



CYPEN & CYPEN

NEWSLETTER

for

September 13, 2018

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

1. IRS LAUNCHES NEW EASY-TO-USE WEB PAGES TO HELP ALL TAXPAYERS UNDERSTAND TAX REFORM:

With an updated tax reform section and frequent updates, the [IRS website](#) should be the first stop for taxpayers looking for information about how tax reform legislation – the Tax Cuts and Jobs Act – affects their taxes. Here are some facts about these new easy-to-read, easy-to-use pages and what taxpayers can find on them:

- The IRS.gov/taxreform page features three sections -- one for each type of taxpayer:
 - [Individuals](#)
 - [Businesses](#)
 - [Tax Exempt Entities](#)
- The Individuals page shares information about:
 - Withholding – How the IRS Withholding Calculator can help taxpayers perform a [“Paycheck Checkup.”](#)
 - Credits – Changes to the child tax credit, additional child tax credit, and information about the new credit for other dependents.
 - Deductions – The law changed standard and itemized deductions.
 - U.S. Armed Forces members – Tax reform updates about combat zone benefits and moving expenses.
- The Businesses page is for businesses of any size. It includes links to these topics:
 - Income – including gains and losses
 - Deductions and depreciation
 - Credits
 - International
 - Taxes
- The Tax Exempt and Government Entities page highlights how the law affects retirement plans, charities and governments.
- From the left side of IRS.gov/taxreform, users can also find direct links to:
 - News – Quick access to tax reform news releases and fact sheets.
 - Guidance – Revenue procedures and rulings, regulations and notices.
 - Forms and Instructions – Users can search for the latest version of documents they need.
 - Resources – Products and tools that employers and other organizations can use to help educate taxpayers about tax reform. Products include FAQs, drop-in articles, videos, publications and tax reform tax tips.

Users can get to the tax reform section of the IRS web page by:

- Clicking the tax reform link from the [IRS.gov](https://www.irs.gov) home page or [Newsroom](https://www.irs.gov/newsroom)
- Entering [IRS.gov/taxreform](https://www.irs.gov/taxreform) in their Web browser address bar
- Searching tax reform from any IRS web page
- Tax Professionals can find a Tax Reform link in the [Tax Pros](https://www.irs.gov/taxpros) area on IRS.gov

IRS Tax Reform Tax Tip 2018-132, August 23, 2018.

2. FEDERAL BANKING AGENCIES ISSUE INTERIM FINAL RULE REGARDING THE TREATMENT OF CERTAIN MUNICIPAL SECURITIES AS HIGH-QUALITY LIQUID ASSETS:

Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency issued an interim final rule amending the agencies' liquidity rules to treat certain eligible municipal securities as high-quality liquid assets, as required by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (EGRRCPA). The EGRRCPA requires the agencies to treat a municipal obligation as a high-quality liquid asset (HQLA) under their liquidity coverage ratio rules if that obligation is considered "liquid and readily-marketable" and "investment grade." This interim final rule takes effect upon publication in the Federal Register, and comments will be accepted for 30 days after the interim final rule's publication in the Federal Register. [See Rule Here](#)

FDIC: [PR-49-2018](#), August 22, 2012.

3. IRS TO INTRODUCE NEW TAX TRANSCRIPT BETTER TO PROTECT TAXPAYER DATA:

Moving better to protect taxpayer data, the Internal Revenue Service announced a new format for individual tax transcripts that will redact personally identifiable information from the Form 1040 series. This new transcript replaces the previous format and will be the default format available via Get Transcript Online, Get Transcript by Mail or the Transcript Delivery System for tax professionals as of September 23. Financial entries will remain visible, which will give taxpayers and third-parties the data they need for tax preparation or income verification. Additionally, based on stakeholder feedback, the IRS also has created a new Customer File Number that lenders, colleges and other third parties that order transcripts for non-tax purposes can use as an identifying number instead of the

taxpayer's SSN. "Since the IRS joined in partnership with the states and tax industry in 2015, we have made great progress in our effort to combat stolen identity refund fraud. Our numbers are going in the right direction," said Acting IRS Commissioner David Kautter. "To maintain our progress, we continue to evaluate our policies and procedures on an ongoing basis. One area that we identified as in need of change was the individual tax transcript area. We believe the change we are announcing will better protect taxpayer data from unauthorized disclosure and theft." As the IRS has made inroads, criminals need more taxpayer details to better impersonate their victims, making the tax transcript a sought-after document. Criminals attempt to pose as taxpayers accessing their own account or as tax preparers or third parties requesting client information.

