CLIENTTELL

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ANNOUNCING OUR NEWEST PARTNER

BY ANDY HATFIELD

It's my honor and pleasure to announce Jeremy Wright as the newest BCS partner. Jeremy has been with the firm since January 2014 and currently leads our MAS (Managed Accounting Services) Department. Demonstrating outstanding leadership in his internal role within the Firm, he exemplifies each of our four core values: Balance, We before Me, Premier Service and Stewardship.

Both employees of BCS and his clients would tell you that Jeremy has a true servant's heart. This is very evident with how he serves his clients on a daily basis, showing genuine care and dedication

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to being a true trusted advisor. Jeremy is also very diligent and intentional with how he trains and leads BCS staff. In addition to being a great leader at BCS, Jeremy gives back his time and talents to help various organizations in our community. Jeremy is a dedicated husband and father of three beautiful kids.

I speak on behalf of all existing BCS partners when I say we are truly blessed to have Jeremy Wright as part of the BCS family and honored to now call him Partner. We look forward to seeing how his career continues to evolve and flourish. ◆

What is a Not-for-Profit Entity?

BY KIM BUCKLES

The key component in setting not-for-profit entities apart from other businesses is that all of its money is utilized in pursuing goals and maintaining operations, rather than distributing profits to its members or owners. Not-for-profit and nonprofit are terms that are often used interchangeably when referring to entities. However, nonprofits are only a type of not-for-profit entity that explicitly functions for the benefit of the public good.

Typically, not-for-profit entities are also characterized by their revenue sources, taxation status, governance structure, and additional compliance components.

Risks and Challenges

Not-for-profit entities are not immune to the many business risks that threaten all types of entities; they are also vulnerable to many risks specific to the general structure or environment in which a not-for-profit operates. These risks can be loosely categorized into four classifications: internal forces, environmental factors, resources, and security.

Internal Forces

Internal forces are considered to be the issues within an organization that have direct impacts upon operations, performance, and decision-making; while these factors pose the greatest risk, management and governance can most-effectively enact change to mitigate these risks. Such areas that pose risks for not-for-profits include employee satisfaction and turnover, board members, volunteers, performance metrics, and fraud. Each of these areas of risk can largely be addressed by ensuring that the right people are involved, company culture is at the forefront, and training is administered appropriately across the board.

Environmental Factors

Environmental factors encompass influences on an entity's business from outside forces; these types of activities or bodies are not within an entity's realm of control, so mitigation of these risks are more often reactionary than preventative. Economic uncertainty and conditions, political uncertainty, and constantly changing compliance and reporting requirements are all components of the environment that may impact an entity to varying degrees; with often unpredictable and spontaneous waves flowing through these avenues, preparedness and adaptability will be an entity's best friend in ensuring favorable resilience of the not-for-profit business.

Resources

Resource risks are largely tied to the environmental factors, as many revenue streams depend on grants being awarded and donor propensity to give. With variability in fund availability, a proactive and adaptable financial plan is the most important aspect in ensuring stability and longevity. Staying up to date on changes and communicating throughout the entity will assist in this process.

Security

Security risks threaten a not-for-profit entity via conflicts of interest, technology vulnerabilities, fraud, and giving and e-commerce platforms; several of these are strongly linked to a growing reliance on technology systems, so an entity must make adequate protection a priority. Not-for-profits are often at a higher risk for breaches due to budget limitations, size of entity, and volume of sensitive information. Investing in preventative measures will reduce time and money required to react, recover, and remediate in the occurrence of a breach.

Compliance and Reporting

For a not-for-profit entity to qualify for tax exemption, the entity must file a 1023 form within 27 months of formation and be organized and operate for one or more purposes detailed in the internal revenue code. Despite qualifying for tax-exempt status, these entities are still required to file an informational tax return annually, which is referred to as Form 990. This form is due on the 15th day of the 5th month following the entity's fiscal year-end. There are 5 variations of the 990 form that may apply to the entity: 990-N, 990-EZ, 990, 990-T, and 990-PF; each of these classifications relies on levels of gross receipts and assets, unrelated business income, or entity type.

