NSA National Society of Accountants

MAIN STREET PRACTITIONER

The Magazine for Tax and Accounting Professionals

The Great PR Opportunity

The Adoption Tax Credit Qualifications and Benefits

NSA Scholarship Foundation

Helping Students enter the Tax & Accounting Industry

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Helping Clients Obtain Financing and Loans

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HELPING CLIENTS OBTAIN FINANCING AND LOANS

Main Street Practitioner

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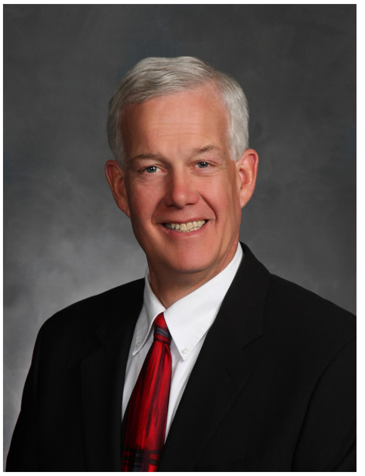
By Steven J. Hanson, CPA, EA



December 2013

I had the pleasure of representing NSA at the National Association of State Boards of Accountancy annual convention. Besides meeting many people from around the country, it was great to be updated on the many issues currently confronting our profession. Here are some of the highlights I took away from the meeting.

Russell Golden, Chair of the FASB, reported on the Future of US Financial Reporting. He discussed current GAAP and the continued convergence, or at least working together with IFRS to improve global financial reporting. Though convergence has slowed, this will continue to be worked on and may ultimately affect all members, no matter their credentials, since the accounting concepts will ultimately find their way onto business tax returns.
The Private Company Council, which is an arm of FASB and which was formed last year, is looking at ways to minimize the complexity and relevance of GAAP for US private companies. The Council is currently reviewing the standards for leasing, acquisitions, goodwill, and variable interest entities to name a few. I will not profess to know all that has happened with the Private Company Council, but it appears that this is the start of some potential relief from the complexity of accounting issues for some of the clients we all deal with.

The new definition of attest was discussed. Though final standards have not been issued yet, they are expected soon. Please be aware that this could affect all of us who issue compilation reports. We have already summarized the current proposals in NSAlert and in this issue of the magazine, but watch for more information to come since the proposals may well be changed before they are finalized.

Other issues discussed at the convention included firm mobility, the Uniform Accountancy Act, audit quality and investor protection, and special purpose framework for small and midsized entities, to name a few.

Some interesting comments were shared by a representative of the Pathways Commission for Accounting Education. As the cost of education continues to rise, institutions are increasingly using technology to train our accounting graduates. Books and classroom lectures as we know them may soon be obsolete with all information being delivered electronically. The concern is, what education will students miss by not having that traditional classroom experiences. On a positive note, we have a record number of accounting graduates and a record number of accounting jobs. And by all indications, that trend is expected to continue.

As you can see, the accounting industry is changing, and I haven't even mentioned income taxes. Our goal at NSA is to keep you informed and to provide you with as much information and as many resources as we can to help your practice grow and prosper. As small firm, Main Street practitioners, we cannot afford the luxuries that our larger competitors can. That is why we must band together as members of NSA.

As you prepare for this coming tax season, please let NSA help you make it the smoothest and most rewarding yet. Also, remember to take some time out of your busy schedule to enjoy your family and friends over the holidays.
All of us at NSA wish you a very Merry Christmas and the very best in the New Year.

I wish you the best,

Steven J. Hanson
President
National Society of Accountants

NSA Members Weigh In on the Proposed New Accounting Rules Definition of "Attest Engagement"

In the October 25 NSAlert, we shared with you the AICPA's proposed new rules for defining an attest engagement. We then invited you to join a conversation on this proposal on the NSA Tax Talk discussion board. What follows is the original article on the Exposure draft, followed by an overview of NSA members' online discussion of the proposed new rules. If you would like to share your own thoughts directly with AICPA, you can address your comments to Mike Glynn at mglynn@aicpa.org by the deadline date of May 2, 2014.

Article from NSAlert: October 25, 2013

Proposed New Accounting Rules Shift Definition of "Attest Engagement"

The AICPA Accounting and Review Services Committee (ARSC) has released an Exposure Draft that would revise existing standards related to whether the preparation of financial statements or a compilation engagement is considered an attest engagement. A copy of the Exposure Draft may be found here. Comments are due by May 2, 2014.

In short, the ARSC is proposing that financial statement preparation is a service distinguishable from a compilation service—and that different rules should apply to each service. Importantly, financial statement preparation is proposed to be a nonattest service.

According to the ARSC, the proposed rules revision follows on the determination of the AICPA's Professional Ethics Executive Committee that "financial statement preparation is considered outside the scope of the attest engagement and, therefore, constitutes a nonattest service." The Exposure Draft also states that ARSC is aware that many entities will determine that they would like to engage the accountant to perform the preparation service as they would any other accounting service or bookkeeping engagement. The ARSC believes that it is not appropriate to require the accountant to perform, or the entity to accept, a compilation service when the desired service is a preparation service. Given this, the ARSC is also aware that many state laws and regulations, loan documents, and other contracts and agreements require a compilation engagement. To address this issue, the ARSC is proposing that when the accountant is engaged to perform the preparation service, the accountant would follow the requirements and guidance in the proposed SSARS, Preparation of Financial Statements. When the accountant is engaged to perform the compilation service, the accountant would follow the requirements and guidance in the proposed SSARS, Compilation Engagements. In addition, a proposed SSARS, Association with Financial Statements, is being issued to address requirements when an accountant's name appears on unaudited financial statements other than a compilation or review.

