

Asset Allocation Who are you investing for?



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What You Need to Know
About Forming
a 501(c)(3) Nonprofit

Breaking the News
How to Prepare
Your Clients for the
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How to Overcome
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The Five Must-Know
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ASSET ALLOCATION: WHO ARE YOU INVESTING FOR?



HOW TO OVERCOME PRICE RESISTANCE THIS TAX SEASON



THE FIVE MUST-KNOW AREAS OF POST- FILING PRACTICE AND PROCEDURE



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From the NSA Blog



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PRESIDENT'S MESSAGE

By Steven J. Hanson, CPA, EA



March 2014

March Madness. That special time of the year when sports fans, like me, get to cheer for our favorite teams. We hope they can win a few and get to the final four. The NCAA puts on a great basketball tournament. But if you are like me, your viewing time is limited. We are spending most of our time at the office pursuing our own March madness. Yes, completing income tax returns. You know the drill, up early, appointments most of the day, and working until the wee hours of the night trying to complete as much as we can. By now, the corporate deadline has come and gone, but April 15th is looming. Don't despair; at least we have that deadline. We have a goal. And when that day comes, we can all celebrate another year and another job well done.

As you and I have been working day and night on tax returns, NSA has also been working hard for you. We like to say, "We have your back." How? Here are some of the things that we have been working on:

Our Tax Help Desk continues to answer your complex income tax questions. If you need help, we are here for you. I personally have used it twice so far. I sent an email in the evening and had my answer by the next day.

The Tax Talk Discussion Forum continues to be a valuable resource for our members. Fellow practitioners enjoy the ability to bounce ideas off of or get direction from other practitioners who may have had the same issue.

By now, you have heard the results of the Registered Tax Return Preparer case (the Loving case), which basically negated the IRS' ability to regulate tax preparers. You will be happy to note that NSA continues to be a part of the conversations with both Congress and the IRS, as they decide where to go from here. We have your best interests at heart.

And we take the same level of commitment to the state level, watching each legislative session to determine if there are bills that may affect you and the accounting profession in your home state. In fact, NSA has worked with our affiliates to play an integral role in three states this session to favorably resolve issues that could have negatively impacted your right to practice.

Our website is continually updated—with worksheets, form letters, the latest news, and fresh articles, all designed to help you in your practice. And our ancillary website, findataxpro.org, can even be a place where you might get new clients. If you have not looked lately, I encourage you to do so. I am sure you will find information that will help you in your practice.

Yes, we at NSA are here for you.

I wish you all the best as we work our way to the close of another tax season. Work hard, don't forget your family, get some rest, and most of all, keep that positive attitude.

A handwritten signature in black ink, appearing to read "Steven J. Hanson". The signature is fluid and cursive.

Steven J Hanson
NSA President

Ways and Means Committee Approves Bill to Delay IRS Proposed Rules on 501(c)(4) Groups

By John G. Ams

The House Ways and Means Committee has approved a bill that would delay for one year Internal Revenue Service proposed rules to redefine permissible political activity for tax code Section 501(c)(4) exempt groups. The bill, the “Stop Targeting of Political Beliefs by the IRS Act of 2014” (H.R. 3865) was approved on a strictly party line 23-13 vote.

The bill would freeze in place the IRS standards and definitions, in effect since January 1, 2010, for determining whether social welfare organizations may qualify for tax exemption.

Lawmakers used the committee markup to repeat well-staked out positions on the IRS’s so called Tea Party scandal. Committee Chair Dave Camp (R-MI) said the rules are aimed at putting conservative groups out of business. Well, not quite.

Tax practitioners may be aware that 501(c)(4) of the Internal Revenue Code provides, among other things, a tax exemption for non-profit organizations “operated exclusively for the promotion of social welfare.” For some reason, the current regulations interpret the word “exclusively” to mean “primarily,” as in, at least 51% of the organization’s activities promote social welfare.

Two things to note: (1) a 501(c)(4) organization does not have to identify any donors and (2) the IRS has long held that IRC 501(c)(4) organizations may engage in political campaigns on behalf of or in opposition to candidates for public office provided that such intervention does not constitute the organization’s primary activity. Furthermore, generalized political activities such as “get out the vote” efforts not specifically related to a particular candidate or political party may qualify as social welfare activities.

These rules have been in place for over fifty years. Enter the U.S. Supreme Court, which concluded in 2010 in *Citizens United v. Federal Election Commission*, 558 U.S. 310 (2010), that the First Amendment prohibits the government from restricting political independent expenditures by corporations, associations, or labor unions. This is the famous case where Justice Alito said that “corporations are people too” and are entitled to their political voice.

So, if you own or operate a corporation that (1) has political views—right or left—and want to provide funds to advance those views; (2) but does not want to be identified publicly, how would you do so? Since the *Citizens United* decision, the answer has been through a 501(c)(4) entity. In fact, applications for 501(c)(4) status nearly doubled between 2010 and 2012, allowing more donors to keep their donations secret. Spending during the 2012 election by these groups was more than \$250 million, up from \$92 million in 2010.

The IRS has also noted this trend and noted that the regulations under 501(c)(4) issued in the early 1960s did not anticipate the widespread use of social welfare organizations as vehicles to advance political views. This is important because tax exemption qualification must follow the rules. If the rules are outdated, how should tax exemption be determined? Clearly, this is where the IRS did a poor job. It does not, however, mean that the job must not be done.

Should the IRS take its time on the proposed regulations? Of course. Should the agency review all comments? Certainly. Should there be a public hearing? Absolutely. Will any new regulations apply to all 501(c)(4) entities, whether they have “Tea Party” or “Friends of Hillary” in their names? Without a doubt. Do we need to consider how any new rules will affect other tax exempt organizations, including 501(c)(6) organizations like NSA? We would insist on it.

The IRS proposed regulations have never been about putting conservative organizations out of business. Clearly, both conservative and liberal organizations have applied for 501(c)(4) status following the *Citizens United* decision and no one questions their right to do so. Rather, the question is whether the existing regulations take modern technology and current political efforts into sufficient consideration to provide a meaningful way to determine whether the organizations should be accorded tax exempt status.

Originally published in NSAlert: February 14, 2014



Asset Allocation

Who are you investing for?

