



HONECK ·
O'TOOLE

...where people count

3rd Quarter 2017

DIGITAL CURRENCY: BITCOIN AND BLOCKCHAIN

Lately we've been getting questions about Bitcoin and blockchain, and we realized that many people have no idea what these terms mean or how they work.

Let's start with basic definitions.

Bitcoin is a digital currency — virtual money — that you can use to buy or sell things by sending or receiving Bitcoins across the Internet.

Bitcoins can be exchanged online, anonymously, without being linked to a real identity; therefore they can be exchanged with unknown individuals. The mathematical field of "cryptography" is the basis for Bitcoin's security, meaning it's encrypted and can't be copied. Once a Bitcoin is used, there's a permanent record of that use.

Blockchain serves as an online ledger that records Bitcoin transactions (sales or purchases) in a verifiable and permanent way.

Bitcoin value is based on the market; whatever the market assigns to a Bitcoin. You can Google "Bitcoin value" today to see its current value. (When we wrote this article, 1 Bitcoin was worth \$4,098.81 U.S. dollars.) Since its inception, the value has been quite volatile, swinging from \$1,000 down to \$300 and up to more than \$4,000 at this writing. This makes it difficult to use as an exchange.

Here's how it works.

- First, you install a Bitcoin wallet on your computer or smartphone. You can do this through an "exchange" such as Coinbase or Gemini, and purchase Bitcoin with money drawn electronically from your bank account.
- This wallet generates your Bitcoin address (you can create as many as you like), and your mathematical signature.



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revenue

Ideas to help small businesses and individuals maximize income while minimizing taxes.

KNOW WHERE YOU STAND FOR TAX YEAR 2017

Before we arrive at the fourth quarter of 2017, it's a great time to see where you stand financially so you can make any needed adjustments NOW to save taxes this year.

Your taxes can be affected by life changes involving marriage, children, a house purchase or sale, a new job, a medical event, an inheritance, renting out your property, owning a business, and other circumstances.

Let's review your situation and see if you need to take any steps now for the best year-end tax outcome. **Contact us for an appointment: 207-774-0882 or info@honeckotoole.com.**

Your Honeck O'Toole Team

REMINDERS FOR EXTENDED TAX FILING

September 15: Extended due date for Partnerships, S and C Corporations (operating on calendar year)

September 30: Trusts and calendar year estates

October 15: Extended due date for Individual tax returns (if you filed an extension on April 15 to complete your 2016 tax return in October)

Got a letter from the IRS? Don't panic! These days, the IRS staff is usually quite helpful and will work with you to set up a solution if you owe taxes. We can also help if you're not sure what to do next.

- If you want friends to pay you and vice versa, you can share your Bitcoin address.
- Let's say you want to send Bitcoin money to "Fred." You create a transaction on your computer or phone, describe how much you want to send, and your transaction is added to a block. This block is then transmitted to the Bitcoin network which sends it to Fred, as long as he is a validated Bitcoin user.
- You can receive Bitcoins as payment for goods and services, spend them the same way, and exchange them for traditional money.

People seem to love Bitcoin because there's no regulation and there are no banks involved... but it's also quite volatile for the same reasons. It's not government backed, and it's not a centralized form of currency.

However, Bitcoin exchange companies offering wallets to U.S. consumers **are** regulated. They're considered online financial service companies — similar to PayPal — and are subject to a set of federal and state regulations.

The IRS considers virtual currency (such as Bitcoin) to be property, and it must be treated as such for U.S. federal tax purposes. This means, "General tax principles that apply to property transactions apply to transactions using virtual currency," according to the IRS.

Many people are using Bitcoin as an investment through "Bitcoin mining." This is a way of collecting Bitcoins based on solving mathematical problems, or algorithms, and potentially driving up the value. Think of it as a big gold rush where Bitcoin traders speculate on its value and collect huge amounts at a time. There are also Bitcoin startups attracting investors, including major options exchanges.

We know there are risks to using Bitcoin.