The proposed SSARSs would be effective as follows:

- The proposed SSARS, Preparation of Financial Statements would be effective for the preparation of financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.
- The proposed SSARS, Compilation Engagements would be effective for compilation reports on financial statements for periods ending on or after December 15, 2015. Early implementation is permitted.
- The proposed SSARS, Association with Financial Statements would be effective for financial statements with which the accountant is associated on or after December 15, 2015. Early implementation is permitted.

The Exposure Draft offers a table explaining the different rules proposed:

When does the standard apply?	**Compilation** When an accountant is engaged to perform a compilation	**Preparation** When an accountant is engaged to prepare financial statements
Is an engagement letter required	Yes	Yes
Is the accountant required to determine if he or she is independent of the client	Yes	No
If the accountant is not independent, is that fact required to be disclosed	Yes	N/A
Does the engagement require a report	Yes	No
May the financial statements go to users outside of management	Yes	Yes
May the financial statements omit notes	Yes	Yes

The NSA Accounting Standards Committee will review the Exposure Draft and determine a response to the questions posed in the Exposure Draft, which include:

1. Whether respondents are supportive of the revised applicability for the compilation engagement so that the standard applies only when the accountant is engaged to perform a compilation engagement.

2. Whether respondents are supportive of the issuance of standards and guidance for an engagement to prepare financial statements.

3. Whether respondents are supportive of the proposed effective dates, specifically the permitting of early implementation.

Not addressed in the Exposure Draft is whether a peer review would be required if the accountant only offers services that are considered nonattest engagements. We will certainly follow up with that question.

NSA Member Comments Regarding Proposed Changes

A number of NSA members have expressed their opinions on the proposed rules via comments posted on Tax Talk. One of the first comments was a vote of support for the proposed new rules from David Croswhite: "New rules have been long overdue to define 'Compilation' since the widespread use of accounting software such as QuickBooks. Currently, if a CPA does some maintenance on a company file and prints the financial statements for the company's use this may be defined as a 'Compilation' subject to peer review, and a report must accompany the statements. I have maintained that this type of compilation is only an attest function if the engagement is to produce statements for external purposes rather than internal management or tax preparation." Mr. Croswhite emphasized that a change in definitions would allow small businesses, in particular, to ask a CPA to use internal statements to prepare tax returns without paying the higher fees associated with compilation or other attest services.

Other members voiced concerns about the proposed new rules. Bill Delaney pointed out that without an accompanying report explaining whether financial statements are audited, reviewed, or unaudited, third parties might make assumptions about the level of assurance the accountant is providing. Bill wrote, “Can you control the use of a plain paper financial statement? Answer, probably, no. Will the third-party recipient be told that ‘my CPA prepared this’? Answer, probably, yes. Is there an expectation on the part of the recipient (either your client or a third party user) that the CPA followed certain professional standards in the preparation of the financial statement? Answer, undoubtedly, yes. Have you limited (or removed entirely) your liability by it being on plain paper and marked for internal use only? Answer, probably not. What will your liability insurance carrier consider this to be? A next to nothing, or a bit of something? If I were a CPA, I’d not wish to issue (in any form) a financial statement absent a report type accompanying letter, so that the user cannot infer beyond what I state should be inferred.....Not a comfortable place for a board licensee.”

Bill and others had particularly strong reactions to the proposed language for a disclaimer to be included when preparing financial statements. The proposed rule would require accountants to include on each page a statement indicating that no CPA provides any assurance on the financial statements.

Peggy Johnson wrote, “I think it’s great that the exposure draft eliminates the restrictions on providing prepared financial statements to third parties! It’s much more in line with the way accounting is done today, with accounting entries being made in online software by multiple parties. However, there must be an alternative to placing that ridiculous footnote ‘No CPA provides any assurance on these financial statements’ on every page. First of all, there are no pages —it’s a computer file.   How about the old plain and simple ‘These financial statements have not been audited or reviewed’? Everyone knows what it means, and it isn’t loosely translated to mean that no CPA has been involved in the preparation of the financial statements.”

Joanne Elsen agreed that the proposed disclaimer would not be well received by clients. She also noted that the new requirements would not apply to everyone who prepares financial statements. In Arizona, she explained, the rules would apply to only Licensed CPAs. Others could continue giving out financial statements with or without a cover letter.

William Gummo’s was the final comment posted. He supported the new rules, saying “...this is definitely a worthwhile endeavor and I do support what AICPA is trying to do with these attest engagement rules. Hopefully, the rules will be stated in plain language when they get done.”

Again, members who wish to comment may do so directly to AICPA by the deadline date of May 2, 2014. Comments should be addressed to Mike Glynn at mglynn@aicpa.org.

THE GREAT PR OPPORTUNITY

Tips and Truths about Public Relations for the Tax & Accounting Profession

by Kristy Short, Ed.D.

One undeniable truth is that public relations and CPA firms make a good team. Unfortunately, PR doesn't always get the credit it deserves and can largely go ignored by tax and accounting professionals. The general perception is that PR doesn't benefit firms—at least in a measurable way (i.e., ROI). As such, it's labeled as a "Nice to have" rather than a "Need to have." In reality, a sound public relations program has the power to significantly boost client referrals, and that translates to higher revenue. So, in this dollars-and-cents profession, it makes sense to integrate public relations into your business model. Bottom line—public relations, planned properly, can offer firms of any size enormous bang for the buck.

