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TANGIBLE PROPERTY REGULATIONS: CHANGES COMING?



REFLECTING ON TY2014: THE FOUNDATION OF A SUCCESSFUL TEAM



PREVENTING CRISIS: PART IV



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Main Street Practitioner is published six times per year in digital and print formats by the National Society of Accountants, 1010 N. Fairfax Street, Alexandria, VA 22314-1574. Subscriptions are available. Questions or requests can be directed to Editor, Julene Joy, at jjoy@nsacct.org.
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TAX / TAX UPDATE

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By Marilyn Niwao, J.D., CPA, ATA, CGMA

May 2015

Time to Rest and Reenergize!

Hope all of you had a successful and prosperous busy season! Each busy season seems to bring its own challenges, and it's always important to recognize that you need to take some time to wind down and decompress—and plan for some fun!

As a reminder, the deadline for the special Super Early Bird Registration Rate for the 70th NSA Annual Convention & Expo is May 15, 2015, for those wishing to take advantage of additional convention savings. Add in savings of approximately 20 percent on hotel, meal, and activity costs due to the favorable U.S. dollar currency exchange rate against the Canadian dollar and you will solve both your continuing education needs and your next family vacation plans by attending the NSA convention.

The 70th NSA Annual Convention & Expo will be held from August 19 to 22, 2015, at the Hyatt Regency Vancouver. The Wednesday opening social event will be a Vancouver Harbor Dinner Cruise. In addition to meetings, leadership training, business sessions, cocktail and dessert receptions, and the installation banquet, there will be continuing education offerings (Planning with Trusts, Circular 230 ethics, SSARS 21, International Tax, Business Financial Health Check-up, and Risk Management) and an Expo with vendors offering products pertinent to your practice.

Due to the limited hotel room block for the NSA convention, please make your hotel room reservations and send in your convention registration form as soon as possible at www.nsaannualmeeting.org/home. Vancouver is a top destination vacation spot, so plan now to bring your family!

Aside from NSA convention planning, what's been happening at NSA? NSA volunteers have been hard at work to offer more to NSA members. I have spoken for some time about having NSA lobby to seek legislative relief by having laws and rules passed that would reduce the amount of stress that practitioners face each year. Accordingly, I have asked our NSA Tax Committee to work on a "Tax Practitioners' Bill of Rights" to advocate for changes. As more and more complex tax legislation is passed by Congress at the last minute, and as more penalties and complex rules are imposed, very few writing the laws and rules seem to recognize the impact and burden on practitioners. Hopefully, the proposed "Tax Practitioners' Bill of Rights" will focus attention on basic rights that tax practitioners should have in practicing their profession.

The Education committee has been working on more webinars and live seminars, such as the Vancouver convention offerings and the Gear-Up 1040 seminar from November 5 to 6,

2015, at the Mohegan Sun Resort in Uncasville, Connecticut. The Accounting Standards committees have been busy writing articles and having them published in NSA's Main Street Practitioner.

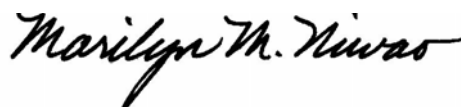
The Membership Committee has been working on adding member benefits, including offerings for the younger generation of tax and accounting professionals. The Young Professionals Division of NSA has been formally established by the NSA Board, and the Young Professionals Committee has been communicating about NSA offerings that would be helpful to those younger members who are at the start of their careers and/or earning credentials.

The Building Committee and the Board have been working on selling the old NSA office building and leasing a new office space adjoining the Braddock Road Metro Station in Alexandria, Virginia. If all goes well, NSA will be moving its office in late June or July of this year. All other committees are also busy at work, as there is a lot to be done for NSA.

Help NSA grow by signing up new members! NSA's new Go-Getter Program offers current NSA members generous financial incentives to sign up new members and help expand NSA's extended family so that we can offer all members more and better benefits. Between October 1, 2014, and September 30, 2015, NSA members can receive their own future yearly membership dues free when they sign up 3 new members. Current members who recruit 10 new NSA members will also get \$300 credit toward NSA live or self-study education, or toward NSA annual convention registration fees. (For this new promotion, the new member recruited must pay at least \$179 in NSA membership dues, must not have been a member of NSA for at least one year, and must not have been recruited at the IRS forums.)

