



# CYPEN & CYPEN

## NEWSLETTER

for

## June 28, 2018

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Never Forget September 11, 2001  
and  
Always Remember May 2, 2011

### **1. PUBLIC SERVICE: IS IT STILL A CAREER CHOICE?:**

According to Jennifer Dowd, as younger generations contemplate what their career paths will look like, public service still remains an area of interest for many college students. But what does a career path for someone just entering the job market look like? Author Gayle Cinquegrani wrote an article recently for *Bloomberg* BNA describing the new modern worker. This persona values happiness and career development when considering a job or career choice. The article, *Workers are More Willing to Change Jobs*, points out that millennials, in particular, who do not find those values they are looking for are willing to

leave in pursuit of what really motivates them. So how do public employers embrace this new way of thinking? What can they do to continue to encourage careers in public service while adapting to a changing culture? The answer requires each agency to look at their current retention strategies and will likely be different for everyone. According to the paper, *Understanding Millennials in Government*, written by Peter Viechnicki of Deloitte Services, LP, governments should consider some strategies not geared towards generations, but rather lifetime milestones such as buying a car or starting a family. There are also particular benefits that may attract younger employees like student loan repayment assistance programs. In reality, committing to a lifelong career in public service is probably not what employees fresh out of college are prepared to do. Viechnicki goes on to say “governments may wish to develop different recruiting and career progression strategies, which allow them [Millennials with specific skill sets] to perform public service for shorter but still meaningful stints.” In other words, it is better to have them for some time rather than not at all. A strong succession strategy or knowledge transfer plan allows governments to adapt to this type of work style. *Governing*.

## **2. HOW DO U.S. TAXES COMPARE TO OTHER COUNTRIES?:**

Beverly Bird says that you might think that the federal government taxes you to death, not to mention state and local taxing authorities. But the U.S. is actually on the bottom end of the scale when compared to other developed nations. The Federal Reserve Bank of Chicago performed an analysis of income tax rates in 2017 and found that the U.S. ranked 32 on a list of 35 member countries of the Organization for Economic Cooperation and Development (OECD). The Tax Policy Center looked into the matter in 2015 and found that our taxes represent about 26 percent of the country’s gross domestic product. Compare this to the average for other member countries of the OECD, which is about 34 percent. Several European countries tax in excess of 40 percent of GDP. Ireland is one of only four countries with a lesser overall tax burden than the U.S. The others are Korea, Chile and Mexico. So who pays the most? Do not pack your bags and head for Denmark—residents there pay the highest percentage of GDP—or to France, Belgium or Finland either. Percentages of GDP are only one way to compare tax burdens. Think of this approach as the big picture. The issue changes a bit if you narrow the focus down to just income taxes. Income taxes charged to taxpayers, including businesses, comprising a pretty significant 49 percent of total U.S. tax revenues in 2015, and 40 percent derived

from individual taxpayers, not businesses. New Zealand, Australia, and Denmark ranked higher at over 50 percent. The average percentage among OECD nations was 24 percent. A single American earning about \$51,500 a year paid more than 25 percent of his gross pay in taxes, although this number includes Social Security and Medicare. But this is still less than the average among OECD countries, which came in at a little over 27 percent. Then there are the tax rates themselves—tax brackets. The top tax rate in the U.S. drops to 37 percent in 2018 under the provisions of the [Tax Cuts and Jobs Act](#) and only significantly wealthy individuals pay this much. The top rates were less in 12 countries. The highest individual income tax rate in Hungary is only 15 percent. One of the difficulties in comparing data from different countries is that it can be like measuring apples against oranges. Many countries with significant overall tax burdens funnel a good portion of their revenues back to the public in the form of government services that are at least marginally superior to those offered in the U.S. According to the Tax Policy Center, the U.S. imposes less in the way of “social program” taxes than the average for OECD countries—24 percent of our overall tax burden is representative of these programs compared to the average of 26 percent. These taxes include things like [Social Security](#) retirement and disability benefits as well as unemployment. Japan, on the other hand, impose taxes of this nature exceeding 40 percent, but that should be put into perspective. The nation does not tax unemployment compensation as the U.S. does. The Pew Research Center specifically analyzed these social program taxes in 2015 and found that citizens in 21 out of 39 countries paid more for social assistance than they did in income taxes. The U.S. had the eleventh lowest tax burden of this nature, but employer contributions were not included in the calculation. Excise taxes are those imposed on specific goods and services—think gasoline and cigarettes and the like. For the most part, these are imposed at the state and local levels and they are buried in the purchase price. Value-added taxes (VATs) are imposed by every OECD member country except the U.S., according to the Tax Policy Center, and whether the U.S. should be imposing this tax is a matter of some debate. The U.S. imposes far less in taxes on goods and services than any other OECD nation—17 percent of its revenue comes from this source compared to an average of 32 percent. This is largely attributed to the fact that it does not have a national-level VAT. Interestingly, France—which ranked second behind Denmark on the Tax Policy Center’s list of highest taxes as a share of GDP—is largely credited with creating the VAT back in the 1950s. China announced in March 2018 that it was reducing its VAT rates by 1