One of the biggest misconceptions of public relations is that it is limited to sending out press releases. This couldn't be farther from the truth. In fact, a solid PR program is part art, part science. The *artistic* aspect is accomplished through creative initiatives. Beyond press releases, firms have the opportunity to implement innovative client communication programs that create a two-way flow of information and keep clients in close contact. For example, e-newsletters and customized email campaigns that are chock full of helpful tips and information are excellent tools to keep clients informed.

The *science* of effective public relations is represented by the process itself—the structured plan of how to get the word out. That's where a sound PR program comes into play. When the right balance is created between the art and the science, the results can be very rewarding.

From increasing credibility and visibility via media coverage to cultivating enduring client loyalty using personalized communications, the Great PR Opportunity is up for grabs. If you are not yet convinced, just consider a few more truths and tips about public relations for the tax and accounting professional and how they might apply to your firm.

1. Prime the Referral Gold Mine!

The tax and accounting profession is largely referral-based, meaning that your existing clients represent a referral gold mine. It goes without saying that happy, satisfied clients are more likely to refer your services, and one of the best tactics for ensuring satisfaction is to make clients feel connected to you. Implementing scheduled client communication initiatives reinforces the relationship, because it consistently puts you in front of your clients. Communications that provide useful information, like tips on running a successful business or reminders of important deadlines, will further enhance the relationship and build loyalty among your client base. And loyal clients are your best source for referrals.

2. Get Techy—Your Clients will Love It

How you communicate with clients and the general public should not be limited to emails and printed pieces. Web 2.0 technologies offer an array of powerful tools to get the word out. Consider starting a web log (i.e., blog) on your website—providing clients with a variety of helpful information and links that they can access daily. Follow up high-level emails with invitations to view or listen to detailed podcasts, where you are the subject expert. Podcasts not only conveniently deliver information online, but also put your face (or voice) in front of your clients, creating intimacy and a deeper feeling of connection to you and your firm. These technologies are simple to develop, but they will make you look tech-savvy to your clients.

Need help getting strarted on blogging? Click on the articles below:

- What is a Blog
- Blog to Boost Your Accounting Practice

3. Enhance Credibility, not Just Visibility—Get Your Story to the Media

While advertising increases name recognition, media relations increases credibility.

When people read a positive article about an organization in a newspaper or trade publication, they are much more likely to have a favorable opinion of that organization.

Unlike advertising that promotes presence, media coverage offers credibility. Even better, coverage in a leading publication has a much longer effect than almost any other marketing effort…and it's free!

4. Press Releases—Still the Foundation of Your PR Program

Because media coverage promotes credibility, never give up on trying to secure that coverage. That means consistently developing and launching press releases and posting them on your website—effectively offering a history of your accomplishments.

In a constantly changing profession like tax and accounting, there's always a story to share. In fact, the possibilities for media-worthy releases are virtually endless. Here are just a few examples: announcing newly acquired clients, industry awards received, expansion of business/facilities, involvement in local events or charities, scholarships created and awarded, staff promotions, joint ventures, published white papers, and expert speaking engagements. Remember, to get the media's attention, you have to consistently put yourself in front of them. Press releases are a tried and true public relations tool.

COMMUNICATION

5. Your Website is a Great PR Tool

Your website provides the perfect home base for your clients and the media. The more frequently clients are directed back to your website, the stronger the connection. And media professionals will appreciate the shortcut to your information. So when planning public relations activities, don't forget about your website. Embed dynamic links in client communications and press releases that direct your audience back to your site—and to you.

There are numerous opportunities for tax and accounting firms to improve their visibility, enhance credibility, and attract new clients—all of which add up to solid growth and increased profitability. A dedicated public relations program can accomplish all of these things. The Great PR Opportunity is real, and the most successful tax and accounting firms are taking full advantage of it.

Kristy Short, Ed.D, is president of SAS Communications 360 (SAScommunications360.com) and Chief Marketing Officer and partner in RootWorks Communications (RootWorks.com)—firms dedicated to providing public relations, branding, and marketing services to the accounting profession. She is a columnist for CPA Practice Advisor and has been published repeatedly in Accounting Today. She is also a professor of English and marketing. Reach her at kristy@sascommunications360.com.

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For more information about this plan call Forrest T. Jones & Company at (800) 821-7303 or visit www.ftj.com/NSA.

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Form #GBD-1000 [illegible] (MO)

The Adoption Tax Credit
Qualifications and Benefits

By Deirdre Morhet

Adopting a child can be one of the most rewarding experiences for couples, especially those who have not been able to have children of their own. Adoption also has a positive impact on the children adopted, who have an opportunity to be raised in a loving environment where their needs are met. As rewarding as adoption is, however, it can also be quite costly.

Adoption Tax Credit

With a multi-year waiting list to adopt healthy domestic children, many couples choose to adopt from abroad. While the wait in foreign countries is far less, the expenses incurred can be enormous. The overall cost of an inter-country adoption can add up to tens of thousands of dollars. Fortunately, there is tax relief available from the IRS to help offset some of these costs.