By Richard K. Newman, CPA/PFS, AEP, CAP

It's been widely publicized that a principal determining factor in the volatility and return of an investment portfolio is the portfolio's asset allocation. The Financial Industry Regulatory Authority (FINRA) defines "asset allocation" as follows:

"Dividing your assets on a percentage basis among different broad categories of investments, including stocks, bonds, and cash. Asset allocation is a strategy for reducing the risk associated with investing. Since your portfolio is spread among different asset classes, it's less likely that they will all perform badly at the same time. Finding the right mix of assets depends on your age, your assets, your financial objectives and your risk tolerance."

Financial advisors often cite the results from a study published in 1986 "Determinants of Policy Performance," by Brinson, Hood and Beebower, which concluded that 93.6 percent of the variation of returns is explained by a portfolio's asset allocation policy. While the findings of this study have been debated, specifically the actual degree to which asset allocation drives an investment portfolio's outcome, there's agreement that, regardless of the actual percentage, asset allocation plays an essential role in determining an investment portfolio's return.

FINRA's definition of asset allocation refers to a number of factors that should be taken into consideration when choosing an appropriate allocation. These include:

- Risk Tolerance
- Financial Objectives
- Current Assets (need to diversify)
- Age (time frame assets will be invested)

There are, however, a number of additional factors that should be considered:

- Taxation
- Liquidity
- Beneficiary

Most people recognize the first six factors listed above. The higher risk one is willing to take, the higher the potential return will be. The appropriate mix of stocks, bonds, and cash will depend on other assets you currently own. Some investments may be appropriate for short-term goals, while others are better suited for long-term financial goals. Some investments create income that's taxable at ordinary income tax rates, some create long-term capital gains which may be taxed at lower capital gains rates, and some investments produce tax-free returns. And finally, there are investments that restrict access or are difficult to liquidate, while others are highly liquid.

However, the final factor—who will benefit from your investment success or suffer from your investment losses—is often overlooked. Considering whom you are investing for is an important element in determining how to position your discretionary financial resources. If these funds are going to be used to pay for a child's college education, you're investing for the benefit of the child. If the funds are meant to provide income when you and your spouse retire, you're investing for the benefit of yourself and your spouse. If you have established a private foundation, the funds you have contributed will eventually benefit charitable organizations and/or individuals in need.

The FINRA definition refers to three broad categories of investments—stocks, bonds and cash. The characteristics of

a cash position include very low investment risk levels, high accessibility, and relatively low returns. Examples of cash investments include bank accounts, money market funds, and certificates of deposit. Bonds are characterized by low risk of principal (depending on the grade of the bond issued), higher expected returns than cash and income that may be tax-free (depending on bond type).

There is, however, another asset that combines the advantages of cash investments and bonds, provides a number of other unique advantages and is particularly well suited when the funds are being invested for the benefit of future generations (children, grandchildren, etc.) life insurance. Advantages of a cash value life insurance policy include:

- Builds cash surrender values which are readily accessible
- Cash values grow on a tax-deferred basis and, when properly designed, may be distributed tax-free
- If structured correctly the death benefits are received income and estate tax free
- Potential for higher growth rates than cash positions
- Low risk to principal
- Death benefits may be easily split up between heirs
- In many states, life insurance cash values and death benefits are protected from creditors by statute
- Beneficiaries receive a highly liquid asset (cash)
- Provides financial protection from the premature death of the investor—protects the individual(s) the investments are intended to benefit

CONTINUED ON PAGE 6



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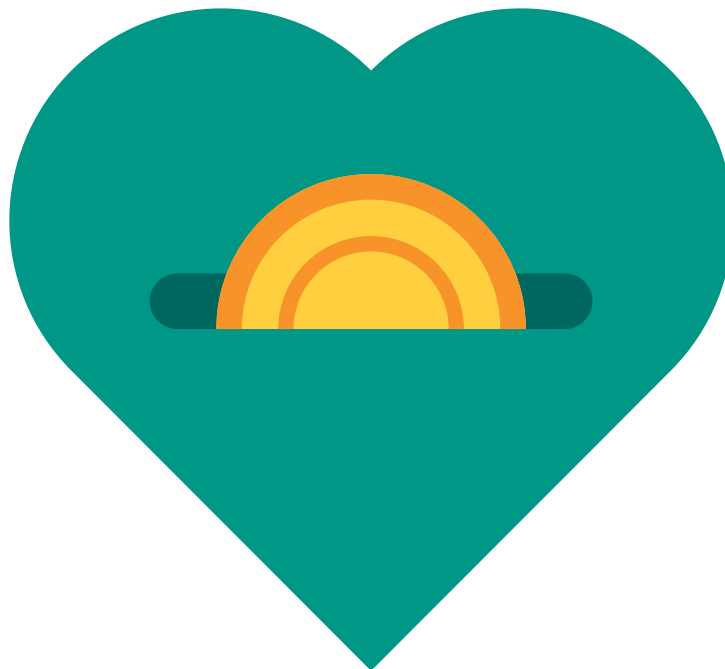
When the intended benefactors of your investment decisions are your children or grandchildren, it's important to consider the issues that may arise out of the particular assets that make up your estate will consist. Consider the following:

ASSET	POTENTIAL ISSUES
Family-Owned Business	<ul style="list-style-type: none"> • Some children involved in business, some are not, family strife almost always results when children who are not involved in the business receive ownership. • It is a difficult asset to value • If the children not involved in business the death of the owner may cause a fire sale at substantially discounted price.
Commercial Real Estate	<ul style="list-style-type: none"> • One child may need cash and wants properties sold, while other child understands it may be a bad time to sell • Downturns in the real estate market are a risk • Heirs are responsible for maintenance, insurance costs and real estate taxes until property sold • Heirs subject to legal risks as property owners.
Marketable Securities	<ul style="list-style-type: none"> • During your life, they are subject to market risk. • Marketable securities are a liquid asset and potential target for creditors.
Second Residence	<ul style="list-style-type: none"> • One child may want to retain the property, another child may want to sell it. • The property may hold sentimental value. • Heirs are responsible for maintenance, insurance costs, and real estate taxes until sold. • Heirs subject to legal risks as property owners.
Farm / Ranch Land	<ul style="list-style-type: none"> • Land valuable on paper, but doesn't generate sufficient income for upkeep. • Maintenance costs and real estate taxes may be substantial. • Land may be more valuable if developed, but heirs may disagree about whether to maintain it as ranch land or to receive the highest price.
Qualified Retirement Plans / IRAs	<ul style="list-style-type: none"> • These are subject to both estate taxes and income taxes upon the death of participant, depleting the asset by as much as 60 percent to 70 percent.