Here's wishing you the best as you rest and reenergize!

With warmest aloha,



Marilyn M. Niwao, J.D., CPA, ATA, CGMA
President
National Society of Accountants



SSARS 21 is Coming!

Part IV

By Joseph L. Santoro, CPA

This is the fourth and last in a series of articles intended to provide NSA members with advance information about the AICPA's Statement on Standards for Accounting and Review Services [SSARS] No. 21 which was released on October 23, 2014. The first article described a new level of engagement—The Preparation—which falls below the level of a Compilation as defined by the Accounting and Review Services Committee of the AICPA. The second article discussed the changes to the Compilation level of service and offered comparisons between the new Preparation and the new, revised Compilation. The third article described the changes to the new representation letter for the Review level of service. This, the fourth and final installment of the series, addresses the new Review Report.

Summary of Previous Articles Entitled: SSARS is Coming! Parts I, II, & III

On October 23, 2014, the Accounting and Review Services Committee of the AICPA released SSARS No. 21, which is the most significant change to the presentation of non-audited financial statements since SSARS was introduced in 1978. This standard—which is mandatory for reporting periods that end on or after December 15, 2015 but is available for early implementation—effectively expands financial statement presentation and reporting options to five:

1. The Audit
2. The Review
3. The Compilation with full disclosure
4. The Compilation in which substantially all disclosure are omitted.
5. The Preparation

In Part I of the series, the topic is The Preparation. The Preparation is a non-attest service which can be provided by an accountant when financial statements have not been subjected to procedures required by an Audit, a Review, or a Compilation. The Preparation standards permit the accountant to provide financial statements to the entity that have no significant visual differences from those of other service levels. However, when The Preparation level of service is provided, two very important distinctions are required: (1) the accountant is prohibited from including an accountant's report with those statements, and (2) each page of the financial statements must contain a legend clearly stating that "no assurance is provided" on the accuracy of those statements. Nevertheless, such preparation level statements may be forwarded to a third party for their use, as appropriate—even if the purpose is to obtain credit! And, since no report is issued, The Preparation level of service is expected to obviate the need for peer review.

In Part II of the series the content is the new Compilation standards. The Compilation, under SSARS No. 21, is also markedly different. While SSARS No. 1 [essentially in effect from 1979 to 2009] required the release of an accountant's report with a minimum of two paragraphs of explanation, and while SSARS No. 19 [essentially in effect from 2010 through 2014] required an accountant's report to have at least three paragraphs of information, the new SSARS No. 21 reduces the minimum number of Compilation level paragraphs to one. Further, SSARS No. 21 requires the accountant to include the following revised statement of the objective of a Compilation within the body of the accountant's engagement letter:

"The accountant's objective in a compilation engagement is to apply accounting and financial reporting expertise to assist management in the presentation of financial statements and report in accordance with this standard without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements in order for them to be in accordance with the applicable financial reporting framework."

Note that special phrase: "to apply accounting and financial reporting expertise." For the first time an accountant who issues a Compilation report will state within the engagement contract that he or she is an "expert" in the field of accounting.

Part III of the series addressed the professional standards related to the Management Representation Letter for an accountant's Review report. The focus was on its new content and tone. That is, the new "tone" implies that the accountant was motivated by management to perform certain tasks, and that management, in addition to making assertions about its own role in the reporting process, made

specific, positive confirmation that it had fulfilled each of its responsibilities in the reporting process, e.g.:

“We acknowledge our responsibility and have fulfilled our responsibilities for the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In other words, management claims responsibility for the institution of appropriate controls and asserts that those controls work!

For more information on the above topics, please refer to previous editions of NSA's Main Street Practitioner.