The Adoption Tax Credit, worth up to $12,970, is not refundable, meaning it can only be used to offset adoption expenses until your tax liability reaches $0. In past years, the credit was refundable and the dollar amount was higher, but the rules have changed since the 2012 tax year. To be eligible for the credit, the adoption must be completed before the child's 18th birthday unless the child is either physically or mentally handicapped. In that case, the credit applies to a child adopted at any age. However, the credit does not apply to stepchildren adopted by you or your spouse.

Covered Expenses

The Adoption Credit applies to all expenses related directly to the adoption of the child, including:

- Adoption Agency fees
- Attorney fees
- Court costs
- Travel, lodging, and meals
- Miscellaneous costs

As mentioned earlier, for international adoptions, these expenses can be significantly higher. In some cases, the adoptive parents have to live in the foreign country for a designated amount of time to fulfill local requirements. These are usually cases where the child is being adopted from a country that is not a party to the Hague Convention, and the only way for the adoption to take place is through the local courts.

...the main difference between the rules pertaining to foreign versus domestic adoptions is in what tax year the couple is allowed to claim the credit.

When a couple is eligible to take the credit, the main difference between the rules pertaining to foreign versus domestic adoptions is in what tax year the couple is allowed to claim the credit. The rules are more flexible for domestic U.S. adoptions; the credit can be claimed during the tax year when the expenses were incurred or the year the adoption is finalized, whichever comes sooner. In the case of an intercountry adoption, the adoptive parents must wait until the adoption is finalized before taking the credit.

Special Needs Adoptions

Special needs adoptions are in a separate category where the expense reporting guidelines are concerned. Couples who adopt a special needs child do not need to keep track of their expenses and are automatically eligible for the full $12,970 credit, whether their expenses incurred equal that amount or not. It should be noted that a good percentage of foster children who are adopted fall into the special needs category.

Adoption Assistance

Many employers offer reimbursement of adoption expenses up to a certain amount. The IRS allows employers to designate up to $12,970 in pre-tax income to go toward qualified adoption expenses and employers may choose to reimburse up to a set amount beyond those expenses paid from the employee's pre-tax income. However, any expenses paid through the employer cannot also be claimed as part of your Adoption Tax Credit.

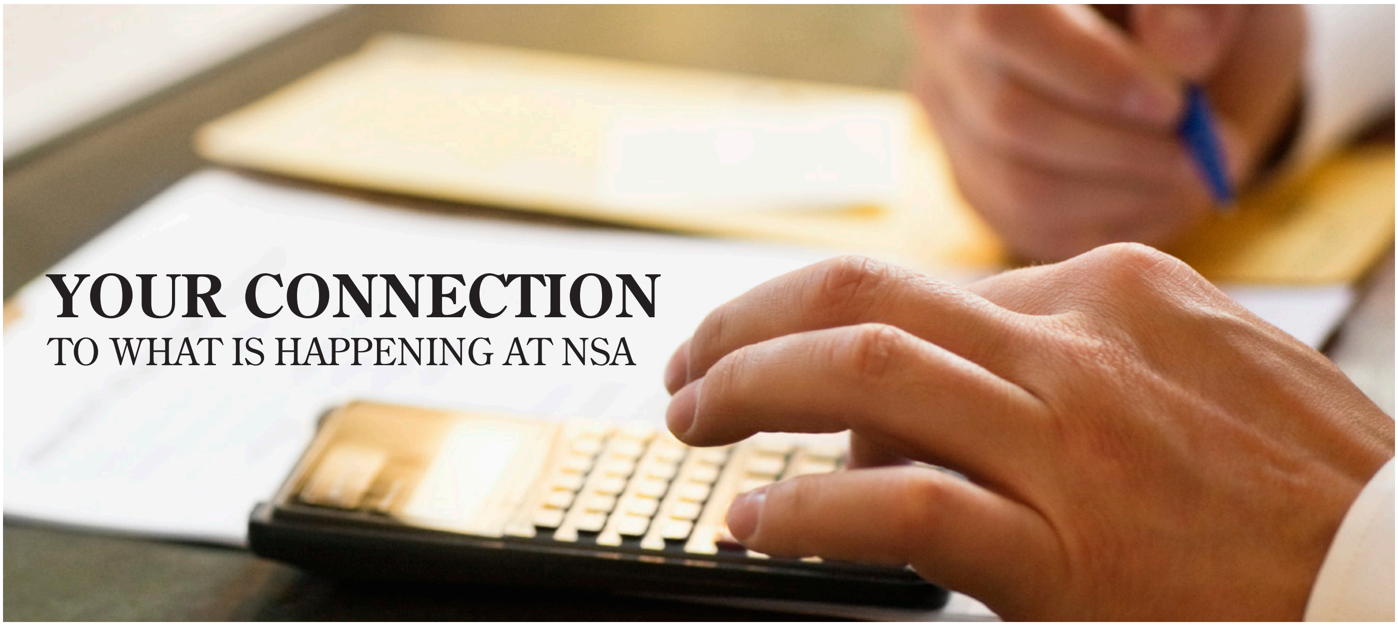
Income Limitations

As with most other credits, the Adoption Tax Credit is available only to couples who meet certain income requirements. As of 2013, they are as follows:

- If your combined household income is at or below $194,580, you are eligible for the full credit.
- If your income is between $194,580 and $234,580, you are eligible for a partial credit.
- If your income is greater than $234,580, you are not eligible for the credit at all.