The following information will be provided on the new transcript:

- Last 4 digits of any SSN listed on the transcript: XXX-XX-1234
- Last 4 digits of any EIN listed on the transcript: XX-XXX-1234
- Last 4 digits of any account or telephone number
- First 4 characters of the last name for any individual
- First 4 characters of a business name
- First 6 characters of the street address, including spaces
- All money amounts, including balance due, interest and penalties

On September 23, the IRS also will post an updated Form 4506-T and Form 4506T-EZ, Request for Transcript of Tax Return, that will have a new Line 5b for a 10-digit Customer File Number. Legitimate third parties with a need for income verification or tax data often request taxpayers complete a Form 4506-T. As of September 23, third parties or taxpayers can create any 10-digit number, except for the taxpayer's SSN, for use as an identifier. The Customer File Number listed on the 4506-T automatically will be posted and visible on the requested tax transcript, allowing the third party to match the document to the taxpayer. A Customer File Number can be, for example, a loan account number. Line 5b is an optional line, intended for those third parties that request high volumes of transcripts. There is no change in the process for students seeking income verification through Free Application for Federal Student Aid (FAFSA) or disaster victims seeking FEMA assistance. Nor will business tax transcripts change. See "[About the New Tax Transcript: FAQs](#)" for additional details and see a sample of the new transcript format. IRS

Newswire, Issue Number: IR-2018-171.

4. GRAYING OF U.S. BANKRUPTCY: FALLOUT FROM LIFE IN A RISK SOCIETY:

A new white paper finds that the social safety net for older Americans has been shrinking for the past couple decades. The risks associated with aging, reduced income and increased healthcare costs, have been off-loaded onto older individuals. At the same time, older Americans are increasingly likely to file consumer bankruptcy, and their representation among those in bankruptcy has never been higher. Using data from the Consumer Bankruptcy Project, we find more than a two-fold increase in the rate at which older Americans (age 65 and over) file for bankruptcy and an almost five-fold increase in the percentage of older persons in the U.S. bankruptcy system. The magnitude of growth in older Americans in bankruptcy is so large that the broader trend of an aging U.S. population can explain only a small portion of the effect. In our data, older Americans report they are struggling with increased financial risks, namely inadequate income and unmanageable costs of healthcare, as they try to deal with reductions to their social safety net. As a result of these increased financial burdens, the median senior bankruptcy filer enters bankruptcy with negative wealth of \$17,390 as compared to more than \$250,000 for their non-bankrupt peers. For an increasing number of older Americans, their golden years are fraught with economic risks, the result of which is often bankruptcy. Authors are Deborah Thorne, Pamela Foohey, Robert M. Lawless and Katherine M. Porter.

5. HERE IS WHAT TAXPAYERS DO WHEN THEY HAVE TO FILE A NEW W-4:

The IRS reminds taxpayers to look into whether they need to adjust their paycheck withholding. Taxpayers who do need to adjust their withholding should submit a new [Form W-4](#), Employee's Withholding Allowance Certificate to their employers. Taxpayers can use the updated [Withholding Calculator](#) on IRS.gov to do a quick "paycheck checkup" to check that they're not having too little or too much tax withheld at work.

Among the groups who should check their withholding are

- Two-income families
- People working two or more jobs or who only work for part of the year
- People with children who claim credits such as the child tax credit
- People with other dependents who cannot be claimed for the child tax credit,

including children age 17 or older

- People who itemized deductions on their 2017 tax return
- People with high incomes and more complex tax returns
- People with large tax refunds or large tax bills for 2017

Here are a few things for taxpayers to remember about updating Form W-4:

- The Withholding Calculator will help determine if they should complete a new Form W-4.
- The calculator will help users determine the information to put on a new Form W-4.
- Taxpayers who use the calculator to check their withholding will save time because they do not need to complete the Form W-4 worksheets. The calculator does the worksheet calculations.
- Taxpayers who complete new Form W-4s should submit it to their employers as soon as possible. With withholding occurring throughout the year, it is better to take this step sooner, rather than later.