Certain not-for-profit organizations are required to obtain an independent audit of the financial statements due to language in the by-laws, status as a national organization, state or federal requirements, or loan or debt covenants. Financial statements subject to audit include the statement of financial position, statement of activities, statement of functional activities, and statement of cash flows, along with additional required disclosures. Depending on type and amount of grant funds expending during the course of the fiscal year, additional audit procedures, referred to as a single audit, may be required to examine those transactions and internal controls applied to utilization of the grant funds. ◆

Salary Threshold Increase Invalidated

BY MELISSA CROCKETT

A federal judge in Texas invalidated the United States Department of Labor's (DOL) rule that raised the minimum salary levels under the Fair Labor Standards Act (FLSA) "white collar" exemptions on November 15, 2024. The DOL had proposed an increase in the salary level, in order to be classified as exempt, to $1,128.00 per week ($58,656 per year) effective January 1, 2025. This proposal WILL NOT go into effect. The U.S. District Court for the Eastern District of Texas also struck down the July 1, 2024 increase to $844.00 per week ($43,888 per year).

- The July 1, 2024 increase is nullified, the salary threshold will revert to $684 per week ($35,568 per year). Employers may continue to classify white-collar employees as exempt as long as they satisfy the applicable duties test and earn at least $35,686 annually ($107,432 for Highly Compensated Employees).
- The court found that the DOL exceeded its authority by setting salary thresholds that potentially overshadow the duties test for exempt status, which remains central to the FLSA's overtime exemptions. The court also stated the final rule's automatic "escalator" provision, which would have increased the threshold every three years going forward, was also unlawful.

Next Steps?

- Employers who previously adjusted salaries or the exemption status of employees to meet the July 1, 2024 salary level might choose to maintain these adjustments to avoid disruptions. Reverting back to previous salaries could impact employee morale and/or may violate state laws in some jurisdictions. Employers may want to wait and see what potential appeals come about or how the new administration under Trump will respond before making any major changes.
- This is a great opportunity for employers to review their exemption classifications to ensure compliance with both the salary threshold and duties test.
- Employers need to be aware of state salary threshold requirements that are higher than the Federal requirement. ◆

Casualty Loss FAQ - Individuals

BY BRIAN CRUTCHFIELD

In the last month, residents of the southeastern United States have faced unprecedented losses in the aftermath of Hurricane Helene. Read on to learn about casualty and disaster losses and how they may affect your tax returns. If you have questions about casualty and disaster losses or believe you may qualify, please contact us.

What are individual casualty and disaster losses?

Personal casualty losses are losses from casualty, disaster, and theft that are not connected to a trade or business or a transaction entered into for profit. In general, for tax years 2018 through 2025, if you are an individual, casualty or theft losses of personal-use property are deductible only if the loss is attributable to a federally declared disaster.

There are three (3) types of deductible casualty losses available for individuals: federal casualty losses, disaster losses, and qualified disaster losses.

- Federal casualty losses allow individuals to deduct losses even if they are not located in a county eligible for public and/or individual assistance ("disaster area") as long as the loss can still be attributed to the federally declared disaster. The loss must still occur in a state that received a federal disaster declaration.
- Disaster losses are losses that are attributable to a federally declared disaster and that occur in an area eligible for assistance pursuant to a Presidential declaration. The disaster loss must occur in a county eligible for public and/or individual assistance.
- Qualified disaster losses are losses that are attributable to specific disasters that occurred in 2016-2017 and all Major Disaster declarations from 2018-present. Hurricane Helene qualifies as a Major Disaster in most affected states, including Tennessee, North Carolina, and Virginia. Qualified disasters are subject to special rules which remove limitations based on income and other itemized deductions. Individuals must have sustained a loss in a county eligible for public and/or individual assistance.