The Adoption Tax Credit is a wonderful benefit for adoptive parents who bring another child into their family, but the eligibility issues surrounding this credit can be confusing. Tax professionals can provide guidance to clients as they navigate this complex process.

Deirdre Morhet, MBA, is the founder and principal of BASC Expertise, a business consulting and tax service company; established in the Phoenix area in 2004. BASC Expertise specializes in working with business owners with traditional needs such as bookkeeping and payroll, as well as consults with small businesses regarding increasing revenue streams, cash flow analysis, and tax planning.



GET INVOLVED: SIGN UP AT THE NSA VOLUNTEER HUB

Volunteer Hub

Would you like to get more involved? Are you looking for a way to connect with and help other members? Do you have valuable skills and perspectives that could benefit NSA's volunteer groups? If your answer is yes to any of these questions, consider joining the NSA Volunteer Hub and responding to NSA's Call for Volunteers. Click on the button below to sign up to receive email requests for short term projects.

SHORT TERM PROJECTS

NSA's Volunteer Hub is a great way to find out about volunteer opportunities as they become available and to get involved by helping with both long- and short-term projects. We will put out calls for volunteers as needed for committees and special projects. Many tasks take just a few hours or less.

If you are looking for a short-term commitment or want to experience what it is like to volunteer for NSA before committing to a full-year, open volunteering is for you.

We accept new volunteers all year long. Once you join NSA's Volunteer Hub, you will be notified of opportunities to help when they come up.

Get involved today!

We are currently seeking NSA member volunteers to review and provide feedback on the NSA public facing and member-only websites (www.nsacct.org and http://connect.nsacct.org).

This is a short-term project which will take about a day or so for review and commenting, starting immediately and completed no later than January 31, 2014.

Specifically, we are interested in:

- how easy is it to find the information you are looking for on the NSA sites?
- what information and content is missing from the NSA sites that you would like to see added?
- what can we do to enhance navigation on the sites?
- what would appeal to you or to a prospective member on our websites?

If you are interested in taking a closer look at the NSA websites and providing your comments to us, please send an email to jgoldberg@nsacct.org.

Help the NSA Scholarship Foundation
Support Accounting Students

Each year, hundreds of college students contact NSA seeking help to meet the ever-increasing costs of higher education.

The NSA Scholarship Foundation works to build career paths into and within the accounting profession. With its scholarship awards, the Foundation assists dedicated students who are committed to a career in accounting by providing financial assistance to support their education.

The NSA Scholarship Foundation awards scholarships to undergraduates who are U.S. or Canadian citizens, enrolled part-time or full-time in an accounting degree program at an accredited two- or four-year college or university.

Since its formation in 1969, the NSA Scholarship Foundation has awarded over $1 million to dedicated students pursuing a career in the accounting profession. Scholarships range from $500 to $2,000, and 30 or more scholarships are awarded each year. Last year, the Scholarship Foundation awarded $32,700 to 39 deserving individuals.

The Foundation is a 501(c)3 tax-exempt organization and relies on voluntary, tax-deductible contributions to support student scholarships. You can help by making a tax-deductible donation to the NSA Scholarship Foundation. With your help, we can increase the number of awards in 2014 and beyond.

GIVING IS EASY

Make a donation in any amount online. Go to: http://www.nsacct.org/about/nsa-scholarship-foundation and click on "Donate Now" or use the button below.

Do you shop online? Make your purchases count. Click on the link to shop on **AmazonSmile** and a donation will be made to the NSA Scholarship Foundation for every purchase you make.

Prefer to mail in a donation? Click here to download a donation form

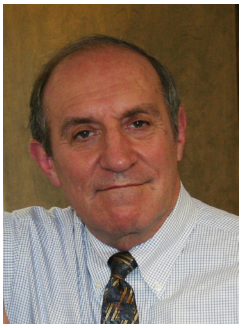
Students can apply online for 2014-2015 scholarships between January 1 and March 31, 2014. Scholarship guidelines, eligibility requirements, and FAQs are online at: http://www.nsacct.org/about/nsa-scholarship-foundation/apply-online

Did You Know?

IRA owners who are 70½ or older and would otherwise have to satisfy a required minimum distribution from an IRA may donate any portion, up to $100,000, of the required distribution directly to a qualified charity or charities.

Additionally, the IRA owners can exclude the amount of the QCD from their gross income on their 2013 tax return. The QDC provision is only extended through the end of 2013.

NSA EVP JOHN AMS APPOINTED CHAIR OF THE OFFICE OF PROFESSIONAL RESPONSIBILITY SUBGROUP FOR THE IRS ADVISORY COUNCIL



John G. Ams, J.D.

John G. Ams, J.D., Executive Vice President and Chief Operating Officer of NSA, has been appointed Chair of the Office of Professional Responsibility (OPR) Subgroup of the Internal Revenue Service Advisory Council (IRSAC) beginning in January 2014.

IRSAC is an advisory body designed to focus on broad policy matters and reviews existing tax policy and/or recommends policies with respect to emerging tax administration issues.

IRSAC suggests operational improvements, offers constructive observations regarding current or proposed IRS policies, programs, and procedures, and advises the IRS Commissioner with respect to issues having a substantive effect on federal tax administration. The OPR Subgroup is one of four IRSAC subgroups and focuses specifically on IRS rules, regulations, and administrative procedures affecting tax professionals.

"I am deeply honored to be named to chair the OPR subgroup and look forward to providing the IRS with timely, practical, and effective recommendations for implementing policies that relate to maintaining high ethical and professional standards," Ams said.