As a general rule, the fewer withholding allowances a taxpayer enters on Form W-4, the higher their tax withholding. Entering “0” or “1” on line 5 of the W-4 instructs an employer to withhold more tax. Entering a larger number means less tax withholding, resulting in a smaller tax refund or potentially a tax bill or penalty. Employees who have too little withheld are not paying enough taxes throughout the year, and they may face an unexpected tax bill or penalty when they file next year. People who have too much tax withheld will get less money in their regular paycheck. If those taxpayers change their withholding and enter more allowances on Form W-4, they will get more money in their paychecks throughout the year. Having a completed 2017 tax return and their most recent pay stub can help taxpayers work with the Withholding Calculator to determine their proper withholding for 2018 and avoid issues when they file next year. Taxpayers may also need to determine if they should make adjustments to their state or local withholding. They can contact their [state's department of revenue](#) to learn more. IRSTaxTip: Here's what taxpayers do when they have to file a new W-4. <https://go.usa.gov/xUHgM>. IRS Tax Reform Tax Tip 2018-128, August 17, 2018.

6. NUMBER OF WOMEN OWNED EMPLOYER FIRMS INCREASES:

Women-owned employer firms in the United States increased by approximately 2.8 percent in 2016 to 1,118,863 from 1,088,466 in 2015, according to findings from the U.S. Census Bureau's [2016 Annual Survey of Entrepreneurs](#). The data also show that women owned approximately 20.0 percent (1,118,863) of all employer businesses (5,601,758) nationwide. Additionally, about one-quarter (289,326 or 25.9 percent) of all women-owned employer firms were minority owned. More than half (approximately 153,177 or 52.9 percent) of these minority women-owned firms were Asian-owned. The [Annual Survey of Entrepreneurs](#) provides a demographic portrait of the nation's employer businesses by gender, ethnicity, race and veteran status. Tables provide estimates on the number of firms, receipts, payroll and employment for the nation, the states and the District of Columbia, and the 50 most populous metropolitan statistical areas. The Annual Survey of Entrepreneurs is being folded into the [Annual Business Survey](#). This new [survey](#) will include an innovation content module and replaces the [Survey of Business Owners](#), [Annual Survey of Entrepreneurs](#) and [Business Research and Development and Innovation Survey for Microbusinesses](#). These [data](#) are currently available on [American FactFinder](#). Data will be available on the Annual Survey of Entrepreneurs web page under "Data" and "ASE Tables" soon. For more information about the Annual Survey of Entrepreneurs, including survey design, methodology and data limitations, visit www.census.gov/programs-surveys/ase.html. Frances Alonzo, Public Information Office, 301.763.3030 / pio@census.gov. TIP SHEET: CB18-TPS.41, August 13, 2018.

7. HOW TO REBUILD WHEN DIVORCE DERAILS YOUR RETIREMENT:

Beth Pinsker reports that divorce crushed Dennis Nolte's retirement plans not once but twice. The first time, which was more than 20 years ago, "everything burned to the ground," Nolte said. He had to start over financially from scratch. The second divorce was rough, too, but he was better prepared. Giving up retirement assets can be one of the biggest psychological blows in a divorce. The other assets that couples typically divvy up, like a house and cash, are usually in joint accounts. When splitting pensions, IRAs and 401(k)s, which all require legal documents, couples can choose a straight 50-50 split or a more creative swap. When incomes and savings are equal, sometimes both parties just walk away with their own pots. No matter what, each spouse ends up with less money than they had been expecting to carry them through the rest of their lives together. Overall

in the United States, divorced households have about 30 percent less net worth than non-divorced households, and have a 7 percentage point higher risk of not having enough money to last through retirement, according to a new study from the Center for Retirement Research at Boston College. At first, "there's a lot of crying," says Michelle Buonincontri, a certified financial planner and certified divorce financial analyst based in Scottsdale, Arizona. Rebuilding your retirement nest egg after a divorce is complicated because qualified retirement plans have contribution restrictions. You might lose \$250,000 from your 401(k) in a divorce agreement, but you can only invest \$18,500 per year, or \$24,500 if you are over 50. And IRAs and Roths are limited to contributions of \$5,500 per year, with restrictions related to age and income. Pensions are walled off completely. A financial strategy as well as a bit of saving psychology will help you get back on your feet. What kept Nolte going is that he knew time was on his side after his first divorce, even though he had to cash in his whole retirement IRA for small business owners to maintain two households, pay lawyers and fund the divorce settlement. "At 40, you still have the benefit of compounding," said Nolte, who is now 61 and based near Orlando, Florida. Financial planner Rose Sanger had a high-income client who found himself in a similar situation -- he had to give up half of a seven-figure 401(k) balance in a divorce and was very down about it. Sanger suggested he continue to max out his current contributions in his retirement plan but also auto-deduct another couple of thousand of dollars and stash that money in a taxable investment account. "That helps build up an emergency fund and set aside money for savings," Sanger said. More than five years later, her client now has more than \$250,000 in his 401(k), and more than \$100,000 in his taxable account. The situation for the spouse on the receiving end of the retirement accounts, who might have been a stay-at-home parent during the marriage or just earned less, also has challenges. Things get even more complicated when the receiving spouse is past retirement age because you cannot contribute to accounts like 401(k)s and IRAs unless you have earned income, and Social Security does not count. One of Deirdre Prescott's clients got a \$500,000 chunk of her ex-husband's IRA but she is now 62 and no longer working as a teacher. Prescott is working with her to bridge the gap between when her client's alimony runs out in two years and when she taps Social Security. (Delaying retirement benefits until age 70 greatly increases the amount you get each month.) Prescott's client plans to live off other assets and some modest free-lance income. The key part of the strategy is to take advantage of her low tax bracket. She will convert as much of that traditional pre-tax

