



Lally & Co.
CPAs and Business Advisors

The EVERGREEN

Quarterly Journal for Clients & Friends

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The Evergreen. Always Growing.

Like the evergreen oak tree, Lally & Co. is always growing. With the support and loyalty of our clients and friends we have grown into a firm of 43 individuals serving clients in many diverse fields. Our growth gives us the ability to better serve our clients and provide effective solutions to their needs. If you have questions about your business or personal tax situation, please contact us. We welcome your call and are always looking for ways to better serve you.

Contact our office or visit our website for more information.

412.367.8190

Dear Clients and Friends,

As we are now a month into the new year, many clients are asking how they can prepare for the 2018 tax filing season and the 2019 tax year. This newsletter discusses our new delivery system, certain tax planning techniques and items to be aware of in the upcoming year.

As you read through *The Evergreen*, please do not hesitate to contact us if you have questions regarding an article or regarding your business or personal tax situation. We would be happy to hear from you! This and past issues of *The Evergreen* are available on our website at <http://lallycpas.com/newsletters/>.

Lally & Co. Introduces SafeSend Returns

Printers, pens, stamps, envelopes ... In this age of technology, these are not necessary to sign your tax return. If your life can be simplified and more secure, why shouldn't it be?

To enhance the service we provide our clients, Lally & Co., LLC has automated the tax return delivery process with SafeSend Returns™ technology effective the first quarter of 2019. Our delivery and your review and signature of the 2018 Federal and State individual income tax returns can be completed from the convenience of your computer, smartphone, or tablet. No printing or mailing necessary!



Receive an email from Lally & Co., LLC at noreply@safesendreturns.com. Add this email address to your safe list to prevent it from being categorized as spam.



Click on the safe link to access your tax return.



Answer the identity verification questions to review and complete your return.



Electronically sign and return your E-file Authorization Form 8879.

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User-friendly and highly secure, SafeSend Returns is an easier way to review and sign your tax return. The process is simple: Verify your identity, enter an access code, and follow the step-by-step instructions to review and sign your returns. The process is summarized below:

- When your tax return is complete, you will receive an email from noreply@safesendreturns.com
- Lally & CO., LLC will be indicated in the email.
- This email will have a safe link in it for you to click and access your return.
- You will need to provide the last 4 digits of your SSN and click “Authenticate”.
- You will receive an access code in a second email. Enter the access code in your browser and click “Continue”.
- You will see an overview of your return.
- Download the electronic file and review your tax documents, including any payment vouchers. The electronic file should be saved on your local computer for your records.
- After you have reviewed the returns, indicate if you wish to sign the e-file authorization electronically or if you wish to manually sign and return it to us via fax or email. We recommend the ease of the electronic signature.

- If you are signing electronically, follow the steps for completing the three to five questions that will confirm your identity. **Please note: Due to state changes, we request that all e-file forms are completed within 10 days of receiving your return.**
- After signing the e-file forms, make any payments as indicated. If the taxing authority has online payment options, the website links will be provided. Or, you can choose to download and print the voucher and mail it with your check.
- This process can be completed on your computer, smart phone, or tablet that has internet access.
- We will still mail back to you the paper documents you provided us to prepare your return

Questions?

No Problem. Find the answer to frequently asked questions below. For even more detail, please visit our website at

www.lallycpas.com/SSR

Will I receive notification when my return is ready to sign?

Email notifications will be sent from Lally & Co., LLC at noreply@safesendreturns.com. We recommend adding this email address to your safe list to prevent the email from getting filtered to spam/junk.

Is it safe to enter part of my Social Security Number?

Yes. SafeSend Returns offers a secure system to view and sign your e-file authorization form(s). Look for **HTTPS://** at the beginning of the site URL and a locked padlock symbol in your browser’s URL bar to confirm you are on the secure site.

What if I don’t receive an email with my access code?

Check your spam/junk email folder. You can also search your email for noreply@safesendreturns.com. Some email platforms hide items they’ve labeled spam or junk, making certain emails difficult to find. If you do not receive your code within the 10-minute time limit, please request another code.

Where do the identity verification questions come from? What if I don’t remember the answers?