Ams has been a member of IRSAC since 2012 and is also a member of the Tax Section of the American Bar Association, where he serves on the Standards of Tax Practice Committee.

"We are extremely pleased to have John Ams chair the OPR subgroup and continue to represent tax professionals and the taxpaying public as the IRS deals with the current budget environment and the rules under which tax professionals may practice," said Steven J. Hanson, president of NSA. "Both NSA members and the IRS receive a unique benefit from his expertise and knowledge of best practices and professional standards."

WHAT IS HAPPENING ON TAX TALK?
CONNECT, COLLABORATE, COMMUNICATE

TAX TALK DISCUSSION FORUM

NSA's Tax Talk discussion forum has become so successful that the online provider had to make improvements to their software in order to accommodate the large number of messages! This latest version of Tax Talk is now live so you should notice considerably quicker load times when visiting the forum on the NSA website. Members continue to use this private network to get answers to questions on a variety of topics.

Are you missing out? If you aren't currently using the forum. Here are a few reasons to try it out:

- Discussion archives have almost 35,000 entries and are fully searchable by topic, offering a wealth of information for research purposes.
- New discussion thread topics can be delivered via email once a day (daily digest) or in real time.
- There are currently 10,000 subscribers.
- Tax Talk averages 56 messages per day, and 1,850 messages per month.
- The discussions are self-monitored and maintain the highest level of professionalism.

Here are just a few of the most recent topics:

- FinCen Form 114a
- Registering to efile FBARs
- Virtual currency
- Form 8960
- PTIN renewal
- Software program discussions
- Clergy housing allowance
- Fixed annuities
- 1099-C issued to client

VISIT TAX TALK TODAY AT http://bit.ly/TaxTalk

Get your questions answered at your convenience. Did you know that, as an NSA member, you have access to over 35,000 posts on our popular Tax Talk discussion forum? This robust system allows you to search by keywords and topics to help you find answers to questions that pop up every day. If you don't find posts dealing with your topic, submit a question and watch the helpful responses roll in.

Searching is easy…
Click on the Discussions tab on MemberConnect (connect.nsacct.org), then select Tax Talk in the list below. On the top right side of the page, you will find a search box. Fill in keywords, topics, or even phrases and click the green 'Search' box.

Posting is easy too…
Follow the same instructions as above to open Tax Talk (MemberConnect/Discussions/Tax Talk) then click on the gray 'Post New Message' button. You can just select to send it to Tax Talk, or you can cross-post it to other discussions, such as RTRP. Be sure to include a specific subject line that describes the topic of your question. This helps with the search feature as well.

2013 STATISTICS

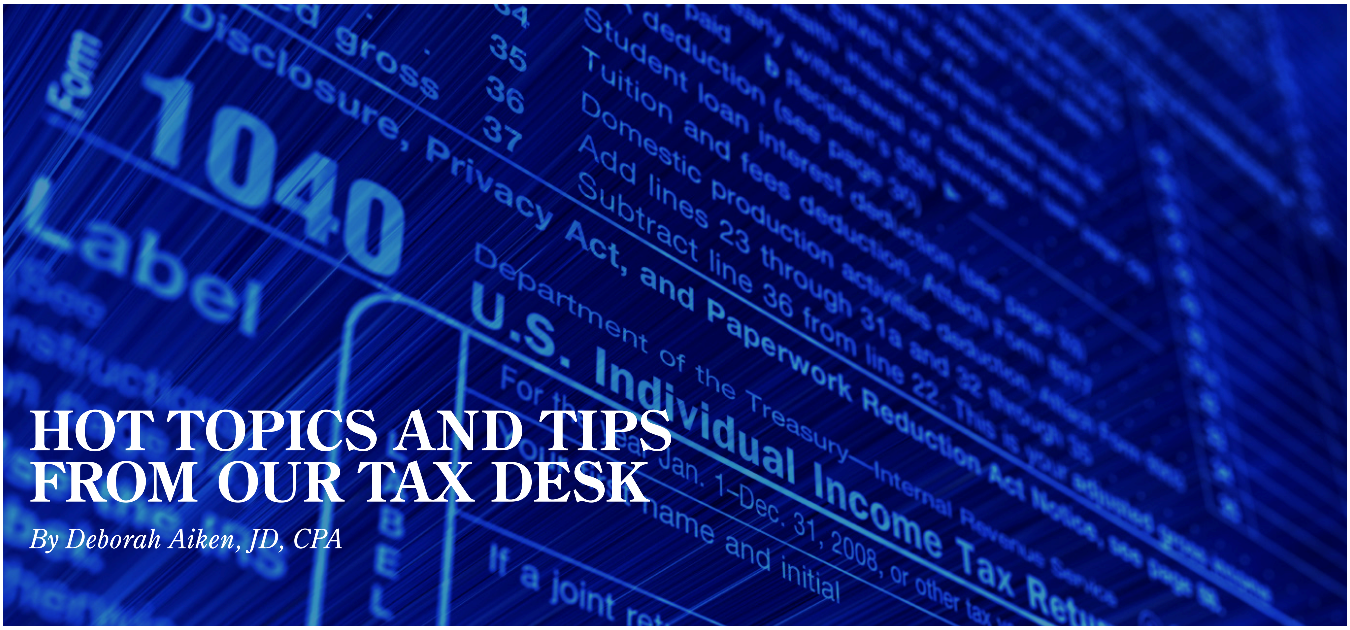
Here are some stats on Tax Talk and MemberConnect