1. How are individual casualty losses claimed?

- Federal casualty losses are claimed on Form 4684 with your tax return. If the loss is attributable to a federally declared disaster but is not in a county eligible for public and/or individual assistance, the loss must be claimed in the year of the disaster, unless you have an outstanding claim for reimbursement and you are not sure if it will be reimbursed. In that case, the loss is claimed in the year that you become reasonably certain it will be reimbursed.
- Disaster losses are also claimed on Form 4684 with your tax return. If your loss is attributable to a federally declared disaster and is in a county eligible for public and/or individual assistance, you can elect to claim the loss either in the disaster year OR the year prior to the disaster year on an amended return. If elected, the amended return must be filed no later than October 15th of the year following the original due date. For example, amended 2023 returns claiming a disaster loss for a disaster occurring in 2024 are due October 15th, 2025.

2. How are casualty losses calculated, and what are the limitations?

- Casualty losses are calculated by determining the decrease in fair market value of the property, subtracting insurance proceeds or other reimbursements, combining all resultant losses attributable to the same event, subtracting $100 per event, and then subtracting 10% of your adjusted gross income (AGI). The loss is then combined with other itemized deductions on Schedule A.
- There is no limit to the amount of casualty loss that can be claimed in a given tax year; however, if your itemized deductions, including your casualty loss deduction, exceed your income, you may have an individual "net operating loss" (NOL) which must be carried forward to future tax year(s). Casualty losses are one of the few nonbusiness items which can create an NOL.
- Qualified Disaster Losses (defined earlier) receive special, more advantageous treatment. There is no 10% of AGI reduction AND losses may be taken without itemizing deductions. However, a $500 per event reduction applies instead of $100. Losses attributable to Hurricane Helene sustained in a state with a Major Disaster declaration and a county eligible for public and/or individual assistance are eligible for this treatment.

3. What types of property are eligible for casualty losses, and how do I determine the decrease in fair market value?

- You can claim a casualty loss on personal-use residential real property and any personal belongings. There are IRS-defined safe harbor methods for determining the decrease in fair market value, which can be found in IRS Revenue Procedure 2018-08 (https://www.irs.gov/pub/irs-drop/rp-18-08.pdf). These safe harbors may depend on the type of property and whether the loss is sustained in a "disaster area," defined as occurring in a county eligible for public and/or individual assistance. If one of the safe harbors is used to determine your loss, the IRS will not challenge your determination of the decrease in fair market value. You can alternatively elect to use the actual reduction in fair market value pursuant to the income tax regulations, but you must have substantiation for your calculation. Consult your tax advisor for the proper method in your specific situation.
- The IRS also provides a workbook to assist in keeping track of personal-use property (https://www.irs.gov/pub/irs-pdf/p584.pdf).

4. What if my insurance proceeds and/or other reimbursements exceed my cost or basis of loss property?

In this case, you have a gain from casualty or theft. These are reported as capital gains on Schedule D. However, you may be able to postpone recognition of the gain if you purchase property similar or related in service or use to the damaged, destroyed, or stolen property within two (2) years. Additionally, gains on principal residences may qualify for special exclusions under Internal Revenue Code Section 121 if the residence was "completely destroyed" in the casualty. Consult your tax advisor for determination of rules in your specific situation. ◆

Casualty Loss FAQ - Businesses

BY CAMERON PHILLIPS

In the last month, residents of the southeastern United States have faced unprecedented losses in the aftermath of Hurricane Helene. Read on to learn about casualty and disaster losses and how they may affect your tax returns. If you have questions about casualty and disaster losses or believe you may qualify, please contact us.

What are business casualty and disaster losses?

Casualty losses are sustained when property is destroyed or damaged resulting from fire, storm, shipwreck, or another casualty. Casualty losses can also occur when property is taken by theft, including burglary, robbery, embezzlement, and similar crimes. A casualty loss is considered a business casualty loss when the damaged property was connected to a trade or business, or any transaction entered into for profit. Unlike with personal property casualty losses, business casualty losses are generally deductible in the year in which they occur.

Business disaster losses are losses attributable to a federally declared disaster and occur in a federally declared disaster area. Federally declared disasters are determined by the President of the United States to authorize assistance by the federal government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act. A federally declared disaster includes a major disaster declaration or an emergency declaration. Federally declared disaster areas are locations eligible for individual or public assistance resulting from the Presidential declaration.