The questions SafeSend Returns ask are “knowledge-based” questions (KB) pulled from government and credit sources. You may be asked questions such as where you lived in a given year, or when you bought your car or home. **In the event the questions do not apply to you, simply choose the answer that accurately reflects this.** If you don’t remember the answers to the questions, or you answer incorrectly, you won’t be able to electronically sign your e-file authorization form(s). You can instead print, sign, and return your e-file authorization form(s) to Lally & Co., LLC.

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Firm Announcements

Zachary S. Bussard, CPA became engaged to Samantha Deter in June 2018.

Christopher A. Hart joined the Firm's Tax department in January, 2019 as a Tax Senior.

Amy L. Mitchell, MBA joined the Firm's Tax Department in November, 2018 as a Tax Associate.

Brandon J. Niznik became engaged to Brooke Callaghan in November 2018.

John C. Stillwaggon, CPA joined the Firm's A&A Department in October, 2018 as a Director.

Important Dates

February 28, 2019 – 2018 Form 1099-DIV and Form 1099-INT Due

March 15, 2019 – 2018 Partnership & S-Corp Tax Returns Due

April 15, 2019 – 2019 1st Quarter Estimated Tax Payments Due

April 15, 2019 – 2018 C-Corporation Tax Returns Due; 2018 Individual Tax Returns Due; 2018 Form 114 - FBAR Returns Due; and 2018 Form 1041 Trust Returns Due

Will I have the option to download and print my return to retain for my records?

Yes. Your return is available to download to your personal computer, review electronically, sign electronically, and print a copy. However, some smartphones or tablets may not allow download access.

How is this different from e-filing?

SafeSend Returns allows you to electronically **sign** your e-file authorization form(s), but it won't submit your return to the IRS. Once electronically signed, Lally & Co., LLC is automatically notified, and we will then complete the filing process for you, including submission to the IRS.

My spouse and I file our return jointly. How can we both sign the e-file authorization form(s)?

For spouses filing jointly, there are three ways to sign via SafeSend Returns:

- **If both spouses have a separate email address on file**, both will receive an email with a link to view the return and sign the e-file authorization form(s). First, one spouse will receive the link with identity verification questions specific to him/her. He/she will sign the e-file authorization form(s) and input the spouse's email address, which will send an email link to the second spouse. The second spouse will answer identity verification questions specific

to him/her and then sign the form(s).

- **If only one spouse has an email address on file**, that spouse will first receive the link with identity verification questions specific to him/her. He/she will sign the e-file authorization form(s) and then enter an email address for the second spouse. The second spouse will then receive the email link with identity verification questions specific to him/her. Once the second spouse electronically signs the e-file authorization form(s), Lally & Co., LLC will be automatically notified that signing is complete.
- **If a couple shares an email address**, the primary signer will first receive a link with identity verification questions specific to him/her. After the primary signer signs the e-file authorization form(s) he/she then enters the shared email address again. A new link will be sent with identity verification question specific to the second spouse.

Can I sign my dependent's return e-file authorizations electronically?

Lally & Co, LLC will **deliver** your dependent's return using SafeSend Returns. However, most dependents may not have sufficient government and financial data available to successfully complete the KB electronic signature process.

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Therefore, Lally & Co., LLC will generally deliver the e-file authorizations for manual signature.

I'd rather print and manually sign my e-file authorization form(s). Can I do that?

While an electronic signature is certainly easier and more convenient, you can still print, manually sign, and either mail or fax your e-file form(s) back to Lally & Co., LLC if you'd prefer to do so.

After signing my e-file authorization form(s), will I receive confirmation that it was successfully submitted?

Yes, once you electronically sign your e-file authorization form(s), you will receive an email stating it was successful. The email will also include a link to download a copy of your tax return for your records.

Can I set up reminders for my quarterly estimated payment(s)?

If estimated payments are included in your return copy, you will automatically receive an email reminder seven days before your payment is due.

Will I have to print and mail anything to the government?

In limited circumstances, you may need to print and mail information to government authorities. Common examples include estimated tax payment vouchers and local income tax returns. If forms need to be printed and mailed, you will

receive clear instructions. **If available from the federal, state or local governments, you will also be provided options to make tax payments electronically if you prefer not to mail payments.**

Still have questions about SafeSend Returns?