First, Bitcoin values fluctuate regularly because of supply and demand, and a lack of regulation. It seems like the wild west out there, with no particular rules.

Plus, Bitcoin has been used by hackers as ransom. For instance, you may have seen the recent news where hackers demanded millions in Bitcoin for stolen HBO Game of Thrones script files.

And, Bitcoin has not always been available or has been extremely slow to process due to data limits. Recently, Bitcoin "split" into two versions (Bitcoin and Bitcoin Cash) to increase the data capacity of the blockchain, so that may solve these issues for a while.

Bitcoin is not the only digital currency out there, and blockchain is used for many different purposes. But these are the basics of what Bitcoin is and does.

As accountants, we're still working to understand the Bitcoin economy and how it affects commerce and taxes.

The Financial Accounting Standards Board (FASB) is looking at undertaking a new initiative on digital currencies. The CDC (Chamber of Digital Commerce) — a trade organization for companies and groups working in the digital currency and blockchain space — has appealed to the FASB, asking it to take a stand. They argue that the lack of digital currency standards is creating a barrier for both investors and entrepreneurs, and holding back economic growth in the U.S.

For the new Bitcoin user, <https://bitcoin.org> offers an overview and Get Started guide. You may also enjoy the helpful technical video, "How Bitcoin Works in 5 Minutes," on YouTube: www.youtube.com/watch?v=I9jOJk30eQs. You'll find additional information at Coinbase www.coinbase.com/?locale=en-US and Gemini <http://gemini.com/>.

DISCLAIMER: Any accounting, business, or tax advice contained in this communication are not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O'Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.



FEDERAL TAX RULES FOR VACATION HOMES

We've talked about the tax implications of owning a Maine vacation home and renting it out from time to time, and we went over the different regulations in our 2nd Quarter 2016 issue of ReveNEWS (you'll find it on this web page: www.honeckotoole.com/newsletters/). But, what about other income tax implications? This topic comes up frequently for us in the summer, and the main question is: **What is a personal use day?** Here's a quick explanation.

Personal use includes the following scenarios:

- If you, the owner, stay on the property for leisure. If you are there to work on the property it does not count as a personal use day. You must work the lessor of 8 hours or 2/3 of the time you are on the property. Watch out if you bring other family or friends, as their "use" or "work" count as well, but thankfully you do not need to count small children.
- If your brother, sister, spouse, or lineal descendant uses the property (regardless of rent charged.)
- If you rent the property to a friend for less than fair market value.

- If you house swap and allow someone to use your property while you stay at their property (regardless of length of stay or if rent was paid.)

If you rent the property out for 14 days or less during the year, it's not considered "rental property." This means any rent you receive isn't included in your income for tax purposes. However, you can only deduct property taxes and mortgage interest, no operating expenses.

If you rent the property for more than 14 days, you must report the rent as income. However, you can deduct operating expenses and depreciation. These deductions may be limited to rental income if your use is the greater of 14 days or 10% of the rental days.

The big thing is, you need to allocate your expenses between your personal use days (when you or family members use the cottage, or a friend rents it at less than "fair market") and the official rental days.

Let's say you rent the property for 90 days and personally use it for 30 days (you, family, or friends). 75% of the use is rental income (90 out of a total of 120 days), and you can allocate 75% of your operation costs

as well as depreciation, interest and property taxes. Your deductions, though, are limited to the income because you used it personally more than 10% of the rental days.

Need more help to determine your specific tax implications? Call us for assistance: **207-774-0882**. 📞

FORM 8300 REQUIRED FOR BUSINESS CASH OVER \$10,000

If you're a business owner, you may not be aware of this IRS rule.

Essentially, you must file Form 8300: Report of Cash Payments Over \$10,000 Received in a Trade or Business any time your business receives more than \$10,000 in cash from one party, through a single transaction or two or more related transactions.

This requirement was created to combat money laundering, and it applies if any part of the transaction occurs within any of the 50 states, the District of Columbia, or a U.S. possession or territory.

