

DCAA Compliance News: *Insights and Practical Advice*

Winter 2019

President's Corner—With Fred Kline, CEO



We are well into the new year, and I'd like to extend best wishes for you and yours. Happy New Year! We're in the busiest time of the year with tax season adding to our workload. There are three important topics I'd like to bring to your attention in this issue.

First of all, I am very proud that, thanks to our clients and team members alike, the company I started in 1994 has grown to become what it is today. All of us are excited that Kline and Company has reached an

important milestone, celebrating 25 years in business. You'll find more details inside, and on the web site.

Secondly, since the details of the Tax Code and Jobs Act, passed in December 2017, I want to call attention to IRS Code Section 199A. You may qualify for up to a twenty percent reduction of self employment income. Details inside. We're here to help you navigate through all of your corporate tax and DCAA issues, so please call if you have a question!

Finally, it appears that the DCAA is catching up and the backlog of audits is dwindling. Further, Congress is allowing the DCAA to engage private audit firms to assist with compliance. If you are contacted by an outside audit firm, please let us know immediately.

Again, please join us in celebrating 25 years in business. All of us at Kline and Company sincerely thank you for your trust and confidence and are only still in business because of clients like you!

Fred Kline, CEO and Founder



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Count on Kline

- Accounting Services
- Tax Planning and Preparation
- DCAA Compliance Advisory Services



199A: The Tax Break of the Century? (It Could Be!)

Section 199A of the Tax Cuts and Jobs Act (TCJA), Provision 11011, was passed on December, 22, 2017. The general idea behind this tax act, which is also known as the Qualified Business Income Deduction or QBI, is simple to grasp. Now, any business other than a C-Corporation may be eligible for a twenty percent deduction of net business income. It's designed to include sole proprietorships and "pass-through" businesses; partnerships and S-Corporations. But, the implementation of 199A, which includes over 180 pages of code changes, is quite complicated. For those companies that qualify for the pass-through deduction, there are multiple thresholds to consider: are you single and below the \$157,500 taxable income threshold, married and below the \$315,000 threshold, or are you single and part of the phaseout amount below \$207,500 or married and below the \$415,000 phaseout amount?

Somewhat vague for most of 2018, the proposed regulation details were finally published on January 18, 2019. It's important to understand (and determine) the qualified business income (QBI) for each qualified business. Our staff continues to stay abreast of the details of 199A, as many of our clients and prospects are, indeed, qualified for the deduction. We can help with this tax issue and all others! Call us at 603.881.8185 or email your questions to CPA@klineco.com



The deduction for qualified business income (QBI), as defined in 199A of the Tax Cuts and Jobs Act, allows for up to twenty percent for companies and individuals that qualify.

Kline and Company, CPA, PC can navigate through the 199A Regulations with (and for) you!

Do you qualify for a 199A deduction? C-Corporations are excluded from this tax regulation but Sole Proprietors, S-Corps, and partnerships may be eligible. Let's review your eligibility!

COO Corner With Sheree DeFeo: Behind The Scenes



*Sheree M. DeFeo
Chief Operating Officer*

As I enter my thirteenth year as a Kline member and my second as COO, I do so with excitement and great expectations. Kline's tax, government and accounting team are stronger than ever and I am honored to be part of this group of dedicated professionals. I am excited for our current clients who are changing the world and have high expectations for the clients who will become part of the Kline team in 2019!

Now that the 2019 Budgets are complete and the PBR (Provisional Billing Rates) are submitted, it is time to focus on Taxes and ICE. At Kline, we review the financials from a tax and government perspective and by asking the client questions that are pertinent to taxes and their government ICE submission. This efficient approach, keeps costs down and allows the Kline team to jump into the ICE models once tax season ends (we do close the office for a few days to give the team a well deserved rest). The staff at Kline and Company work extremely hard and as tax season gets into full swing, our working days become longer and our weekends shorter. What I admire about the staff is

their willingness to work with a positive attitude. Yes, we leave the office tired at night, but we are doing so laughing and excited for the following day. I LOVE what I do and this feeling ripples through the Kline team. Everyone at the office steps up to the plate and for that I am truly grateful.

Inside Scoop: The Federal Acquisition Regulation... Executive Compensation

As a federal contractor, you are well aware of the FAR, that rulebook for governing the federal government's procurement process. Every contracting professional, from large and small firms alike, needs to know the in's and out's of the FAR as it pertains, but it is what a contractor does not know that can cause costly problems. Our *Inside Scoop* column is designed, in this limited space, to call attention to a single issue. Our staff can assist should you have questions.

Although every point in FAR 31.205-6 is important, Executive Compensation and Employee Bonuses are among those that require very careful planning. In fact, the DCAA Compliance folks will want to see your pre-approved, written compensation plans.

There is much to know when it comes to planning executive compensation and employee bonuses. Here are a few questions, based on the Exelis, Inc Appeal, denied by the Armed Services Board of Appeals:

- Does your executive "comp plan" include a Long-Term Incentive Plan (LTIP)?
- How do you calculate the total shareholder return (TSR)?
- How are payout factors determined?
- Do you know what is unallowable and expressly unallowable?
- Are unallowable and expressly unallowable costs found within your certified indirect cost proposal?

Do it right and everyone is happy. Do it wrong and unallowable compensation costs can result in serious penalties, especially if they exceed the cap, as defined in FAR 31.205-6(p). Calculate TSR wrong, and penalties result, as in the Exelis case. (31.205-6(i))

Are you missing the insert to this issue?



Kline and Company is celebrating 25 years of service! The company founder and CEO was interviewed for this issue (starting on page four) and continued to the insert! No worries. You can read the entire interview on-line in our NEWS section of the web site: www.klineco.com. Reading a pass along copy? Navigate to our Newsletter section and sign up for our mailing list.

FAR 31.205-6

Compensation For Personal Services

Get Familiar...

- (a) General
- (b) Reasonableness
- (c) [Reserved]
- (d) Form of Payment
- (e) Income Tax Differential Pay
- (f) Bonuses and Incentive Compensation
- (g) Severance Pay
- (h) Backpay
- (i) Compensation Related to Changes in Prices of Corporate Security Ownership
- (j) Pension Costs
- (k) Deferred Compensation Other Than Pensions
- (l) Compensation Incidental to Business Acquisitions
- (m) Fringe Benefits
- (n) Employee Rebate and Purchase Discount Plans
- (o) Postretirement Benefits Other Than Pensions
- (p) Limitation on Allowability of Compensation
- (q) ESOP



Curious about ASBCA decisions regarding 31.205-6? Go to www.asbca.mil, select Decisions, choose 2017, then type "compensation" into the search bar. Find Exelis, Inc,



Celebrating 25 Years of Professional Accounting Service to Those Who Serve The War Fighters: Our Military Contractors



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- 199A Tax Break?
- FAR 31.205-6

Kline and Company Reaches Important Milestone: An Interview With Fred Kline, Founder and CEO

It has to create a special feeling inside when you start out with a business idea, make it real, grow it to what it is today and reach a silver anniversary marking 25 years in business. It's especially sweet when you double your office space and hang a sign out on Main Street, for all of the world to see. It speaks to success, to consistency in service, and to longevity as one gazes ahead.

We hope you enjoy the interview with Fred Kline, Founder and CEO of Kline and Company, CPA. PC. See the insert inside, and read the company's press release in the NEWS section of our web site: www.klineco.com