Contact us or visit our website at www.lallycpas.com

Final Regulations for Substantiating and Reporting Charitable Contributions

The IRS has issued final regulations related to the validation and reporting of charitable contribution deductions for income tax purposes.

The final regulations state that a deduction is only allowed for any contributions of cash, check or other monetary gift where a record of the contribution is maintained by the owner. The record must show the name of the donee, the date and the amount of the contribution, and can be in the form of a bank record or written communication from the donee.

A single written acknowledgement from a donee may be used by a taxpayer to satisfy the requirement. A blank pledge card provided by a donee organization but filled out by

the donor does not exemplify sufficient proof.

For noncash contributions of more than \$500, the donor must include a description of such property with the return for the taxable year in which the contribution is made. For noncash contributions of more than \$5,000, a qualified appraisal of such property must be obtained and attached to said return. Similar items contributed during the tax year are treated as one property. The validation requirements apply to the year of the contribution as well as any carryover year.

A qualified appraisal is an appraisal that is conducted by a qualified appraiser in accordance with generally accepted appraisal standards. A qualified appraiser is an individual with verifiable education and experience in valuing the type of property for which the appraisal is performed.

If using Form 8323, Noncash Charitable Contributions, to corroborate a noncash contribution, an appraiser must use a taxpayer identification number. The appraiser may use an employer identification number (EIN) instead of his or her social security number.

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A completed Form 8323 does not satisfy the separate requirement of Code Sec. 170(f)(8), which states a contribution of \$250 or more must be substantiated by a contemporaneous written acknowledgement of the contribution by the donee organization that includes the amount of cash and description of any property other than cash contributes, whether the donee organization provided any goods or services in consideration for any property previously described, and a description and good faith estimate of the value of any goods or services provided.

Bonus Depreciation, Asset Expensing, and Other Property Rules

Accounting methods and rules for taxation are continuously being updated to adapt to the rapidly changing economy. For a long time, tax laws accounted for the cost of an asset based on the amount of years in which it was believed that the asset could produce income. Now, thanks to the Tax Cuts and Jobs Act of 2017 (TCJA), depreciation deductions of these assets can be accelerated to help spur growth in the economy. The Tax Cuts and Jobs Act allows for 100% first year “bonus” depreciation on qualifying property. In a different section of the TCJA, the limits for asset

expensing under Code Section 179 were increased.

Qualified Improvement Property

Before the Tax Cuts and Jobs Act, qualified improvement property eligible for bonus depreciation was 15-year MACRS property, defined by one of three categories: qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. The TCJA combined the three categories into one general category called qualified improvement property.

Bonus Depreciation

Under the TCJA, taxpayers can now deduct 100% of the cost of qualifying property opposed to the previous 50% allowable deduction. The TCJA broadened the definitions of qualifying property to include used property. “Qualified property” must be tangible property, which includes: 20-year or less MACRS property, depreciable computer software, water utility property, and qualified film, television, or live theatrical productions. Due to a drafting error, TCJA removed qualified improvement property from the definition of qualified property, therefore making it ineligible for 100% bonus depreciation. The House Ways and Means Committee is expected to address this error in a technical corrections bill.

The allowance for 100% bonus depreciation actually started before the beginning of 2018; any property bought and placed into service after September, 27 2017 qualifies for the 100% deduction. A separate set of rules exist for property bought before September 28, 2017 not put into service immediately. If such property was put into service prior to January 1, 2018, 50% bonus depreciation is allowed. If such property was put into service during 2018, 40% bonus depreciation is allowable; the allowable deduction drops to 30% for property put into service in 2019, and for each following year the allowable deduction is zero. Some businesses including regulated utility businesses, electing real property and farming businesses can’t use bonus depreciation. All taxpayers have the choice to opt out of bonus depreciation and instead use MACRS or ADS, but the election must be made for all property of the same class if put into service in the same year.

Section 179 Expensing Investment Interest

Code Section 179 is similar to the bonus depreciation rules discussed above and can be used as an alternative. Even with the similarities there are key differences in Code Section 179.