Life insurance may be used as a wealth transfer tool to accomplish many goals—protecting your children from mismanaging their inheritance, avoiding family strife after your death, avoiding probate and protecting the inheritance from creditors. It also provides the perfect asset (cash) at your death, should your heirs need liquidity. Life insurance ensures that your heirs receive exactly the amount you want them to receive, when you want them to receive it. It provides an asset that avoids the family strife that often arises out of receiving property, such as commercial real estate, vacation homes, personal residences and closely held businesses.



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WE ♥ LOGISTICS™

How to Overcome Price Resistance This Tax Season

By Sandi Smith Leyva, CPA



Every year, business owners and individuals have more choices when it comes to preparing their federal and state tax returns. That can translate into price resistance for tax preparers, but it doesn't have to.

YOUR PRICE

In the "Income and Fees of Accountants and Tax Preparers in Public Practice Survey Report" published by the National Society of Accountants, you'll find a wealth of information on how accountants charge their clients for tax, accounting, and consulting services. As a coach and consultant, I find that accountants spend a lot of time gaining education in the tax and technology areas, but many of them don't realize there are specific skills that can also be learned when it comes to pricing and presenting your fees to prospects and clients. When accountants take the time to learn these skills, they can actually charge more, sometimes much more. It's hard to believe, but it happens all the time.

WHAT CAUSES PRICE RESISTANCE

It's easy to blame the economy or your local area for price resistance, but the bottom line is that only about 40 percent of buyers choose to purchase goods or services, based on price alone. That means a majority of the market makes their buying decision on non-price factors. Here are some of the key reasons why accountants encounter price resistance:

- The trust between the accountant and the prospect was not properly developed.
- Prospects perceive that your service is a commodity.
- The service the accountant offered the prospect is not distinguishable to the prospect from other options.
- The prospect underestimates what it takes to do the work they need done.
- The relationship between the accountant and the prospect was not developed.
- The accountant lacks selling skills.

The good news is that all of these missed opportunities can be managed and corrected.

OVERCOMING PRICE RESISTANCE

There are literally dozens of skills, tips, and tactics to help accountants when they encounter price resistance from a prospect or client. Here are six quick tips for those of you who are curious enough to get started exploring this skill set:

1. Develop an easy selling process that works every time. This can be as simple as adding a little structure your phone calls with prospects.
2. Focus on outcomes and credentials rather than the service you're offering.
3. Move from hourly pricing to package or fixed-fee pricing. (Over 90 percent of you already do this, according to the NSA Income & Fee Survey.)
4. Learn how to turn your service into a non-commodity.
5. Educate the client so they can make a good decision about your services. But be careful; this can be very time-consuming unless you learn some shortcuts.
6. Move the selling conversation from price to value.

GIVE YOURSELF A RAISE

When you improve your pricing skills with your prospects, you'll be successful in generating more business. You will not only reduce price resistance, you will have given yourself a raise.



Sandi Smith Leyva Sandi Smith Leyva, CPA, helps accountants in small practices boost their revenues in her Accountant's Accelerator program (<http://www.fillyouraccountingpractice.com>).

Sign up for her free newsletter at <http://www.accountantsaccelerator.com>. You can also visit [Sandi's Website](#)



Average time it takes to
complete and submit a 1040
and State Return on your own



of tax preparers offer free client
consultations worth more than **\$100**

TAX PREP FEE NATIONAL AVERAGES

\$261

Itemized 1040 with
Schedule A & State Return

No itemized deductions?

\$152

Form 1040 & State Return

\$479

Itemized 1040 with
Schedule C Business Income
& State Return

NATIONAL AVERAGES BY FORM

\$63

Federal Form 940
(federal unemployment)

\$590

Federal Form 1065
(partnership)

\$497

Federal Form 1041
(fiduciary)

\$761

Federal Form 1120S
(S corporation)

\$806

Federal Form 1120
(corporation)

\$667

Federal Form 990
(tax-exempt)

NATIONAL AVERAGE FEES FOR ITEMIZED FORM 1040 WITH SCHEDULE A AND A STATE TAX RETURN

WEST

Pacific
AK, CA, HI,
OR, WA

\$303

Mountain
AZ, CO, ID, MT,
NV, NM, UT, WY

\$245

MIDWEST

West
North Central
IA, KS, MN, MO,
NE, ND, SD

\$208

East
North Central
IL, IN, MI,
OH, WI

\$238

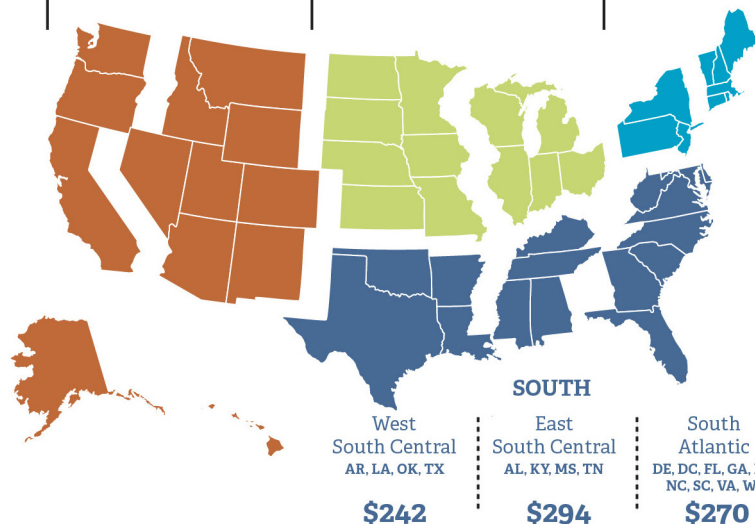
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TAX TALK ACTIVITY SOARS DURING TAX SEASON

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TAX TALK DISCUSSION FORUM REACHES 40,000 MESSAGES...AND GROWING

Tax Talk is buzzing again this tax season. NSA members continue to turn to this resource for answers to questions on a wide range of topics. This discussion forum is a valued resource by NSA members. If you haven't already, take a look today. If you aren't currently using the forum, here are a few reasons to try it out:

- Discussion archives have over 40,000 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 9,600 subscribers.
- During tax season, Tax Talk is averaging 77 messages per day and 2,200 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:

- Rental house destroyed by tenant: tax break available?
- Home office expenses
- 1099-C Rental property short sale
- Equitable ownership and the mortgage deduction
- IRS surrender charge
- Closing an S Corp
- Tax implications of divorce
- 8949 question
- Tax liability after sale of a building



RESOURCE LIBRARY

View the many resources available to members in the numerous libraries. Search through all libraries, or delve into a specific one to find just what you are looking for. For example, there are over 400 sample client letters in the Client Letter Library. The letters are on a variety of topics, both commonly used and some hard to find ones as well.