[Click here to read Part I](#)

[Click here to read Part II](#)

[Click here to read Part III](#)

AR-C Section 90: The new Accountant's Review Report under SSARS No. 21

The “new” standards for the Review level of service only apply to full operating cycle presentations. That is, when an accountant is engaged to provide a Review level of service for interim financial statements, the appropriate guidance is found at AU-C Section 930, Interim Financial Information.

That being said, the “new” standards for the Review level of service under SSARS No. 21 remain relatively unchanged. The accountant's objective continues to be obtaining limited assurance as to whether the accountant is aware of any material modifications that should be made to the financial statements for them to be in accordance with the applicable financial reporting framework.

The accountant must still apply analytical procedures to evaluate the plausible relationships among both financial and non-financial data to render the opinion about material modifications. The accountant can provide Review level services under generally accepted accounting principles [GAAP] or through the use of a special purpose framework such as cash basis, tax basis, or other acceptable alternatives to GAAP.

However, some of the more striking differences with respect to Review level services compared with prior “review level” SSARS standards involve (1) the tone and style of the management representation letter and (2) the formatting and appearance of the accountant's review report. This change in tone from the equivalent of passive to active voice is similar to the change in tone found in the new Compilation; therefore, refer to the previous article in this series for commentary.

Note: Sample engagement letters for both the Preparation and the new Compilation were provided in the first two articles in this series. The SSARS No. 21 engagement letter for a Review is similar in approach and content to that of the Compilation. Consult AR-C Section 90 for an illustration.

The remainder of this article provides observations with respect to the new Review report under SSARS No. 21.

As noted in the prior articles related to SSARS No. 21, the Preparation level of service prohibits the issuance of a report. The new Compilation standards require a report, but the format of the report is to be so markedly different in presentation from either the Review or, for that matter, an Audit, that no reader should be misled into thinking that a Compilation provides any form of assurance.

The new Review Report has two major components:

1. It is more similar in appearance to an Audit than the prior version
2. The Report explicitly draws the reader's attention to each distinctive premise of thought embraced by the report itself. Major propositions are to be highlighted through the use of captions or titles that are emboldened. In this way the intent of the accountant to help focus the reader's attention on certain limitations or reporting issues of importance is dramatized.

Illustrative Review Report Under SSARS No. 21: An Accountant's Review Report on Single Year Financial Statements Prepared in Accordance with the Tax Basis of Accounting.

(Caveats: (1) The Review is for a single year; (2) The entity is a partnership that uses the income tax basis of accounting for presentation purposes; (3) Management understands that it had choices when it selected the appropriate financial framework.)

Independent Accountant's Review Report

(Appropriate Entity Address)

I (We) have reviewed the accompanying financial statements of NSA Partnership, which comprise the statements of assets, liabilities, and partners' capital—tax basis as of December 31, 2015, and the related statements of revenue and expense—tax basis, and partners' capital—tax basis for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to managements' (the partners') financial data and making inquiries of partnership management (the owners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, I (we) do not express such an opinion.

Management's Responsibility for the Financial Statements

Management (The partners) is (are) responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Partnership uses for income tax purposes; this includes determining the basis of accounting the Partnership uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management (The Partners) is (are) also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

My (Our) responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require me (us) to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with the basis of accounting the Partnership uses for income tax purposes. I (We) believe that the results of my (our) procedures provide a reasonable basis for our report.

Accountant's Conclusion

Based upon my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the Partnership uses for income tax purposes.

Basis of Accounting

I (We) draw attention to Note X of the financial statements which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the Partnership uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

[Signature of Accountant or the Accounting Firm]

[Accountant's city and state]

[Date of the Accountant's review report]

[Download a copy here](#)

Note in the above illustration that the use of a special purpose reporting framework (the income tax basis), which under SSARS No. 21 becomes the terminology to reference an other comprehensive basis of accounting (OCBOA), is highlighted in an isolated paragraph with its own caption. The use of “isolated” paragraphs to grab the reader’s attention is a significant feature of financial reporting at both the Review and the Audit levels.