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Section 179 is restricted to a \$1,000,000 deduction, as opposed to the unlimited allowance for bonus depreciation. The Section 179 deduction limit is also reduced if a taxpayer puts more than \$2,500,000 of qualified property into service in a single year, there is no such limit on the allowance for bonus depreciation. In addition, Section 179 expenses for a single year can never surpass the income from a business in the year the property was put into service. A side note, estates and trusts are disallowed from using the Section 179 election.

Many feel that there are no advantages compared to bonus depreciation. For the most part, they are correct; however, not all tangible property qualifies for bonus depreciation, this is where the advantages of the Section 179 election lie. An advantage to Section 179 comes in states where bonus depreciation is disallowed; Section 179 will at least allow those taxpayers to claim some depreciation on property put into service during the year. Qualified real property is covered only by Section 179 and includes: roofs, heating, ventilation, air conditioning, fire protection, alarm systems, and security systems. All of these qualified real property items have a recovery period greater than 20 years. Though Section 179 is not as useful as the 100% bonus depreciation allowance it

still provides some valuable help in specific situations.

Automobile Depreciation

The TCJA also updated the maximum depreciation deduction for cars, light trucks, and SUVs. The updated deductions are \$10,000 for first year, \$16,000 for second year, \$9,600 for third year, and \$5,760 for all subsequent years. If a taxpayer claims 100 percent bonus depreciation, the maximum deductions are \$18,000 for the first year, \$16,000 for the second year, \$9,600 for the third year, and \$5,760 for all subsequent years. Also, the Section 179 election allows for a \$25,000 deduction for the year in which an SUV was placed into service.

Modifications to the Like-Kind Exchange Rules

Prior to the TCJA, the like-kind exchange rules encompassed both real and personal property. The introduction of the TCJA eliminated personal property from being considered a like-kind exchange. Although tangible personal property is no longer considered for like-kind exchanges, this might be beneficial to the taxpayer. Yes, gain must now be recognized for tangible personal property, but with the use of the bonus depreciation rules, most of the gain recognized can be recovered. Another benefit to the rule change is if the basis in property sold is larger than the fair market value of the property

a loss is now allowable. A downfall of the like-kind exchange rule appears when property is exchanged that does not qualify for bonus depreciation or the section 179 election. This type of property includes intangible property, which can be amortized over a 180-month period or based on their expiration dates. Another disadvantage appears when related parties exchange intangible property, this will always be treated as ordinary income. The TCJA also added items to the list of intangible property that cannot be considered capital assets which includes: patents, inventions, models, designs, secret formulas, and processes. However, there is a loophole for patents; Section 1221 states a patent cannot be a capital asset to the creator, but then Section 1235 states gain on the sale of a patent by its creator is a capital gain, although the patent is not a capital asset. Thus, Section 1235 takes priority over Section 1221.

New Rules for Interest Expense

Interest expense is defined as the amount paid for use of borrowed funds and can be classified by the way loan proceeds are used. The tax treatment of interest expense

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depends on the type of interest expense that is paid or accrued.

Interest expense is classified as one of five types: qualified student loan interest, qualified residence interest, investment interest, business interest, and personal interest. The Tax Cuts and Jobs Act of 2017 has introduced new rules that apply to the tax treatment of certain types of interest expense. With the new rules, timing issues arise for taxpayers and their advisors on when to deduct qualified residence interest, investment interest, and business interest.

Qualified Student Loan Interest

Qualified student loan interest is discussed in detail in Section 221 of the IRC, a maximum of up to \$2,500 of interest on qualified student loans is deductible for AGI. To be considered a qualified student loan: it must be used for qualified educational expenses that are paid within a reasonable time frame, it must be used for the taxpayer, the spouse of the taxpayer, or a dependent of the taxpayer, and the student must be at least half-time in a degree seeking program. For the 2018 tax year, phaseouts for the deduction are between \$65,000 & \$80,000 for non-married filing joint (non MFJ) taxpayers, and \$135,000 & \$165,000 for married filing joint (MFJ) taxpayers. Also note, the deduction is not available to

taxpayers who file as married filing separately (MFS).