Separate libraries house sample tools and forms, such as engagement letters, and articles on practice management, tax and accounting topics, as well as new technology information. Visit the Resource Library often to enhance your practice management efforts. Search for what you need by topic or keyword. Remember to log in first so you have access to the members-only resources.



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NSA's blogs bring the latest articles, checklists, and other helpful tools and information to you every week. Read new posts directly on the NSA website or subscribe to receive new posts as they happen, in your inbox.

NSA Staff, guest authors, and NSA ConnectED webinar instructors posts short articles on a weekly to bi-weekly basis, focused on practice management tips, checklists, member interviews, and more. Recent blog posts include:

- 10 Facts About Capital Gains and Losses
- Court of Appeals Agrees that IRS Lacks the Statutory Authority to Regulate Tax Return Preparers
- Top NSA Resources for Tax Season



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2014 Exam Dates: June 7 - 30

Upcoming Exam Dates are June 7 – 30, 2014

The Accreditation Council for Accountancy and Taxation (ACAT) is now accepting exam registrations for the next testing window from professionals seeking to earn the following four credentials:

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Test sites are open to take all four examinations throughout the country during the testing windows. The exams are offered at more than 700 computer-based testing centers throughout the United States. Also, students attending colleges and universities where ACAT offers its “Capstone” accounting program courses can take the exams at their college or university.

The ACAT website provides all the information you need to successfully prepare for and pass the exams. Visit the website for FAQs, study materials, and exam details, as well as tools and resources to use after earning your credential. Click on the button below to go there now.

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ATP Exam

The ATP examination is a 100 multiple-choice-question exam for professionals with a thorough knowledge of the existing tax code and the preparation of individual tax returns, with an expertise in comprehensive 1040 issues including supporting schedules, self-employed returns, and ethics.



ATA Exam

The ATA examination is a 100 multiple-choice-question exam for practitioners who handle sophisticated tax planning issues, including ownership of closely held businesses, qualified retirement plans, and complex estates.



ARA Exam

The ARA examination is a 100 multiple-choice question exam for professionals who have a thorough knowledge of topics relevant to retirement planning and the special issues of senior citizens, including tax planning and tax preparation for decedents, estates, and trusts.

The ABA, ATP, ATA, and ARA exam blueprints, resources for study aids, and registration information are on the ACAT website at www.acatcredentials.org. Click on “credentials” at the top of the page. Questions? Call ACAT toll-free at (888) 289-7763.

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IN MEMORIAM



Joyce G. Funkhouser-Lingelbach passed away on February 12, 2014. Joyce was the owner and President of Joyce Funkhouser Accounting and Tax, Inc. in Portland, Oregon for over 29 years. Joyce served for four years as the NSA District IX Governor and was the Senior Governor on the Board of Governors in her final year. She served as the Administrative Chair for NSA's Profes-

sional Development Committee and was a member of many NSA Committees over the years. Joyce was a member of NSA's Ten Plus Club in recognition of her member recruitment efforts.

Joyce also served for four years as the NSA Oregon State Director. She was President of her ASO, the Oregon Association of Independent Accountants (OAIA) for two years. Joyce chaired OAIA's Legislative Committee for six years and also chaired OAIA's Education Committee and Membership and Public Relations Committee. Joyce was well-respected for her hard work and loyalty to both NSA and OAIA. She will be greatly missed by all who knew her.

Joyce is survived by her husband, daughters, stepsons, sisters, and brothers. You may honor Joyce by donating to Melanoma Research at the OHSU Knight Cancer Institute www.ohsu.edu/xd/about/foundation.



Linda J. Morlang passed away on February 10, 2014. Linda owned her own practice, Linda J. Morlang, EA, in Placentia, California since 1986.

Linda had been an active member of the California Society of Tax Consultants, Inc. (CSTC) since joining the Orange County Chapter in 1992. She served as the Presi-

dent of CSTC and also served as President of her chapter and served on various committees at the State and chapter levels. Linda was recognized as CSTC's Member of the Year in 2000. Linda was very dedicated to her ASO and will be remembered for her years of service to CSTC and friendship to its members.

Linda became active in NSA when CSTC and the California ASO merged. She was the driving force that made the CSATP/CSTC merge successful. Since then she has participated in several NSA meetings, including being honored at the 2013 NSA Annual Meeting award ceremony and serving as a panelist at NSA's Leadership and Networking Conference last fall in Charlotte, NC.

MAIN STREET PRACTITIONER ARCHIVES

The Main Street Practitioner magazine is presented in a digital format, which allows members to search through the archived issues. If you are looking for articles or information on a particular topic, you can select the search button, located on the top right side of the digital magazine, and input keywords you want to locate. The advanced search allows you to select to look through just the current issue, or all archived issues.

Navigating through the magazine is simple. Here are a few quick steps to help you.



All archived and current issues can be found online at

<http://mainstreetpractitioner.nsacct.org/>

Read itNow



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★ 2014 IRS TAX FORUM SCHEDULE ★

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Five locations to choose from



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July 22 - 24

(Preregistration deadline: 7/8)

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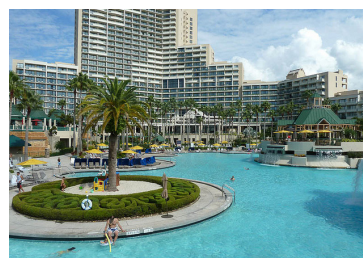
National Harbor (DC)

Gaylord National Resort & Convention Center

August 19 - 21

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[See Hotel Details](#)



Orlando

Orlando World Center Marriott

August 26 - 28

(Preregistration deadline: 8/12)

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Registration is open at www.irstaxforum.com.

See you at the Forums!

NSA MEMBER SPOTLIGHT



Kumud Gandhi arrived in America from India with literally eight dollars (and a roll of pennies for good luck) in his pocket. Trained as a chemical engineer, he would eventually find another path to a very rewarding career. A great admirer of NSA's "Tax Talk" forum (he calls its participants the "Fellowship of the Angels"), he shares his philosophy of why it's so important to be a member of a professional organization. He also shares his thoughts about another Gandhi, Mahatma, and how he has been influenced by him. Reading biographies such as Mahatma Gandhi's brings him back to the little details that can be so important in business.