percent effective May 2018. It is said that time is money, so it bears mentioning that the U.S. has one of the most complicated tax filing systems among developed nations. According to T.R. Reid, author of *A Fine Mess: A Global Quest for a Simpler, Fairer, and More Efficient Tax System*, U.S. taxpayers collectively spend about six billion hours preparing and filing their returns every year. The average in Japan is about 15 minutes per person—a pretty significant difference. Americans fork over about \$10 billion annually to professional tax preparers in an effort personally to avoid as much of this onerous task as possible. And this figure does not count the approximate \$2 billion that is spent on tax preparation software for the same reason. Therefore, the next time you wince when you look at your paystub and see all those taxes that were deducted from your take-home pay, pause and take a deep breath. It could be worse. You could live and work in Denmark.

*The Balance.*

### **3. RISE AND FALL IN CASES PENDING AN ADMINISTRATIVE LAW JUDGE HEARING; NEW ACTUARIAL STUDY:**

The “great recession,” which began at the end of 2007 contributed to a rise in initial applications for Social Security disability benefits that peaked in 2010. This surge in initial applications led to a similar rise in appeals for a hearing before an Administrative Law Judge (ALJ). Because the surge in appeals for a hearing exceeded the capacity to complete hearings quickly, the number of cases that had appealed but were still pending an ALJ determination rose. In fact, the number of disability applicants with an ALJ hearing pending rose up to the end of 2016. However, with the improving economy, declining appeals, hiring more judges, additional funding provided by the Congress to address the hearings backlog in fiscal years 2017 and 2018, and implementation of the Compassionate and Responsive Service (CARES) plan, the number of cases pending an ALJ hearing declined in 2017, and is continuing to decline today. As the number of claimants pending an ALJ determination rose through 2016, so too did the number of these applicants who died while waiting rise. But with the number of applicants pending a hearing declining in 2017, so too did the number who died while waiting begin to drop. With continued low unemployment, and declining numbers of applicants and appeals to ALJs, we expect the numbers of applicants pending a hearing will continue to drop, as will the number of deaths among those waiting for an ALJ hearing. In Actuarial Note 159, “Probability of Death While Pending an Administrative Law Judge Determination,” that we

are releasing, we provide the number of applicants pending an ALJ determination and the number of these individuals who died while waiting for each year 2006 through 2017. We also provide the death rate among those pending an ALJ determination on an age-sex adjusted basis, and show that this death rate has changed little, declining slightly over these years. Finally, we compare the death rate among disability applicants pending an ALJ determination to the death rate of individuals at the same age and sex in the general population, and to the death rate of those individuals who have been determined to be disabled and are in their first 2 years of benefit entitlement. As a consequence of the strict requirements for severe medically determinable impairments, applicants for Social Security disability benefits tend to have higher death rates than the average persons in our population at the same age and sex. While the death rate for applicants pending an ALJ determination is two to three times as high as that for the general population, it is only about one-fourth as high as the death rate for workers who have been awarded disabled worker benefits, in their first two years of benefit entitlement. Posted on May 24, 2018 by Stephen C. Goss, Chief Actuary of Social Security Administration.

#### **4. SPECIAL TAX BENEFITS FOR ARMED FORCES:**

Members of the military and their families are often eligible for certain tax breaks. For example, members of the armed forces do not have to pay taxes on some types of income. Special rules could also lower the tax they owe or give them more time to file and pay taxes. No matter what time of the year, it is good for members of the military and their spouses to familiarize themselves with these benefits. Here are some things for these taxpayers to know about their taxes:

- **Combat Pay Exclusion.** If someone serves in a [combat zone](#), part or even all of their combat pay is tax-free. This also applies to people working in an area outside a combat zone when the Department of Defense certifies that area is in direct support of military operations in a combat zone. There are limits to this exclusion for commissioned officers.
- **Deadline Extensions.** Some members of the military, such as those who serve in a combat zone, can postpone most tax deadlines. Those who qualify can get automatic [extensions](#) of time to file and pay their taxes.
- **Earned Income Tax Credit.** If those serving get nontaxable combat pay, they may choose to include it in their taxable income to increase the amount of EITC.

That means they could owe less tax or get a larger refund.

- **Signing Joint Returns.** Normally, both spouses must sign a joint income tax return. If military service prevents that, one spouse may be able to sign for the other or get a power of attorney.
- **ROTC Allowances.** Some amounts paid to ROTC students in advanced training are not taxable. This applies to allowances for education and subsistence. Active duty ROTC pay is taxable. For instance, pay for summer advanced camp is taxable.