Qualified Residence Interest

Qualified residence interest (QRI) is discussed in Section 163 of the IRC, defined as; mortgage interest on a qualified residence, (the principal residence of the tax payer & one other residence used by the tax payer), is deductible from AGI as an itemized deduction. The first type of QRI, acquisition indebtedness, is debt incurred to acquire, construct, or substantially improve a qualified residence, and is secured by the qualified residence. The other type of QRI, home-equity indebtedness, is defined in the negative as any debt that is not acquisition indebtedness and must also be secured by a qualified residence. The Tax Cuts and Jobs Act has revised some of the rules regarding how to account for QRI. Under the new law, the allowable deduction has been reduced from \$1,000,000 to \$750,000 of interest on acquisition indebtedness for all non-MFS taxpayers and from \$500,000 to \$375,000 for MFS taxpayers. Additionally, beginning in the 2018 tax year, the deduction for interest on home-equity indebtedness is suspended unless it is used to buy, build, or improve a QRI.

Investment Interest Expense

Investment interest expense is discussed in detail in Section 163 of the IRC, defined as; any

interest expense that is paid or accrued on debt allocable to property held for investment. Investment interest expense was deductible from AGI as an itemized deduction up to the amount of net investment income (NII). If investment interest expense exceeded NII, the excess could be carried forward to future tax years. With the introduction of the Tax Cuts and Jobs Act, miscellaneous itemized deductions are no longer deductible. Thus, investment expenses are no longer deductible.

Business Interest

Business interest is discussed in Section 163 of the IRC, defined as interest paid or accrued on indebtedness that is properly allocable to a trade or business and deductible for AGI. The Tax Cuts and Jobs Act has limited the allowable deduction beginning in the 2018 tax year. A business can deduct its business interest to the extent of: business interest income, 30% of business adjusted taxable income, and the business's floor plan financing interest. There is an exception to the floor plan in interest paid not related to motor vehicles used on public street or highways; boats; or farm machinery.

Any excess amount may be carried forward to future tax years. The limitation does not

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apply to small taxpayers, which are defined as taxpayers with average annual gross receipts of \$25 million or less for the three-year period ending with the prior tax year.

Deductibility of Meals and Entertainment Post TCJA

Before the TCJA, 50% of meals and entertainment expenses, under certain circumstances, were deductible. The requirements, outlined in former Sec. 274(a)(1) were: the expenditure be “directly related to” or “associated with” the conduct of the taxpayer’s trade or business,

where the expenditure either “directly preceded or followed a substantial and bona fide business discussion.”

Regulations issued by Treasury broadly defined “entertainment” as “any activity which is of a type of generally considered to constitute entertainment, amusement, or recreation, such as entertaining at night clubs, cocktail lounges, theaters, country clubs, gold and athletic clubs, sporting events, and on hunting, fishing, vacation and similar trips, including such activity relating solely to the taxpayer and the taxpayer’s family” (Regs. Sec. 1.274-2(b)(1)(i)).

Before the TCJA, the focus was on whether the “directly related to” or “associated with” points of the requirement were satisfied. The TCJA removed “directly related to” and “associated with” phrases from the statute. Now, it simply states, “No deduction otherwise allowable under this chapter shall be allowed for any item – with respect to an activity which is of a type of generally considered to constitute entertainment, amusement, or recreation” (Sec. 274(a)(1)).

The chart below summarizes the deductibility of meals and entertainment:

Category	Old Law	Amounts Paid or Incurred After December 31, 2017
Entertainment expenses. Entertainment expenses that are related to the active conduct of the taxpayer's trade or business. <i>Illustration: Sporting event tickets; expenses at night clubs, theaters, country clubs, and other purely entertainment related charges that are directly related to the taxpayer's business and can be properly substantiated</i>	50% Deductible	Nondeductible
Business meals with clients and prospects: Meals (no entertainment included) furnished for a client or prospective client are 50% deductible as long as the expenditures are directly related to or associated with the active conduct of the taxpayer's trade or business. <i>Illustration: A partner at a law firm treats a potential client to lunch and discusses matters directly related to business between the two.</i>	50% Deductible	50% Deductible; specific requirements are: 1. The expense is ordinary and necessary under §162(a); 2. The expense is not lavish or extravagant under the circumstances; 3. The taxpayer, or an employee of the taxpayer is present, the food and beverages are provided to a current or potential business customer, client, consultant, or similar business contact, and; 4. The food and beverages are purchased separately from any entertainment.
Food and Beverage for Employees for the Convenience of the Employer: The value of any meals furnished to an employee on behalf of the employer on the business premises are fully deductible. <i>Illustration: Meals provided by an employer for employees working overtime. Meals provided at a company cafeteria or dining room.</i>	Fully Deductible	Employee Meals Provided on Behalf of the Employer are Now 50% Deductible and will be Nondeductible after 2025
Food and Beverage for Employees Classified as De Minimis Fringe: Food or beverage expenses that are excludable from the gross income of the recipient under § 132(e) are fully deductible. <i>Illustration: Coffee, water, and snacks provided by the employer on the premises</i>	Fully Deductible	De Minimis Fringe Meals are Now 50% Deductible and will be Nondeductible After 2025