KAMUD GANDHI

Where are you from originally?

In 1966, I arrived as a student from India. I came with exactly eight dollars in my pocket. Exactly eight, and some student loans that my poor father arranged for me. And I received a roll of pennies on the airplane; one of my fellow passengers gave me the pennies for good luck.

How did you decide to become an accountant? Has this been your main career, or have you done other jobs before this?

I was trained as a chemical engineer; I received a BS in Chemical Engineering from Auburn University in 1968. I acquired a Green Card and then became a U.S. Citizen. I lost my job in the worst recession for en-

gineers in 1970. I could not find an engineering job for many months. So, I began doing an MBA program at Widener College while I was still hoping to land a job. After I got my MBA, I got a job at a nonprofit as the budget person, and that was the beginning of a change in my career.

I worked a couple of years doing budgets, but then I lost my job again. Frustrated about finding a job and wanting to become financially independent, I followed the natural path of a financial career; I knew how to organize, analyze, and advise using reliable data. That led to the path of tax and accounting.

Tell us about your practice. Is it a

large or small firm? Do you have an area or areas of specialty?

In 1975, I started preparing income tax returns. While developing my tax practice, I began taking tax courses at Drexel University, in the MBA tax program. I earned my EA designation. Realizing that a CPA designation would help grow my tax business, I started taking an evening CPA course offered by Mr. Robert Monette. It's one of the best courses in the nation.

My clients were asking for financial advice to invest, manage, and nurture their nest eggs. When I saw their accounts at brokerage houses, I got the impression that they were paying too much money to build

their portfolios; many times investments were not suitable, and worse yet, there was no service or advice from their financial professional. It was a similar story for life insurance.

However, for me to offer financial services and acquire the necessary security and insurance licenses meant fighting the AICPA. The AICPA and the PA State Board of Accountancy would not allow fee and/or commission-based security or insurance work.

I made a few presentations before the PA State Board of Accountancy, in Harrisburg, PA. Eventually, the AICPA and the PA State Board of Accountancy relented and allowed CPAs to receive commissions in security-related transactions as long as "full disclosures" about compensation were made, and as long as, for the same engagement, the CPA was not providing a review or audit of financial statements.

I then added financial services to my company; that was 1976.

It is my belief that a CPA professional is ideally suited to render tax and financial services to a small business, family, or professional. Small tax and accounting firms have traditionally been the reliable, low-cost, friendly professionals who successfully help many American households manage their hard-earned dollars. Be it taxes, investments, estates, sending kids to college, or providing financial security, the family accountant is probably the last professional out there to honestly think of the American family's money matters--to help the average American build a "family financial foundation." This is the trusted, respected professional they rely on; the family accountant has earned the reputation to say: "You will be just fine with my financial plan of action."

Accountants and tax professionals have the wherewithal to relate the meaning of money. At the beginning of the tax season, I ask my clients who get a W-2 to look at that W-2 for a split second and say, "This is what I did last year." In the case of a small business or large business, they get financial statements, and they determine what the business has done. For a lot of folks who get a W-2 or a Form 1099, this is the only time, once a year, every year, that they get an opportunity to think about the meaning of their finances. It's not just the act of filing a tax return. An NSA accountant will nudge them or ask, "What have you done for your family? Have you thought about the family's financial security?" I use the phrase, "Have you thought about building the family financial foundation?"

Those are my pet words: "family financial foundation." Let's build your family financial foundation one step at a time, one dollar at a time.

Can you talk some about your philosophy about why one should belong to a professional organization? What are the benefits?

I joined the NSA because they made me feel at home in the company of many kind fellow accountants who, I think, want to give something to another independent professional.

Here is how I view the NSA. This organization takes the opportunity to call every accountant, every tax preparer, whether they are a CPA or not, whether they are an EA or not, and say, "You know what? We understand you are not a CPA. We understand that you are not an enrolled agent, but you are providing a valuable service where once a year, every year, Joe Blow or Average Jane comes to you and gets valuable advice about building a family financial foundation, because you have the wherewithal and understanding about money matters, including taxes."

I follow the Tax Talk forum fairly regularly and admire the selfless top-notch tax advice to fellow accountants...It is the Fellowship of the Angels.

I believe that NSA members do this well. When you go to an accountant who's doing the work full time--and the words "full time" are very important--you know that you're going to get valuable advice about your tax and financial matters. That's how these folks are wired.

I follow the Tax Talk forum quite regularly and admire the top-notch tax advice to fellow accountants. You have reliable tax knowledge coming from outstanding NSA members giving selfless service. They are providing you reliable, documented research. They give you leads about some tax issues. And, most importantly, they are so kind; they leave their phone number and email--all kinds of contact information. It is the Fellowship of the Angels.

The Tax Talk forum is an invaluable resource to tap into, and sometimes, because taxes are so complex, you see a technical word in somebody's response and it gives you clues to research and use those phrases or words.

I often say to my clients that when you talk taxes, you're not speaking English. It's much like legalese, you know. (And by the way, English is a second language for me; it is not my mother tongue. I just had one English course in high school!)

Can you tell us a little about your family?

We are a family of four: myself; my wife; my son, who is a CFP; and my daughter who is an MD and is pursuing a specialty in cardiology.

What is the last book you read, or movie you saw, that most influenced you?

I am most inspired and influenced by Mahatma Gandhi and his writings. I learned a lot about him in my own language, because Mahatma Gandhi spoke my mother tongue, Gujarati. It is the language they speak in Gujarat, on the western coast of India. As a child, I began reading about Gandhi in Gujarati. When you read something in your own language, it goes through your heart right away.

Mahatma Gandhi was the inspiration for Martin Luther

King, who traveled to India early in his career. Dr. King was able to adopt nonviolence and put it into practice. Nelson Mandela was inspired by Gandhi, as well.

Two things that I read about Mahatma Gandhi have stuck with me most. One was, and I'm paraphrasing here, "No matter how dark the hour, I never lost my optimism." There is no defeat in me. Down inside him he was never defeated, in the greater sense of the word. Not like a football game you win or lose; we're talking about being able to survive no matter how bad it is.

The other thing that inspired me was an incident I read about that explains why he was called Mahatma. The word "maha" in Sanskrit means great. "Atma" is soul. So, great soul. The incident was, everybody knows in India that Mahatma Gandhi used to walk a lot on his campaigns. He would easily walk 10 or 15 miles one way. On one of his campaigns, he traveled with his secretary. They returned to the ashram, and his secretary got up in the middle of the night to go to the bathroom. He saw Mahatma sitting in his bed, with his face down. The secretary said, "Why are you up at this hour? It is not four o'clock yet." And Mahatma replied to the secretary, "Do you realize that last night when we returned from that campaign, I must have been very tired? I fell asleep, and suddenly I woke up to realize that I had gone to bed without saying my prayers."