IRS Tax Tip 2018-81, May 24, 2018

##### **5. AMAZON STUDY OF “MOST ENTREPRENEURIAL STATES” RANKS FLORIDA 7<sup>th</sup>:**

Amazon has revealed the top 10 most entrepreneurial states, with the most small and medium-sized businesses *per capita* selling on Amazon. Millions of small and medium-sized businesses worldwide sell their products through Amazon to reach new customers around the world, and hundreds of thousands of them are in 10 U.S. states – spanning the country from Oregon to Florida. To learn more about small and medium-sized businesses selling on Amazon. “It is exciting to see Utah at the top of our list ahead other great entrepreneurial states like California and New York,” said Nicholas Denissen, vice president at Amazon. “From incredible handmade artisans to small businesses inventing sustainable and eco-friendly products, there are thousands of Utah-based businesses demonstrating a tremendous entrepreneurial spirit — more per capita than in any other state. More than 300,000 small and medium-sized businesses from across the U.S. that started selling on Amazon in 2017, and we are working hard to help them all keep growing.” Here are the Top 10 Most Entrepreneurial States right now:

1. Utah
2. California
3. New York
4. Colorado
5. New Jersey
6. Washington
7. Florida
8. Delaware

9. Massachusetts

10. Oregon

“Selling on Amazon has made my Utah-based home business possible,” said Christine Krogue, Mama Moon Boutique. “Amazon customers make up 99 percent of my business and have allowed me to grow my business to a multi-million dollar company, hire additional stay-at-home moms in my neighborhood and make a difference in the lives of my partners in Nepal.” Thanks to entrepreneurs like Christine, half of the items sold on Amazon worldwide are from small and medium-sized businesses, many of whom also choose to use Fulfillment by Amazon (FBA) to tap into Amazon’s global logistics network and make their items Prime eligible. Small and medium-sized businesses on Amazon come from every state in the U.S. and more than 130 countries around the world. *Florida Small Business*.

#### **6. TIPS TO KEEP IN MIND ON INCOME TAXES AND SELLING A HOME:**

Taxpayers who sell a home may qualify to exclude from their income all or part of any gain from the sale. Below are some things taxpayers should keep in mind when selling a home:

**Ownership and use.** To claim the exclusion, the homeowner must meet the ownership and use tests. During a five-year period ending on the date of the sale, the homeowner must have:

- Owned the home for at least two years.
- Lived in the home as their main home for at least two years.

**Gain.** Taxpayers who sell their main home and have a gain from the sale may usually be able to exclude up to \$250,000 from their income or \$500,000 on a joint return.

Homeowners who can exclude all of the gain do not need to report the sale on their tax return.

**Loss.** Taxpayers experience a loss when their main home sells for less than what they paid for it. This loss is not deductible.

**Reported sale.** Taxpayers who cannot exclude the gain from their income must report the sale of their home on a tax return. Taxpayers who choose not to claim the exclusion must report the gain on a tax return. Taxpayers who receive a [Form 1099-S](#), Proceeds from

Real Estate Transactions, as part of the real estate transaction must also report the sale on their tax return.

**Mortgage debt.** Some taxpayers must report forgiven or canceled debt as income on their tax return. This generally includes people who went through a mortgage workout, foreclosure, or other process in which a lender forgave or canceled mortgage debt on their home. Taxpayers who had a written agreement for the forgiveness of the debt in place before January 1, 2017, might be able to exclude the forgiven amount from income.

**Possible exceptions.** There are [exceptions to these rules](#) for persons with a disability, certain members of the military, intelligence community and Peace Corps workers, among others.

**Worksheets.** Worksheets included in [Publication 523](#), Selling Your Home, can help taxpayers figure the:

- Adjusted basis of the home sold.
- Gain or loss on the sale.
- Excluded gain on the sale.

**Multiple homes.** Taxpayers who own more than one home can only exclude the gain on the sale of their main home. They must pay taxes on the gain from selling any other home.

**Tax credit.** Taxpayers who claimed the [first-time homebuyer credit](#) to purchase their home have [special rules](#) that apply to the sale. Taxpayers can use the [First Time Homebuyer Credit Account Look-up](#) to get account information, such as the total amount of their credit or repayment amount.

Tax Tip 2018-83, May 30, 2018

## 7. NEW OFFICE ADDRESS:

Please note that Cypen & Cypen has a new office address: Cypen & Cypen, 975 Arthur Godfrey Road, Suite 500, Miami Beach, Florida 33140. All other contact information remains the same.

## 8. LEXOPHILES:

What do you call a dinosaur with an extensive vocabulary? A Thesaurus.

## 9. INSPIRATIONAL QUOTES:

If you do not like something, change it. If you cannot change it, change your attitude. -  
Maya Angelou

**10. TODAY IN HISTORY:**

On this day in 1919, Treaty of Versailles, ending WWI and establishing the League of Nations, is signed in France.

**11. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT  
BENEFIT.**