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Category	Old Law	Amounts Paid or Incurred After December 31, 2017
<p>Recreational, Etc., Expenses for Employees. The cost to an employer of recreational activities or facilities primarily for the benefit of his employees is exempt from the entertainment disallowance rules. Therefore, these expenses are fully deductible. <i>Illustration: Holiday parties, annual picnics, and company swimming pools, baseball diamonds, bowling alleys, and golf courses.</i></p>	Fully Deductible	Fully Deductible
<p>Employee Meals During Travel: Employee meals while away from home are 50% deductible. <i>Illustration: An employee's meals that are ordinary and necessary expenses of traveling away from home.</i></p>	50% Deductible	50% Deductible
<p>Employees, stockholder, etc. business meetings. Expenses incurred by a taxpayer which are directly related to business meetings of his employees, stockholders, agents, or directors. <i>Note: Meals are only deductible to the extent they are not lavish or extravagant under the circumstances. Also, the taxpayer must be present. Illustration: An employer provides lunch to employees during a sales</i></p>	50% Deductible	50% Deductible
<p>Meetings of Business Leagues, Etc. Expenses directly related and necessary to attendance at a business meeting or convention of any organization described in section 501(c)(6) and exempt from taxation under section 501(a). <i>Note: Meals are only deductible to the extent they are not lavish or extravagant under the circumstances. Also, the taxpayer must be present. Illustration: An employer provides lunch for a meeting with a real estate board which is exempt under 501(a).</i></p>	50% Deductible	50% Deductible
<p>Membership dues. Amounts incurred for membership in any club organized for business, pleasure, recreation, or other social purpose are not deductible. However, expenses incurred at a club, if related to an active trade or business, may be 50% deductible. <i>Illustration: An employer pays fees for membership at an area country club. These are not deductible. However, expenses spent inside the pro shop may be deductible if directly related to the taxpayer's business.</i></p>	Nondeductible	Nondeductible
<p>Expenses Treated As Compensation. Meals and entertainment expenses treated by the taxpayer as compensation paid to an employee are fully deductible. <i>Illustration: If an employer rewards an employee and spouse with an expense-paid vacation, the employer can deduct the expense to the extent the employer treats the expense as compensation and wages.</i></p>	Fully Deductible	Fully Deductible
<p>Reimbursed Expenses. Meals and entertainment expenses paid or incurred by the taxpayer in connection with the performance of services for another person under a reimbursement or other expense allowance arrangement with that other person are fully deductible. <i>Illustration: A consulting firm agrees to charge a client fees plus expenses. The consulting firm is then fully reimbursed for expenses at the end of the engagement. The reimbursed expenses are fully deductible to the consulting firm.</i></p>	Fully Deductible	Fully Deductible
<p>Items Available to the Public. The cost to the taxpayer of goods, services, and facilities made available to the general public are fully deductible. <i>Illustration: A company offers complementary coffee and mints in its lobby</i></p>	Fully Deductible	Fully Deductible
<p>Expenses Includible in Income of Persons Who Are Not Employees. The rule barring the deduction of expenses for entertainment, amusement, or recreation doesn't apply if the recipient of the entertainment, amusement, or recreation isn't the taxpayer's employee, to the extent that those expenses are includible in the recipient's gross income. <i>Illustration: Entertaining a nonemployee or an individual working for the taxpayer as an independent contractor. To gain the benefit of § 274(e)(9), the taxpayer must report the item on an information return</i></p>	Fully Deductible to the Extent the Expenses are Reported as Income	Fully Deductible to the Extent the Expenses are Reported as Income

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