1. When are business casualty and disaster losses deducted?

Casualty losses and disaster losses can both be deducted in the year that the loss occurs. However, taxpayers can elect to deduct a disaster loss in the immediately preceding tax year under Internal Revenue Code section 165(i). For example, if a disaster loss occurs in 2024, taxpayers can elect to deduct this loss on their 2023 tax return rather than on their 2024 tax return. Taxpayers can amend a previously filed return if choosing to make the election under section 165(i).

2. What is the amount of loss allowable?

Generally, a business casualty loss is the lesser of (a) a taxpayer's adjusted basis in their property or (b) the difference in fair market value of the property immediately before and immediately after the casualty event. However, if the property is completely destroyed, the decrease in fair market value is not considered and the loss amount is the adjusted basis of the property. Loss amounts must be reduced by any salvage value or insurance reimbursements that you receive or expect to receive.

Adjusted basis generally means the original cost of the property plus improvements, minus depreciation allowed or allowable, amortization, depletion, etc. Adjusted basis does not include the cost of replacing the property. The IRS defines fair market value as the price for which you could sell your property to a willing buyer when neither of you has to sell or buy and both of you know all the relevant facts. To figure the decrease in fair market value you generally need a competent appraisal, or you may use the cost of repairing the property if certain conditions are met.

3. What if I have damaged or destroyed inventory?

There are a couple of ways to deduct a casualty loss of inventory. First, the loss of inventory can be deducted through an increase in cost of goods sold by properly reporting the beginning and ending inventory balances. If this method is used, the loss is not to be claimed anywhere else as a casualty loss, and any insurance or other reimbursements received should be included in gross income.

The other way to deduct a casualty loss of inventory is to deduct the loss separately. This is achieved by an adjustment to opening inventory or purchases to remove the affected inventory items. If this method is used, do not include insurance or other reimbursements in gross income. Instead, reduce the amount of the inventory adjustment by the reimbursement received.

If your inventory loss is both attributable to a federally declared disaster and located in a federally declared disaster area you may elect to deduct the loss on the return for the immediately preceding year. However, your opening inventory balance should be adjusted for the year of the loss to prevent the deduction from being counted twice.

4. What is a casualty gain?

If you receive insurance proceeds or other reimbursements that exceed the adjusted basis of the destroyed or damaged property, you could have a gain from the casualty event. The gain is calculated by taking the amount received minus the adjusted basis in the property at the time of the casualty event. The amount received includes any money or property received, including any reimbursement used to pay off a mortgage or other lien, minus any expenses incurred to receive the reimbursement.

For example, your business building was destroyed in a flood event, and insurance awarded you a payment of $100,000. You received $80,000 in cash and the remaining $20,000 was used to pay off the outstanding mortgage on the property. The amount you received is the entire $100,000 insurance payment, even though the amount of cash directly received was $80,000.

5. Do I have to pay tax if I have a casualty gain from reimbursements?

Whether or not your gain is required to be reported is often dependent on the type of reimbursement received. A gain is not reported if you receive reimbursement in the form of property that is similar or related in service or use to the property that was destroyed. The IRS deems any tangible replacement property acquired for use in a business to be similar or related if your destroyed property was located in a federally declared disaster area.

You must generally recognize gain on destroyed property if you receive money as reimbursement. However, you can postpone reporting the gain if you purchase property that is similar or related in service to the destroyed property with a specified replacement period. You can also postpone reporting the gain to damaged property if you spend the reimbursement to restore what was damaged. To postpone the entire gain, the cost of replacement property must be equal to or more than the reimbursement received. If the cost of replacement property is less than your reimbursement, a gain is reported for the reimbursement amount that was unspent.

6. How do I report gains or losses from a business casualty or disaster loss?

Casualty gains or losses on business and income-producing property are reported on Form 4684 Section B and on Form 4797. ◆

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GIVING BACK 2024

"use whatever gift you have received to serve others"

1 Peter 4:10 NIV