TAX TALK

35,650 Cumulative total messages
17,236 Messages this year
2,896 New threads

MEMBERCONNECT

27,974 Library downloads
572 Contact requests
392, 176 Total pageviews MemberConnect & homepage combined



HOT TOPICS AND TIPS FROM OUR TAX DESK

By Deborah Aiken, JD, CPA

TRUSTS AND DEPRECIATION

For a trust, the depreciation deduction is apportioned between the income beneficiaries and the trust based on how the trust income is allocated, unless the governing instrument (or local law) requires or permits the trustee to maintain a depreciation reserve. If the trustee is required to maintain a reserve, the deduction is first allocated to the trust, up to the amount of the reserve. Any excess is allocated among the income beneficiaries and the trust in the same manner as the trust's accounting income. As an example, for rental income, net rental income goes on Line 7 of the beneficiary's K-1, and depreciation goes on Line 9 as a directly apportioned deduction.

BASIS OF INHERITED REMAINDER INTEREST

If person A dies leaving person B a life estate and person C a remainder interest, the stepped up basis is divided between B and C at the time of A's death. When B dies there is no additional stepped up basis for C in the property unless the property was a qualified Terminable Interest Property (QTIP). Changing the facts slightly, person A gifts a remainder interest to person B while A retains a life estate in the property. Upon A's death 100% of the value of the retained life estate is included in A's estate and B gets a stepped up basis in the property.

QUALIFIED LEASEHOLD IMPROVEMENT AND BONUS DEPRECIATION

The leasehold improvements may qualify for bonus depreciation. However, if the lease is from a related party, it is not considered a lease for this provision and no bonus depreciation can be taken. IRS Publication 946 provides a list of disqualifying related parties.

CONVERTING GENERAL PARTNERSHIPS TO LLC PARTNERSHIPS

It often makes sense to set up a state LLC to give the partners liability protection. Before making that change, be sure to think about the potential tax result to the partners. A change in a partner's share of liabilities is treated as a distribution of money to the partner under section 752. For a partnership with only nonrecourse debt, it should not be an issue. However, for a partnership with recourse debt, the conversion to an LLC may trigger tax to partners. This is likely if after the conversion to an LLC, some but not all partners personally guarantee debt. Section 752 tax also may be triggered if the partners share income and losses in different ways. One other potential risk of tax to the partners when converting to an LLC is under the section 465 at-risk rules. If a partnership has recourse debt that is not personally guaranteed, a conversion to an LLC could reduce the amount a partner has at risk, which could trigger the at-risk recapture rules. The bottom line is that although converting a partnership to an LLC is easy to carry out, the risks of triggering income to partners should be carefully examined prior to doing it.

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By Andrew G. Poulos, EA

Helping Clients Obtain Financing and Loans

Do you have a new or existing small business client looking for financing? Chances are pretty good you do—and they will probably turn to you, their accountant and trusted advisor, for help.

The old adage, “money doesn’t grow on trees” is still true in today’s economy. Not too long ago, when money was plentiful, lenders and banks readily handed out money to new business start-ups, existing businesses, individuals, or anyone else who wanted money. However, we all know that during the economic collapse, the lending industry went through a major transformation.

Is it any wonder why the credit markets tanked and the economy fell into a deep recession? Now, Fannie Mae and Freddie Mac have changed their guidelines; they aren’t lending money to those with excellent credit, let alone anyone else. So, the question is how does a small business get access to capital when it needs to expand its operations, purchase new equipment, or restructure business debt?

Conventional financing sources offer some options; however, with the credit markets tight and the lenders not lending, small businesses should explore *all* options:

- Traditional sources include applying for a loan with a local bank, applying for a Small Business Administration (SBA) loan, or obtaining capital through a home equity line for those who are homeowners and have equity in their property.
- Unconventional sources include accounts receivables factoring, merchant sales financing, and people-to-people loans.

Traditional Sources

The best option for new and existing businesses is to apply for an SBA loan. Contrary to what many people think, the SBA doesn’t loan money directly to borrowers. The loan is funded by an SBA-approved lender such as Bank of America or Wells Fargo Bank, and it is guaranteed by the SBA. The bank loans the money to the business owner, and if the owner defaults, the bank will be repaid by the SBA.

One of the favorable factors of an SBA loan is a long-term amortization (7 to 25 years) compared to a short term (2 to 5 years) for a non-SBA loan. What the loan proceeds will be used for will determine the number of years the lender will finance. Operating capital is usually 7 to 10 years, as compared to real estate loans that have a repayment period ranging from 20 to 25 years.

On the other hand, an SBA loan comes with more requirements, which means that most small business owners will incur fees to retain professional help from an accountant or a business plan writer, with no guarantees that the loan will be approved. The time to close an SBA loan from initial application to the closing can range between 60 to 90 days, and a list of documents must be submitted for an SBA loan. No loan will be approved without the entirety of documents being submitted to the lender.

The 12 items required for loan submission include the following:

1. **SBA loan application**—Complete SBA Form 4.

2. **Personal Background and Financial Statement**—Complete SBA Form 912 and Form 413.

3. **Business Financial Statements**—To support your application and demonstrate your ability to repay the loan, prepare and include the following financial statements:

    - Profit and Loss (P&L) Statement—This must be current within 90 days of your application. Also include supplementary schedules from the last three fiscal years.