KAMUD

FACTS

GANDHI

- Grew up in Gujarat, India.
- Came to the U.S. to study CHEMICAL ENGINEERING at Auburn University.
- Received an MBA from Widener College.
- Owns his own business as a SOLE PRACTITIONER.
- His life has been influenced by the teachings of MAHATMA GANDHI.

NSA MEMBER SPOTLIGHT

And he said, "Now that I realize it, I'm repenting. How can I forget him who makes me do the things that I do?"

In that incident is his being saintly and so dedicated to his cause; his discipline has stayed with me forever. When I read about it I said, "Oh, my God."

I enjoy reading biographies. They inspire me in business, and you learn so many things about a person--not necessarily about how many billions they made and all that, but the core of what makes them do things. Take Steve Jobs, for example. He took a course in calligraphy in college, and it made him admire a language—how beautifully the words and letters could be written. And that's the reason why there are so many fonts in Apple products.

To me, these are the things the biography of a person brings out. It's not about the big deal thing they did--not that it's not important in the final analysis. But it's like the Chinese saying: the journey of 1000 miles begins with the first step. When I read about great people they are sticklers about the little things they do.

You ask me about NSA accountants. These guys are detail-oriented; they are sticklers about the details. And that's the reason why the average Joe gets a beautiful service, a reliable service, that takes them home with their money.

I am most inspired and influenced by Mahatma Gandhi and his writings. I learned a lot about him in my own language, because Mahatma Gandhi spoke my mother tongue, Gujarati. As a child, I began reading about Gandhi in Gujarati. When you read something in your own language, it goes through your heart right away.



HOT TOPICS AND TIPS FROM OUR TAX DESK

By Deborah Aiken, JD, CPA

SALE OF FORMER RESIDENCE CONVERTED TO RENTAL

If a personal residence that has been converted from personal to business use is sold or exchanged, the basis of the property depends on whether the disposition results in a gain or loss. The basis for gain is the adjusted basis of the property on the date of the sale. The basis for loss is the smaller of the fair market value of the property at the time of its conversion from personal use or its adjusted basis at the time of conversion.

FULL-TIME LIFE INSURANCE SALESPERSONS

Under section 7701(a)(20) the term “employee” includes a full-time life insurance salesperson and they are thereby eligible for accident and health insurance or accident and health plans, and for contributions to or under a stock bonus, pension, profit-sharing, or annuity plan.

PARENTS AS DEPENDENTS

A dependent who is a qualifying relative, as opposed to a qualifying child, must have gross income of less than the current year’s exemption amount to qualify. For a parent collecting Social Security benefits, the amount that is included in gross income is counted toward the income test.

PROPERTY SUBJECT TO DEBT TRANSFERRED INCIDENT TO DIVORCE

As property transfers incident to divorce are under the nonrecognition rule, the basis of the transferred property for the transferee is its adjusted basis carried over from the transferor. There is no step-up in the basis for the assumed liability.

DEBT-FINANCED DISTRIBUTIONS TO PARTNERS

A debt-financed distribution occurs when a partnership or S corporation borrows funds and allocates those funds to distributions made to partners or shareholders. The way you report the interest expense associated with the distributed debt proceeds depends on your use of those proceeds. IRS Pub 535 discusses how to allocate the debt interest.

EARLY IRA WITHDRAWALS TO PAY CHILD’S TUITION

A taxpayer may exclude the early withdrawal from the early withdrawal penalty for money used to pay higher education expenses incurred in the current year. It does not exclude the IRA withdrawal from the income tax on the withdrawal amount. Paying off a student loan for education costs incurred earlier does not qualify for the exclusion from the penalty.

PARTNERSHIP INTEREST ACQUIRED BY PARTNER’S PROMISSORY NOTE

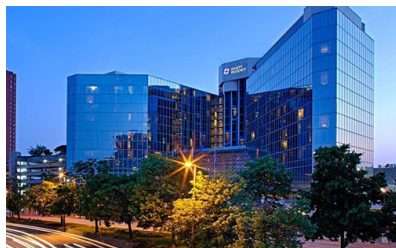
Taxpayers who acquire partnership interests in exchange for their own promissory notes receive no immediate basis in their partnership interest for the contributed note. That is because taxpayers have no basis in their own promissory note. The partners’ basis for their interests increases as they makes payments on the note.



National Society of Accountants

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Impacting the Small Firm Practitioner
2 hours CPE: Accounting
Presented by Bill Leonard, CPA

Fraud Detection and Prevention
2 hours CPE: Federal Tax Law
Presented by Bill Leonard, CPA

Friday, August 22

**MD Preparers: Earn CPE to help satisfy
MD Tax Return Preparer Requirements**
Maryland Tax Law
2 hours CPE: Tax (MD)
Presented by Wallace Eddelman, CPA

Affordable Care Act - Latest Developments
2 Hours CPE: Federal Tax Law Update
Presented by Joe Walloch, CPA

Ethics & Your Practice
2 hours CPE: Ethics
Presented by Chad Piehl, CPA

Saturday, August 23

Practice Management for Your Tax
Office: How to Charge More and Work
Less
6 Hours CPE: Taxes
Presented by Chad Piehl, CPA

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The Five Must-Know Areas of Post-Filing Practice and Procedure

By Jim Buttonow, CPA/CITP

Knowing how to address these essential topics will cover the majority of issues your clients will encounter after filing.

According to the latest IRS study measuring 2006 tax return data, the U.S. Treasury loses \$450 billion annually due to taxpayer noncompliance, including underreporting income, overstating deductions and credits, nonfiling, and nonpayment. This amount is called the tax gap.

The IRS has stepped up its efforts to reduce the tax gap by scrutinizing tax returns, collecting back taxes, and finding nonfilers. For tax professionals and their clients, the increased IRS compliance activity over the past decade has translated into more post-filing work, including:

- Responding to more notices: According to the latest data, the number of IRS notices sent increased 570% from 2001 to 2009.
- Representing more clients in audits: The number of IRS audits has doubled since 2001, from 815,057 in 2001 to 1.66 million in 2012.
- Making more requests for penalty relief: In 2012, the IRS issued 38 million penalties. A striking example of the increase in penalty assessments is the 949% increase in the number of accuracy penalties issued to individuals from 2005 to 2012.
- Responding to matching notices: The IRS has quadrupled the number of underreporter matching notices (CP2000) sent, from 1.1 million in 2001 to 4.5 million in 2012. The IRS also added two new business income-matching programs in 2012.
- Helping clients who can't pay their outstanding tax balances: The IRS has ramped up collection activity. At the end of 2012, there were 11.5 million taxpayer accounts experiencing enforced collection of unpaid balances.