IRA into a Roth IRA, which allows contributions to grow tax-free. She will have to pay income taxes on the amount she transfers, but the account will then grow tax free, and she will not be subject to required minimum distributions at 70 1/2 like she would be with an IRA. "She came in completely panicked but if she continues to live modestly and puts off taking Social Security, she should be OK," Prescott said.

8. CANADA'S PUBLIC SECTOR PENSION MANAGER ADDS NEW PRIVATE DEBT CHIEF:

Canada's Public Sector Pension (PSP) Investments has hired credit analyst Francis Blair to oversee distressed credit investment and private debt. Blair's position aims to boost the firm's private debt division, and was created for him, Jeff Rowbottom, his boss and PSP's managing director of investments, confirmed. The company manages the investments of the C\$153 billion (\$117.1 billion) Public Sector Pension Investment Board, one of Canada's largest public pension plans. "There are investment opportunities now [in distressed companies in the retail space] and there will likely be when we hit some sort of cycle," Rowbottom told Chief Investment Officer. He said Blair's role was created because the agency wanted internal expertise about distressed companies. "We wanted some in-house capabilities to deal with these opportunities, whether it be 12 months or 24 months down the road." Blair's previous roles were partner and senior credit analyst at Milford Sound Capital and managing director at Solus Alternative Asset Management, reports Bloomberg. His Solus responsibilities have been taken over by other Solus analysts. Blair will help run PSP's private debt arm, which had C\$8.9 billion (\$6.8 billion) in assets under management as of March 31, 2018. He will help the fund manager expand its debt financing functions to focus on distressed companies. The debt group will also make direct investments and co-investments. Its current debt portfolio consists of healthcare, technology and industrial assets. Three-quarters of its portfolio is North American-based, with the remainder in Europe. Private debt investments have become a growing market within public pension funds in recent years, allowing the funds to shift cash into long-term assets. They also tend to offer higher returns than public assets, despite having less liquidity. PSP's private debt returned 8.2% in the year ended March 31, 2018. *Chief Investment Officer*, August 27, 2018.

9. ILLINOIS PENSION ACTUARY DEFROCKED... FINALLY:

The American Academy of Actuaries suspended Timothy W. Sharpe from membership for a period of two years for materially failing to comply with parts of its *Code of Professional Conduct* in connection with valuations he performed for several municipal police and fire pension plans in Illinois. The notice can be read [here](#). Suspension is important because the Illinois Pension Code requires certain pension services to be performed by an “enrolled actuary,” which means membership in either the Academy or the Society of Actuaries ([40 ILCS 5/4-118](#)). Not being a member of the Society, Sharpe’s services in Illinois now presumably will end. He had continued to work for some Illinois pensions prior to the suspension while complaints pended against him. The suspension is rare. Only [21 actuaries](#) have been suspended or expelled from the Academy in the last 43 years.

Wirepoints readers will recall a number of articles here several years ago about Sharpe and his work for many Illinois public pensions. He and his work were discussed in a 2015 New York *Times* article, “[Bad Math and a Coming Public Pension Crisis](#).” The focus was primarily on use of outdated mortality tables, which have the effect of understating pension liabilities. Sharpe had been the subject of complaints by actuaries including one who went public, Tia Goss Sawhney. She published a guest piece [here](#) in 2014. Another complaint was filed by Jim Palermo, then trustee of the Village of La Grange, IL, who also took his case public. Palermo’s extensive work was discussed in The New York *Times* article. The public owes a debt of gratitude to Sawhney and Palermo for their courage and persistence. The story is significant for reasons beyond Sharpe and his work: It exposed glaring deficiencies in the process by which the pension actuary profession polices itself. Put simply, that process is too long and too secretive. Itself [our 2016 article](#) caused a fuss in the actuary profession. It merely reported that the Actuarial Board of Counseling and Discipline had recommended to the American Academy of Actuaries that Sharp be disciplined. Why the fuss? Because the profession goes to great lengths to keep the disciplinary process private. There is no justification for its level of secrecy. How many other complaints are pending against what actuaries? For what? Is not that important for the public, and for pensions when making their selection of an actuary? But it is all secret. The process should be similar to that for attorneys. [In Illinois](#), as in most states, pending complaints against lawyers are open to public inspection. An initial level of review screens out clearly spurious ones before they are posted. Bad apples in the actuary profession and a poor disciplinary process in their profession are two causes of the mass obfuscation and understatement of public pension problems in America. However, it is important to