    - Projected Financial Statements—Include a detailed, one-year projection of income and finances and attach a written explanation of how you expect to achieve this projection.

4. **Business Financial Statements**—Provide a Profit & Loss Statement for the last three fiscal years, a current year-to-date statement, and a projected financial statement for one year.

5. **Ownership and Affiliations**—Include a list of names and addresses of any subsidiaries and affiliates, including entities in which you hold a controlling interest and other entities that may be affiliated with you by stock ownership, franchise, proposed merger, or otherwise.

6. **Business Certificate and/or License**—Include your business license or certificate of doing business. If your business is a corporation, stamp your corporate seal on the SBA loan application form.

7. **Loan Application History**—Include records of any loans you may have applied for in the past 12 months. If numerous loan inquiries are appearing on the borrowers' credit report, provide an explanation to the lender.

8. **Income Tax Returns**—Include signed *personal* and *business* federal income tax returns of your business owner(s) or shareholder(s) for the previous three years.

9. **Resumes**—Include a personal resume for each owner or shareholder.

10. **Business Plan/History**—Provide a brief history of the business, successes, challenges, and long- term focus. Include an explanation of why the SBA loan is needed and how it will help the business. For a new business, a full business plan may be required.

11. **Business Lease**—If commercial space is being leased, include a copy of the business lease or note from the landlord providing the lease terms.

12. **If You are Purchasing an Existing Business**—The following information is needed for purchasing an existing business:

    - Current Profit & Loss Statement and Balance Sheet of business to be purchased.

    - Previous two years' federal income tax returns of the business.

    - Proposed Bill of Sale including the Terms of Sale.

    - Asking price with schedule of inventory, equipment and machinery, furniture and fixtures being purchased.

Unconventional Sources

Unconventional funding sources are becoming widely popular because there isn't a big list of documents required for submission, making the application a quick process.

For example, obtaining quick funding by factoring your account receivables through a company such as Midland American Capital can provide quick cash with very little red tape. According to Scott Brown, Senior Vice President of Midland American Capital, funding can be available in as little as 2 to 5 days from the time an application is received. The company offers exemplary customer service and, unlike some of its competitors, doesn't lock its customers into 1 to 3 year contract commitments.

One additional benefit is that this company doesn't scrutinize the business owner's personal credit rating. This is often a crucial factor for a small business owner who doesn't have the high credit score rating that a traditional lender requires. The factoring company advances cash against invoices billed by the business. The borrowing company receives a percentage of the invoice with the balance being retained by Midland American Capital as its fee for providing the funding. Factoring provides a small business an alternative lending source for cash flow at any time.

There is a cost associated with all lending options, and the business owners must decide which lending option is best for their situation. Most importantly, Mr. Brown emphasizes that business owners should work with reputable lending companies and ask questions so they can make an informed decision about what is best for their business. Midland American Capital lets its customers know that the company is a member of the Commercial Finance Association and American Bankers Association in an effort to help customers avoid the pitfall of working with unscrupulous lenders.

Merchant card financing is another unconventional funding source. This is usually available to businesses that have high credit sales, such as restaurants and retail establishments. The merchant processing company can provide capital to a business by advancing it cash against future credit card sales.

This is, however, not a cheap financing option. Rates for this type of financing can range between 18 and 30 percent. For example, a business that obtains $100,000 at a 25 percent rate would repay $125,000. The repayment terms are typically short term at 6 to 18 months. The merchant processor that provides the funding keeps a percentage of the future daily or weekly credit card sales, which many times can create cash flow problems for the business. Although this type of financing appears attractive on the surface, it is far from that when a business loses a high percentage of its weekly credit card sales, oftentimes creating cash flow problems.

People-to-people loans are another unconventional funding source. One of the newer providers in this arena is Prosper Marketplace, Inc., an online company featured in various media sources, including *The New York Times* and the *Wall Street Journal*. Prosper facilitates people-to-people loans. You can invest from a few hundred dollars to thousands of dollars and receive a higher rate of return than most banks offer in today's marketplace.

Another unconventional funding source includes merchant card financing. This is usually available to businesses that have high credit sales such as restaurants and retail establishments. The merchant processing company can provide capital to a business by advancing it cash against future credit card sales.

Individuals who want to borrow complete an online application that is reviewed, along with a credit review. Based on the risk of the borrower, Prosper provides the interest rate the borrower will be charged should the loan be funded. Once approved, the borrower's loan profile becomes accessible for people to view and invest. People can put in as little or as much as they want to invest, from $100 up to thousands of dollars.

This unique concept has provided over $400 million in investments since inception, all from private individuals wanting to earn a rate of return higher than what they can get from their local bank, the stock market, or any other investment source. This would be a good option for small businesses that have no other way to obtain capital quickly and affordably.

Again, as your clients' go-to advisor on all things financial, you can provide valuable guidance when it comes to obtaining loans. When I provide finance and loan consulting to my clients, I always recommend they gather all the necessary documents, review the various loan options offered by local banks and online lenders, perform due diligence on any approved loan to make sure they understand the rate and terms being provided, and ensure they obtain a loan from a trusted and reputable lending source.

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Principal of Poulos Accounting & Consulting, Inc., Atlanta, Ga.
Author of QuickBooks Ultimate Lesson Guide© DVD
Columnist of "Main Street Tax News"-National Society of Accountants
Author for Intuit's ProLine Central Newsletter & Website
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