that your needs are met using the same work ethic and values that my Father has instilled in me and our Firm. We love working with our clients to minimize taxes, improve profits and refine processes and procedures. Many of you aren't simply clients – you are also friends. The kind words and simple gestures of appreciation that many of you express make all of the long hours worth it.

KANSAS TAX CHANGES

For the past several years Kansas has exempted business income passed through and taxed on individual returns. Many business owners have benefited during these years from this income being exempt. Some business owners, for example those with a business loss that they were not able to deduct, were harmed. During this current legislative session, the legislature was looking for ways to increase revenue for the State of Kansas. The Kansas Legislature passed Senate Bill No. 30 on June 5, 2017. This bill was vetoed by Governor Brownback on June 6, 2017. Then the House and Senate were both able to achieve the two-thirds majority required to override the Governor's veto, and the bill passed.

KANSAS INDIVIDUAL INCOME TAX ON CERTAIN BUSINESS INCOME

In our opinion, the biggest piece of this bill is that the exemption for certain business income, that has been exempt since 2013, will now be taxable again in the State of Kansas. This includes net income from self employed individuals, S-corporations, partnerships, farmers, rental real-estate, royalties, estates and trusts. The most shocking part of this is that the change was made retroactive to January 1, 2017. In our experience, it is extremely uncommon for the Federal or State government to make a retroactive change that could potentially have such a negative impact on taxpayers. Regardless, income that we expected to be exempt from Kansas individual income will now be taxed by Kansas starting with the 2017 individual income tax returns that will be filed in 2018. According to the bill "No taxpayer shall be assessed penalties and interest from the underpayment of taxes due to changes to this section that became law on July 1, 2017, so long as such underpayment is rectified on or before April 17, 2018." A decision will need to be made as to whether or not to change or make estimated income tax payments to Kansas based on this change. If you believe that you will be impacted by this law change, we recommend that you contact us. We can calculate Kansas estimates based on your 2016 return, or if you have more in-depth planning to discuss, we can setup an appointment to discuss the impact that this will have on your income taxes specifically.

KANSAS ITEMIZED DEDUCTIONS

For tax years 2016 & 2017, Kansas itemized deductions are limited to 100% of qualified charitable contributions, and 50% of qualified residence interest and real and personal property taxes allowed on the Federal return. In tax year 2018, Kansas will add 50% of qualified medical expenses to itemized deductions to the itemized deductions allowed in 2016 & 2017. For tax year 2019, the qualified charitable contributions will remain at 100%, and the deduction for qualified medical expenses, residence interest and real and personal property taxes will increase to 75%. For tax year 2020 and thereafter, qualified charitable contributions will remain at 100%, and the allowable amounts for qualified medical expenses, residence interest and real and personal property taxes will increase to 100%. If these amounts are below the Kansas standard deduction threshold, individuals will still be able to utilize the standard deduction on their Kansas return.

PERSONAL INCOME TAX RATE CHANGES

One of the other key changes was the Kansas individual income tax rates for 2017 and 2018 and thereafter, were revised as follows:

	2017			2018 and thereafter	
	Original	**Revised**		Original	**Revised**
Married filing joint					
Not over $30,000	2.70%	**2.90%**		2.60%	**3.10%**
Over $30,000 but not over $60,000	4.60%	**4.90%**		4.60%	**5.25%**
Over $60,000	4.60%	**5.20%**		4.60%	**5.70%**
All other individuals					
Not over $15,000	2.70%	**2.90%**		2.60%	**3.10%**
Over $15,000 but not over $30,000	4.60%	**4.90%**		4.60%	**5.25%**
Over $30,000	4.60%	**5.20%**		4.60%	**5.70%**

NET OPERATING LOSS

As part of this bill, Kansas has also removed the requirement that the Federal net operating loss deduction be added back for Kansas income tax for tax years beginning after December 31, 2016.

CREDIT FOR CHILD AND DEPENDENT CARE EXPENSES

In 2012, Kansas repealed the credit for child and dependent care expenses for the 2013 tax year, and this remains in effect through tax year 2017. Beginning in the 2018 tax year, the credit will come back, and Kansas will allow a credit equal to 12.5% for tax year 2018, 18.75% for tax year 2019, and 25% for tax year 2020, and all tax years thereafter, of the Federal dependent care credit. However, to qualify for the credit according to Senate Bill No. 30 "No credit shall be allowed to any individual who fails to provide a valid social security number issued by the social security administration, to such individual, the individual's spouse and every dependent of the individual."

OTHER KANSAS CHANGES

As part of this bill, Kansas also made changes to STAR bond provisions and the subtraction modification provision relating to net gains from certain livestock and Christmas tree sales is repealed in 2017.

Additional information involving these changes is on our website - www.morrowandcompany.com.

LEASES

The accounting for leases is changing for those of us using generally accepted accounting principles (GAAP) for financial statement presentation purposes. The new standard goes into effect for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Nonpublic entities have an extra year to adopt. However, early adoption may be elected. This standard applies to all entities: public, private, and not-for-profit, whether large or small.

The definition of a lease is changing – but more importantly, the way we will have to account for leases is changing.

Both financing leases and operating leases will create a right-of-use asset, and a liability, to be reflected on the balance sheet. In short, operating lease treatment is going away. No longer will you simply show lease expense or rent expense in your income statement. Most leases will be treated as capital leases and the fair market value of the leased asset and a lease liability will be shown on the balance sheet much as if you were purchasing an asset with a loan. Additionally, disclosure requirements will change.

This will likely have a marked impact on loan covenant calculations and financial ratios that lenders customarily look at. If you currently have any operating leases, you should expect this to have an impact on your financial statements and the amount of work necessary to make the changes to the new standards.

LOOKING FORWARD

If you believe that you may be impacted by the new Kansas law changes or if you have concerns about how the new lease accounting rules may affect your financial statements please give us a call. Once again, we appreciate you being a valued client of our Firm.

Sincerely,

R L Morrow CPA

Richard L. Morrow, CPA CGMA