The deadline to file Form 8300 is the 15th day after the cash transaction occurred. You can file Form 8300 electronically or by mailing it to: IRS, Detroit Computing Center, P.O. Box 32621, Detroit, Michigan 48232. For more details, visit this IRS web page: www.irs.gov/businesses/small-businesses-self-employed/form-8300-and-reporting-cash-payments-of-over-10000.

Questions? Contact us: **207-774-0882** or info@honeckotoole.com. 📞

DING DONG, THE 3% MAINE SURCHARGE IS DEAD!

On July 4, 2017, the Maine State Legislature and the Governor negotiated a budget bill that repealed Question 2 of our November 8, 2016 election ballot. Question 2 was designed to enact a 3% increase on individual income taxes for household incomes greater than \$200,000.

Question 2 appeared on the ballot with this wording:

"Do you want to add a 3% tax on individual Maine taxable income above \$200,000 to create a state fund that would provide direct support for student learning in kindergarten through 12th grade public education?"

In July, Governor LePage argued that the 3% surcharge measure would hurt the economy, and the Maine Senate and House overwhelmingly voted to repeal Question 2. This is great news for many of our clients. 📞



CLIENT PROFILES

RICHARD & VANESSA JORDAN

Wiscasset Speedway



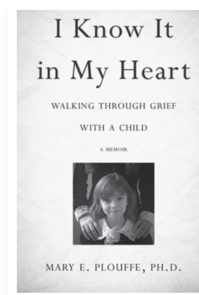
In 2019, Maine stock-racing fans will celebrate the 50th anniversary of Wiscasset Speedway. Rich in history, this 3/8-mile, high-banked oval stock car track officially opened in 1969 and continually boasts the fastest speeds of any track in the state. Current owners Richard and Vanessa Jordan of Kingfield, Maine, have a deep respect for the legendary racers, loyal fans, and milestones that passed through the Speedway all these years — from the mid-90s NASCAR Series to the 2003 Big Dawg 400, a national Prostock \$100,000 event, the biggest single race payoff in Maine history.

Vanessa explained why she and Richard were driven to buy the Speedway. They weren't planning to own a speedway. They already own Jordan Lumber & Excavation, along with other Jordan family members, in Kingfield. She said, *"The Speedway property was being sold at auction in 2012. We went just because we were curious to see who'd end up with it, and what they'd do. The auction wasn't going well and one of the auctioneers said, 'Rich, just make us an offer.' So we did, and there she stands."*

Wiscasset Speedway is one of Maine's remaining six official tracks. Vanessa said, *"Racing is tough, but we're growing on the fan side and car-count side."* Their 25-week season of classic Saturday races runs April to October. For details on race times and other fun activities, visit their website at www.wiscassetsspeedway.com.

MARY PLOUFFE

Author, *I Know It in My Heart*



There are many memoirs about grief and loss... but very few offer the reader a unique view of grief through the eyes of a child, explaining their perceptions, questions and concerns in a developmental context. In *"I Know It in My Heart,"* Cumberland resident and clinical psychologist Mary Plouffe has done both, weaving her personal story together with insights on how to help children deal with grief. She told us, *"When I looked for materials to guide me and my brother-in-law after my sister Martha's death, I found nothing that described the raw reality of a grieving caretaker trying to soothe an abandoned child. It took me about five years to write the book – I had to learn how to become a writer. But I knew it would be helpful. The Center for Grieving Children (in Portland) has been supportive from Day 1, using the book with clinical staff as well as families."*

Mary said she resisted telling her story, but became convinced it was the best way to talk about the difference between adult and child grief. She said, *"The real surprise was how the memoir community embraced it as useful for anyone who has been through grief at any age."* The book has received national press and accolades. For example, Hope Edelman, author of the bestseller *Motherless Daughters*, wrote about it on Facebook. Mary will deliver the Portland Maine keynote address at the Center for Grieving Children meeting in March 2018. To learn more, visit www.maryplouffeauthor.com.

We welcome your questions about taxes, financial planning, college planning, making the most of QuickBooks, or anything else related to your money.

Call for Assistance Anytime!



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