For example, the following additional paragraph would be added to a report that contained a departure from the basis of accounting being used:

Known Departure from the Tax Basis of Accounting

As disclosed in Note X to the financial statements, the Partnership depreciates its long term assets based upon their estimated useful lives rather than using the method of depreciation consistent with the Modified Accelerated Recovery System as prescribed by the United States Internal Revenue Service when tax returns are prepared and filed. The net effect upon these financial statements is to increase the carrying value of long-term assets. The use of estimated useful lives for depreciation purposes rather than the use of tax depreciation increases the net carrying amount of these assets by \$850,000 over the amount of the net carrying value of these assets had the tax method of depreciation, with its pre-determined accelerated and optional expensing methods, been applied.

Final Thoughts

There is no avoiding the fact that SSARS No. 21 represents a significant change in the way accountants will perform non-audit engagements and report on the related financial statements. If an accountant has been avoiding accounting CPE because it is “boring,” or because it is “same-old, same-old,” that attitude must change—at least in 2015.

The alterations in accounting preparation and reporting procedures imparted through the application of SSARS No. 21 are enormous in their impact. This new standard is the most significant change in accounting and review services in 35 years. With major changes to the Review Reporting format, with the drastic overhaul of Compilation procedures, and with the addition of a new level of reporting—The Preparation—below the Compilation level that is absent the requirement to issue an accountant’s report, none of us can afford to be passive with respect to training in Compilation and Review Procedures this year, and probably for the next few years as we all learn more about what these changes mean to us, to our clients, and the third parties who rely upon our work product.

Watch for an impact on Peer Review, as well. Since there is no report to be evaluated during the Preparation level engagement, to what extent will peer review standards have to be changed to address this new anomaly? Is it possible that a large percentage of the accounting population will no longer be subject to the peer review regimen by avoiding the issuance of a report?

Be prepared for more changes. Be prepared for more accounting education.

And, be prepared for this: SSARS No. 21 is not merely “coming.” SSARS No. 21 has arrived!

Editor's Note: These articles were written September 14, 2014 based upon the revised proposed SSARS No. 21 as of August 21, 2014. Subsequently, the ARSC Committee met twice more to make additional revisions that culminated in the release of SSARS No. 21 in December 2014. Readers are advised to check for themselves the final approved text of SSARS No. 21 for any differences between the proposal and the final standard. NSA will update these articles for those differences in the near future.

Joseph L. Santoro is a certified public accountant, an AICPA member, and, since 1981, a member of the National Society of Accountants. In addition to an MBA degree, Mr. Santoro has earned credentials that include Certified Valuation Analyst, Accredited Business Advisor, and Master Analyst in Financial Statement Forensics. A former two-term NSA District 1 Governor, he has chaired numerous NSA committees, including Budget, Education, National Affairs, and Peer Review. He is the current chair of the NSA Accounting Standards Committee and also serves as a member of the Board of Directors for the Accreditation Council for Accounting and Taxation [ACAT], where he has for many years provided guidance as a subject matter expert for its credentialing examinations. Although retired from the CPA practice he founded more than 30 years ago, Mr. Santoro, known nationwide as an author and lecturer for Thomson Reuters’ Gear Up Brand seminars for the last twenty years, continues to provide lectures on accounting and taxation at more than 80 sites each year.

TANGIBLE PROPERTY REGULATIONS: CHANGES COMING?

By John Ams, CAE



The IRS and Treasury struggled to defend the \$500 de minimis safe harbor deduction limit during a presentation at the ABA Tax Section meeting in Washington on Friday.

“We are sympathetic. We understand the amount is arbitrary,” Ken Beck, taxation specialist in the Treasury’s Office of Tax Policy, said. “The question is, what is the appropriate amount?”

What is readily apparent is that \$500 is not the appropriate amount.

NSA and about 100 other commenters sent letters to the Internal Revenue Service seeking to raise the \$500 safe harbor for deducting, rather than capitalizing and depreciating, tangible property expenses. Beck acknowledged that “no one” requested that the threshold be lowered or remain the same. Rather, Beck estimated most commenters wanted a threshold of about \$2,500 to ease the administrative burden on small taxpayers.