More taxpayers are seeing IRS compliance activity. Notices, audits, collection, appeals, and other post-filing incidents are increasing at a disproportionately higher rate than the total increase in taxpayers. There has been an 11% increase in the number of individual and business taxpayers from 2001 to 2012, compared with a 570% increase in the number of notices issued to taxpayers. Most of the increase in compliance activity is attributable to better information and information systems that can generate notices. These systems allow the IRS to ramp up compliance activity despite budget cuts.

The increase in IRS compliance activity comes at a time when tax professionals already have their hands full keeping up with the expanding tax code, which saw 4,680 changes from 2001 to 2012.

Providing assistance to your clients on IRS issues and notices does not require that you become an expert in the dozens of areas of practice and procedure. Data show that if you know the essentials of the following five areas, you can help your clients with most of their post-filing issues.

AUDITS

Although your clients only have a 0.9% overall chance of being audited, most clients expect that you will be able to provide them with expert assistance in an audit. Essential practice knowledge would include a good understanding of audit procedures, including how to appeal an audit decision. Most audits are correspondence audits, in which you provide documentation to prove your client's deductions and credits. However, the IRS conducts more than a half million field audits every year, and a large majority of those involve a small business. These audits can be comprehensive. To represent your client effectively, you will need to know the following essential components of an audit.

They are:

- Preparing effectively
- Conducting an initial interview with the agent
- Responding to issues that are developed in the examination
- Appealing any findings your client disagrees with

PENALTIES

Clients often need help with penalty relief. There are about 140 IRS penalties. Excluding the estimated tax penalty (which is almost always self-assessed at tax preparation), four penalties make up more than 98% of all the remaining penalties assessed on individuals, businesses, and employers. These are the failure to file, failure to pay, failure to deposit, and accuracy penalties. There are five reasons the IRS abates penalties, but the two most often used are first-time penalty abatement and reasonable cause arguments. Having a good understanding of how to abate the four most common penalties using the most common methods is the essential knowledge you need to cover most client problems when it comes to IRS penalties.

UNDERREPORTING/MATCHING NOTICES

The IRS sends many of these notices annually, and, for your client, they might look like an audit. Even though these underreporter inquiries follow deficiency procedures similar to those in audits, they are not audits; they are automated discrepancies between information on file with the IRS and a filed tax return. Efficiently submitting timely, streamlined responses to these notices is an essential part of every tax practice.

COLLECTION ALTERNATIVES

On occasion, clients get into financial trouble and can't pay their tax bill. Several collection alternatives are available for clients, including installment agreements, offers in compromise, and currently not collectible status. However, most collection agreements with the IRS involve the simplest alternatives: the guaranteed or streamlined installment agreement, or the extension of time to pay. In fact, guaranteed and streamlined agreements make up 95% of all installment agreements.

Tax professionals should have a good understanding of how to execute these simple alternatives. Save your efforts on understanding the offer in compromise program and complex ability to pay installment agreement determinations until you recognize the need for these options for the financially distressed client.

ACCOUNT CORRECTIONS

This is a growing area of concern for tax pros and their clients. Issues such as identity theft, payment postings, refund holds, and other tax return adjustments can be a headache for tax professionals. In most instances, you need to contact the IRS to discover the facts that led to the unexpected notice. The essential practice knowledge needed here is the ability to get accurate and relevant information most effectively from the IRS. Usually, this involves interviewing IRS personnel, asking the right questions, and responding with corrective action. This process can become complicated, as practitioners are often routed among multiple IRS functions as they try to rectify their clients' seemingly simple issue. After several unsuccessful attempts, it's a good idea to contact the Taxpayer Advocate for help resolving your client's issue.

With increased IRS compliance activity, it is inevitable that you will need to help your clients with a post-filing issue. Knowing how to execute the essentials of these five areas of practice and procedure will allow you to assist your client with most of the issues they see after filing.



Jim Buttonow, CPA/CITP, is cofounder of Beyond415. He has more than 26 years of experience in IRS practice and procedure. Reach Jim at JButtonow@Beyond415.com.

NSA Tax & Accounting Resource Center



Click on the links below to visit the Web pages for these helpful resources.

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Tax Talk: Tax Talk is a member-to-member networking forum where you can exchange ideas and benefit from the experience, knowledge, and wisdom of your peers.

NSA Tax Help Desk: Get expert answers to your Federal tax questions. Active and Associate members get five questions answered FREE!

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BREAKING THE NEWS

How to Prepare Your Clients for the Unexpected

From the NSA Blog | March 19, 2014

As a tax preparer, you sometimes have to break the news to clients that they owe a large amount on their tax returns. In some cases, clients have no idea that this is coming and have not prepared for a large tax bill.

NSA members recently weighed in on how to break the news gently. They offered tips learned from trial and error--and years of experience:

- Anticipate it. “As part of my interview with every client, I ask if their tax situation will remain the same for next year. And I do encourage off-season contact for planning, should something change.”
- Make a point of going over each client’s return for the previous year and checking it against the information they are giving you for the current year. Unless they have left something out, you can usually tell early on if they are looking at a large payment due. Even a new client should bring with them a copy of the prior year’s return. “I have been doing it this way for years and haven’t ‘surprised’ anyone,” said one member.
- When comparing this year’s return to last year’s, remember that not everyone is a numbers person. A visual comparison may be easier for the client to understand.
- Another member shared this: “The comparison sheet from Drake is the second page of the tax return for my clients. If they have a major change from the prior year, I highlight the changes, put the sheet before the bill, and go over every item with the client. These comparison sheets have saved a lot of explaining over the years. I find that most clients know, or have some idea, when they are going to have a large tax bill.”
- Be ready to explain what is different in this year’s return. In the words of one preparer, “If I can’t explain it to

myself, I won’t be able to explain it to the client.” This is especially important when clients have a large, unexpected tax bill. They may think you made a mistake. So look at the differences and be ready.

