

# IRS notices: Decoding the top 8 for business and payroll

While we all use canned explanations or phrases in letters and emails now and then, the IRS has lifted this to an art form. Technically, these canned explanations form the body of what's called CP Notices. The Tax Cuts and Jobs Act has forced the IRS to create 18 new canned explanations, eight of which are business or payroll-related.

Considering that most taxpayers' blood pressure will rise the instant they see a letter from the IRS, we thought we'd diffuse some of the stress by showing you the business and payroll-related explanations. Where necessary, we've added some context.

*Note:* The numbering is the IRS'.

**#3634—College or university athletic event seating (taxable years after 12/31/2017):** We disallowed your charitable deduction for your payment in exchange for athletic seating. No charitable contribution is allowed for a payment to an institution of higher education in exchange for the right to purchase tickets or seating at an athletic event.

**#4019—Deduction for entertainment disallowed:** After Dec. 31, 2017, no deduction is allowed for:

- An activity generally considered to be entertainment, amusement or recreation
- A facility used in connection with the above items (this includes dues or fees to any social, athletic or sporting club or organization)
- Membership dues with respect to any club organized for business, pleasure, recreation or other social purposes.

*Context:* Employee events, like company picnics and holiday parties, are still deductible. But deductions for expenses related to trips to resorts for so-called team-building exercises are disallowed.

**#4545—Limit on excess business losses:** We adjusted your excess business losses as shown in the attached computation. Excess business losses are limited to \$250,000 (\$500,000 in case of a joint return). The threshold amount is indexed for inflation.

**#5627—Statutory adjustment to QBID based on changes to calculation of TXI limitation:** As a result of changes made to your tax return, the qualified business income deduction previously claimed was adjusted as shown on the attached report. You can find more information on the qualified business income deduction in the Form 1040 instructions or within Publication 535, Business Expenses.

**#5628—Adjustment to QBID:** We adjusted the qualified business income deduction claimed on your tax return as shown on the attached report. You can find more information on the qualified business income deduction in the Form 1040 instructions or within Publication 535, Business Expenses.

*Note:* The above three explanations apply to pass-through entities, such as S corps and LLCs. QBID refers to the 20% deduction for qualified business income.

**#6126—Period for carryback:** We disallowed your net operating loss carryback. In general, for tax years beginning after Dec. 31, 2017, net operating losses cannot be carried back but can be carried forward indefinitely.

**#6127—Computation of net operating losses:** Net operating loss deductions and net operating loss carryovers for losses arising in tax years beginning after Dec. 31, 2017, are limited to 80% of your taxable income. We adjusted your allowable net operating loss deduction as shown in the attached computation.

**#6436—Employer credit for paid family and medical leave:** We adjusted your credit for paid family and medical leave. To be eligible for the credit you must have a written policy in place that includes:

- At least two weeks of paid family and medical leave annually to full time employees, prorated for part-time employees
- Pay for family and medical leave that's at least 50% of the wages normally paid to the employee.

*There's more:* The tax credit is limited to employees who didn't earn more than \$72,000 last year.