keep those causes in perspective -- actuaries are hardly the only ones to blame. That case was made out nicely in a guest article by an actuary we published [here](#) two years ago. There are, indeed, other causes of that obfuscation and understatement. Politicians ultimately run public pensions so they bear ultimate responsibility. The accounting profession has gotten off far too lightly in the pension crisis. In particular, the Governmental Accounting Standards board is responsible not just for how pensions get reported but for the entirety of state and local financial obscurity. That is a major lesson I have learned researching and writing here over the years -- the senseless of government accounting rules. Recently, [we have written](#) about a particularly silly accounting gimmick, presumably permissible under standards, that the City of Chicago exploited allowing it to claim a \$7.7 billion improvement in its pensions. We will strive to continue to identify those gimmicks. Mark Glennon is founder and executive editor of *Wirepoints*.

10. NEW POLICY AGENDA DETAILS HOW POLICYMAKERS CAN RESTORE AND STRENGTHEN WORKERS' RIGHTS FROM THEIR FIRST DAY ON THE JOB:

In a comprehensive [new policy agenda](#), Economic Policy Institute Policy Director Heidi Shierholz, Director of Labor Law and Policy Celine McNicholas, and Director of Government Relations Samantha Sanders, offer policy solutions to an economy that is rigged against working people starting from their first day on the job. The authors argue that “First Day Fairness” policies such as making it easier for people to join unions and collectively bargain, ensuring that workers are paid a fair wage and banning mandatory arbitration would give workers more leverage in the workplace, and ultimately raise wages for working people. “Over the last four decades, workers’ rights have been systematically eroded by decisions made by policymakers on behalf of corporate interests,” said Shierholz. “Each piece of the First Day Fairness agenda works to restore fundamental rights, increasing workers’ power and pushing back on growing economic inequality.” First, the authors argue, we must strengthen workers’ ability to join a union and collectively bargain. To do so, the authors recommend that the law authorize meaningful penalties against employers who interfere with workers who wish to form or join a union, ban states from passing so-called “right-to-work” laws and provide a process to ensure that workers in a union can reach a contract. “We know that unions are one of the most effective ways of increasing wages for working people -- particularly among people of color and women,” said McNicholas. “If policymakers were serious about addressing

stagnating wages and skyrocketing CEO pay, they would focus on passing reforms that ensure working people can join a union and that the union has the tools necessary effectively to represent them.” First Day Fairness also addresses the issue of ensuring basic job quality for all workers. The authors recommend that policymakers raise the minimum wage to \$15 per hour, raise the overtime salary threshold to a meaningful level and pass a national paid sick days standard. The agenda also addresses a growing epidemic: workers being forced to sign away their legal rights. The authors advocate a ban on mandatory arbitration agreements and most noncompete agreements. Finally, the authors stress that we must strongly boost enforcement of all current labor and employment standards. This includes increasing penalties for violations of labor standards and requiring companies that compete for federal contracts to disclose previous workplace violations. “Every day, employers violate labor standards by not paying the minimum wage, following safety regulations, or adhering to fair employment laws. But many of these incidents go unresolved due to lack of enforcement,” said Sanders. “Policymakers should fully fund and enforce the labor laws on the books--and pass new ones--in order to protect working people.” [Press Release](#), August 22, 2018.

11. OXYMORONS:

Does "expecting the unexpected" make the unexpected expected?

12. INSPIRATIONAL QUOTES:

Never give up, for that is just the place and time that the tide will turn. - Harriet Beecher Stowe

13. TODAY IN HISTORY:

On this day in

- 1847 US General Winfield Scott captures Mexico City in American-Mexican war.
- 1956 IBM introduces the RAMAC 305, 1st commercial computer with a hard drive that uses magnetic disk storage, weighs over a ton.

14. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.

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