Andrew Keyso, IRS associate chief counsel (income tax and accounting) appeared on the same panel as Beck at the ABA meeting, also acknowledge the IRS was surprised when even the AICPA asked the IRS to expand the definition of the applicable financial statement (AFS), such as a Securities and Exchange Commission filing or an audited shareholder statement, so that more taxpayers could use the higher

\$5,000 limit currently in place. However, Keyso stated it would be easier, and therefore more likely, for the IRS to change the safe harbor limit than update the AFS definition in the regulations. “We’re still looking into whether we want to do this,” Keyso said.

Most meeting participants, including NSA Executive Vice President John Ams, were left with the distinct impression the \$500 limit would be raised to at least \$2,500, if not more, at some point this year.

Beck also said clarifications to Revenue Procedure 2015-13, which consolidates and updates the procedures for making automatic and non-automatic accounting method changes, would be coming “shortly, but not imminently.”

[Visit the NSA Blog](#)



NSA Presents the ConnectED Upcoming Webinar Schedule

[See the full webinar listing](#)

IRS Preparer Penalties and the Strategies to Avoid Them

June 2

2:00 PM ET (11:00 AM PT)

Over the last several years, the IRS has begun aggressively asserting IRC §6694 and §6695 penalties against preparers. This webinar will address important components of return preparation including:

- due diligence
- the risks and rewards of relying on client information
- office review and approval mechanisms
- issues arising out of e-filing
- strategies for avoiding preparer penalties and contesting them when proposed by IRS

[Read more](#)

Presented by Robert E. McKenzie, EA, Attorney

NASBA CPE: 2 Hours/Taxes

IRS CE: 2 Hours/Federal Tax Law

2015 Representation Update

June 3

2:00 PM ET (11:00 AM PT)

Over the past several years the IRS has seen its budget cut significantly. There has been a corresponding reduction in the quality of service provided by IRS. It has dramatically reduced its enforcement efforts.

This webinar will examine the methods IRS is using in this new enforcement environment. It will cover:

- new IRS examination priorities and procedures,
- IRS collection priorities and procedures,
- IRS criminal investigation initiatives,
- recent important developments for practitioners,
- taxpayer advocate services report on problems in the tax system,
- new procedures at IRS campuses, and
- the impact of new IRS leadership.

[Read more](#)

Presented by Robert E. McKenzie, EA, Attorney

NASBA CPE: 2 Hours/Taxes

IRS CE: 2 Hours/Federal Tax Law Update

Preparing for the Next Round of Offshore Tax Enforcement: What Practitioners and Their Clients Need to Know Now

June 4

2:00 PM ET (11:00 AM PT)

Since 2008, the Internal Revenue Service and the Justice Department have waged an unprecedented enforcement campaign to crack down on offshore tax evasion by U.S. taxpayers. The U.S. government has aggressively enforced current laws requiring reporting of offshore income and disclosure of non-U.S. bank accounts and investment activity. With the passage of the Foreign Account Tax Compliance Act (FATCA), the IRS has new tools to uncover

offshore bank accounts and investment activity. Practitioners must be aware of the income and information reporting requirements in this area so as to properly advise their clients and prepare for a coming wave of additional enforcement activity by the IRS and DOJ in the civil and criminal areas.

[Read more](#)

Presented by Matthew Lee, Esq.

NASBA CPE: 2 Hours/Taxes

IRS CE: 2 Hours/Federal Tax Law

Form 3115 Line-by-Line

June 9

2:00 PM ET (11:00 AM PT)

The personal property regs finalized in 2014 and the IRS announcements that almost every business owner should file a Form 3115 in 2014 got everybody talking about this seldom used form. Unfortunately the discussion began so late in the year that most tax professionals ran out of time before they were able to gain a real understanding of when and why the form should be filed. To add to the confusion, the IRS issued several notices changing their guidance about Form 3115.

Now that tax season is behind us, we should take a closer look at all this guidance and determine whether we did the right thing for our clients, and how to fix it if we didn't. In this webinar, we will:

- Review the new regs that caused all this commotion and determine which clients could benefit from changing the status of items previously categorized as "Improvements" to "Repairs"
- Discuss the advantages of filing Form 3115 for 2014 rather than choosing to simply apply the new regs going forward
- Look at the long-term ramifications of your choices regarding Form 3115.