- “Depending on the client, I may use an ‘early warning system.’ For example, I may phone with a question or clarification, then add, ‘I’m not sure what you were expecting, but it’s looking like you may have a sizeable tax liability this year. I have a few more items to work with and then I need to check everything carefully.’ This provides at least a heads up for the client and some indication for me of what their expectation is.”
- Have tissues ready and options to pay the IRS.

Laying the groundwork with clients was a consistent theme among NSA members. Your conversations with clients throughout the year can help avoid surprises at tax time. “Over the years, I have developed a little speech I give to all my clients, and it goes something like this: ‘No matter what you do in life, it may affect your tax return. If you get married, get a divorce, someone dies, you inherit property or IRAs, you refinance your house, you leave a job, you take out a 401K distribution, have a child, buy a house, sell a house, sell other property—whatever happens to you may affect your tax return. BEFORE you do anything, please call your tax professional, because when you come in the following year to have your taxes done, it will be too late.’”

Remember, it is not your fault when the client owes tax. Encourage the people you work with to contact you during the year if their situation changes, so that you can help them plan ahead.



Main Street Tax News

By Andrew G. Poulos, EA

What You Need to Know About Forming a 501(c)(3) Nonprofit

By Andrew Poulos, EA

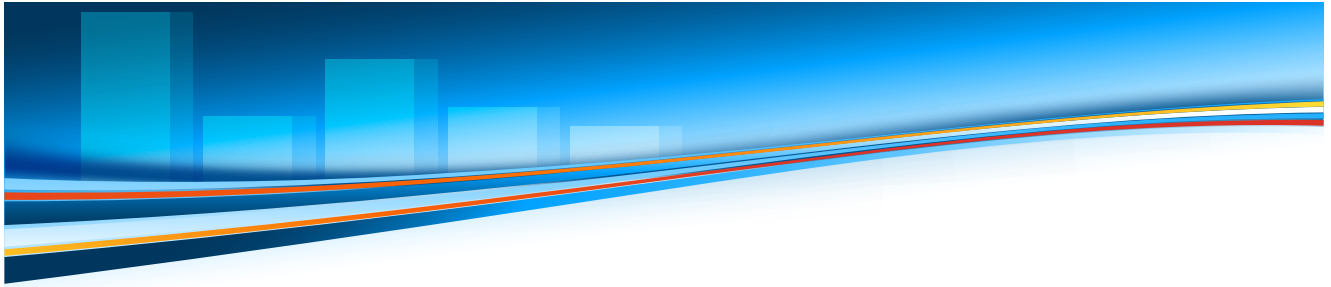
Advising nonprofit organizations on accounting and tax matters is a service that is a good way to build business in terms of gaining a new client business or helping an organization work through a special circumstance. Whether you're well-versed in the ins and outs of nonprofits or need an updated perspective, here's what you need to know about forming a 501(c)(3) nonprofit organization.

Nonprofit organizations are known by the general public as tax-exempt entities. However, not all nonprofits are approved 501(c)(3) entities under the Internal Revenue Code. Therefore, it is important that a nonprofit be formed correctly in order to receive approval from the IRS as a tax-exempt entity.

During the 501(c)(3) application process, the founder(s) must assess the long-term goals of the organization to determine whether it will be formed as a public charity or as a private foundation. If the organization plans to operate with general public support, it should apply for 501(c)(3) status as a public charity. On the other hand, if the primary financial support is derived from the organization's directors, officers, and relatives, the organization will be classified as a private foundation exempt under Section 501(c)(3) of the Internal Revenue Code. Furthermore, nonprofit organizations that are formed as schools, hospitals, churches, and governmental units are classified as public charities.

There are many benefits for having your nonprofit organization become an approved 501(c)(3). Some advantages that other entities are not afforded include the following:

- Directors and officers have limited liability for the operations of the organization.
- The organization has perpetual existence that allows it to operate after the death of the founder(s).
- Donations are tax deductible on the donor's tax return. Being able to market your organization as an approved 501(c)(3) gives donors the comfort of knowing that their tax deductible donations will not be challenged by the IRS.
- 501(c)(3) organizations have access to private and government grants that are usually only available to nonprofit organizations that are tax-exempt.
- The organization has protection of property and donated assets that are used for exempt purposes.
- The organization can apply for free public service announcements on radio and television.
- In some cases, nonprofits offer health insurance, group life insurance, payment of medical expenses and approved retirement plans to their employees, directors and officers. This is a benefit directors and officers cannot get themselves because they work, for example, in an S corporation versus a C corporation where these types of benefits aren't available.
- Nonprofits may receive discounts on advertising in some publications.



- Retailers sometimes give discounts to nonprofit organizations and their employees.
- Nonprofit organizations are eligible to apply for bulk postage rates.
- Once approved as a 501(c)(3), the organization does not need to reapply for approval so long as it maintains compliance with the IRS.

passion is helping adults with disabilities, children with autism or cancer, war veterans, or any other cause, IRS compliance is key to long-term operations.

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A nonprofit organization that applies for tax-exempt status as a public charity will need to show that it is largely supported by the general public rather than its directors, officers, and their families. To show that the organization is supported by the general public, at least one-third of the funds should be from the general public. Although the initial funding may come from the directors and officers, this does not disqualify the organization from becoming an approved 501(c)(3) as a public charity. The application will be submitted as a public charity rather than a private foundation. Once the IRS approves the application, the organization will have 5 - 7 years to prove that the large part of the funding is derived from general public support.

There is something to be said for being able to operate an organization that provides public support for your cause without having to pay corporate taxes. Whether your



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Columnist of "Main Street Tax News" - National Society of Accountants
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Tax season is here.

Is your earning power protected?

Help protect your income year-round with NSA's Tax Season Group Disability Income Protection Plan.

With NSA's Group Disability Income Protection Insurance Plan, administered by Forrest T. Jones & Company (FTJ), you can **receive 140%** of your benefit amount if you are disabled during tax season.

- Monthly benefits up to \$5,000
- 140% of your benefit during tax season in the first year of a disability
- Flexible plan options to fit your needs
- Competitive rates that make protection affordable

Forrest T. Jones & Company has been a proven insurance partner for accountants for more than 40 years. To learn more about this plan and how it can work for you, call (800) 821-7303 or visit www.ftj.com/nsa.

Administered by:



Forrest T. Jones & Company*
3130 Broadway • P.O. Box 41831
Kansas City, Missouri 64141-8131
(800) 821-7303

** In Arizona, administrator is Forrest T. Jones Consulting Company.*

Sponsored by:



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