And most importantly, you'll learn some valuable shortcuts that will help you complete this 8-page form in mere minutes! Properly reporting depreciation corrections can lead to big refunds for your clients that will make them loyal to you for a lifetime.

[Read more](#)

Presented by Lisa Ihm

NASBA CPE: 2 Hours/Taxes

IRS CE: 2 Hours/Federal Tax Law Update

EA Part 2B: Businesses II

June 16

2:00 PM ET (11:00 AM PT)

This is the second of two webinars devoted to Part 2 - Businesses of the Enrolled Agents Exam. The purpose of EA Part 2 is to review an additional ten topics that are often tested on Part 2 of the exam, including all tax issues related to both C Corporations and S Corporations, estate and trust income taxation, and business retirement plans. Sample questions for each topic are interspersed within the presentation and will be worked and explained, and test-taking tips will be emphasized.

[Read more](#)

Presented by John Everett and Cherie Hennig

NASBA CPE: 2 Hours/Taxes

IRS CE: 2 Hours/Special Enrollment Exam Test Preparation

[View Webinar Listing](#)

REFLECTING ON TY2014

THE FOUNDATION OF A SUCCESSFUL TEAM



By Christopher W. Dodd, CPA

Lou Holtz is a great football coach and former ESPN analyst. He coached at six different schools and led the Fighting Irish football team to 100 victories in 11 seasons. His successes were not guided by a convoluted set of rules, but rather, could be addressed with three basic questions: 1) Can I trust you?, 2) Are you committed? and 3) Do you care about me? When a statue was erected on Notre Dame's campus to honor the great coach, three words were chosen to go on the pedestal of the statue: trust, commitment and love.

These three words serve as the fundamentals to any strong team.

Our firm's Tax Department decided to have a "pep rally" to start off the 2015 spring busy season. When you think of a pep rally, you think of cheerleaders, pompoms, yelling, singing and a marching band. So, what do accountants do? We watched a Kid President video via YouTube to lighten the mood, cracked a few jokes and discussed busy season expectations. We also discussed Holtz's three simple rules of life, how to have a better busy season and how to make our team stronger by incorporating trust, commitment and love into our daily interactions.

Trust is the basis of any relationship; it gels a team together to create one cohesive unit.

Tax and audit engagement teams work just like a sports team. The seniors trust that the associates will complete the preparation of the project in a timely manner. Managers trust that the seniors will provide a detailed review of the project. Directors trust that the managers have made sure all FASB standards or Internal Revenue Code sections are adhered to so that, finally, the director can use his or her experience and knowledge to effectively review the project. Each of these steps leads to the completion of a successful engagement.

As I look back at the most recent tax season, I can clearly see how trust played a key role in the effectiveness of each team member. Last year, as a first-year manager, I was supposed to be completing a manager's review, but I soon became much too involved in the details of each engagement because I would try to fix every single error myself. I thought that it would be faster and less likely to come back to me with errors if I corrected all of the errors from each project I reviewed rather than send it back with corrections to the senior or associate who was assigned to the client. By taking on all of the additional work and not trusting in the process, I was giving myself a Hail Mary's chance to complete all of my engagements timely and effectively.

The attitude of “I can do it better” is great for head-to-head competition, but it does nothing to build a team’s ability to function as a unit. As experienced team members, we must allow the less experienced team members to learn and grow from their mistakes, so that in the future, the less experienced staff will be better equipped when they encounter similar situations. The only way for this to happen is to allow the process to play out as designed and let less experienced team members update their work for corrections, in order for them to understand their errors. If my managers had not done this for me when I was an associate, I would not be the manager that I am today.

This year, I put more trust in the team members supporting me, and it paid off. Several unexpected situations came up that required me to commit many more hours to a couple of engagements than originally planned. Last year, I would have tried to “carry” the team and would have not been as effective in my job as I could have been. This busy season, however, I put more faith in the engagement team. I communicated to the senior and associate what needed to be corrected and let them update the return in an agreed-upon timeframe. I was then able to focus my time and energy on items that truly needed my expertise to be completed. Therefore, each member was more effective in his or her job, allowing the project to be deliverable and out the door in a timely manner.

Just as a quarterback trusts that the wide receiver will run the practiced route, senior associates, managers and directors need to trust that their team will also rise to the occasion and get the required task completed. If we never put faith in the process, we can never expect it to work.

and develop the talent necessary to improve, in hopes of winning a championship.

Advisors are not giving up tens of millions of dollars so that our organizations can build a dream team; however, we do give up something just as valuable: our time and energy. If we are truly committed to our organizations and our people, we need to take the time to make sure we are providing every opportunity for our people to develop. Since commitment is a two-way street, we need to make sure that the individuals being provided the opportunities for expanded roles are equally committed to the goals and expectations of the organization.

The goal of any accounting practice is to serve its clients in the most effective manner possible. I reflected back on the 2014 spring and fall busy seasons and concluded that I needed to make a better effort in 2015 to be more effective in my engagements by giving others the opportunities to take ownership. Several of my fellow managers subscribed to the same consensus regarding 2014. We decided to review a list of the engagements that were assigned to each of us, assign a senior associate if one was not previously assigned and have an engagement kickoff meeting with each senior regarding the engagements we assigned to them. This is not intended to dump the entire engagement onto someone else; rather, it’s an opportunity to clearly define roles and expectations for all of your engagements. More importantly, this is the opportunity to get a buy-in from your team members that they are willing to accept the opportunity to develop into a role to which you are already well accustomed.

Did every engagement go as planned after the transition? No,

AS EXPERIENCED TEAM MEMBERS, WE MUST ALLOW THE LESS EXPERIENCED TEAM MEMBERS TO LEARN AND GROW FROM THEIR MISTAKES, SO THAT IN THE FUTURE, THE LESS EXPERIENCED STAFF WILL BE BETTER EQUIPPED WHEN THEY ENCOUNTER SIMILAR SITUATIONS.

Commitment is a mutual understanding between people and organizations to achieve a common goal. It is one of the fundamental building blocks of successful organizations.

The greatest achievement for athletes is a championship title. Teams train year round in order to equip themselves with the skills and abilities required to make a championship run. All-star athletes have shown great levels of commitment and loyalty to organizations by taking less money to stay with their team, rather than leaving for a higher salary elsewhere. By taking less money, the player allows the team to acquire

but that is to be expected. When a senior collegiate athlete graduates, no one expects the freshman backup to come off of the bench and start next season’s opening game without any mistakes. The role of team management in these situations is to create a platform where the younger team member can succeed. In my case, I took several initiatives to better equip the individuals to whom I passed along most during the day-to-day engagement processes. I made sure to go over the client’s operations if the senior was new to the assignment. If the senior had not yet communicated with the client before, I reviewed draft emails before official information requests

were sent out. I also made sure that the senior associate created the schedule and budget for the engagement in order to better understand how the engagement should flow.

Commitment to the development of others is not fulfilled by just handing over the reins to an engagement. During the process of someone stepping into a new role, be sure to monitor progress, check in and, if necessary, provide feedback and advice. Remember, shifting roles does not mean shifting overall responsibility. Each level of management is responsible for the levels below them. Your commitment to another's development allows you to develop in areas where you are not well accustomed.

Championship teams have chemistry between management and players, bonding the team in such a way that allows them to accomplish great things. Athletes and coaches are not always the best of friends off the field; however, they have enough professional respect for their teammates and leaders to help each other be successful on the field.

This past busy season, I witnessed several acts of professional care and respect among colleagues. One such instance was a team member reaching out to others on his experience level, asking for help because he became swamped with all of his engagements. A colleague answered his call and took a few engagements off his plate. Another instance occurred when a coworker stepped in and asked another colleague what she could do to help after observing how much remaining work her colleague had to complete for the upcoming deadline. Even though the coworker was finished with her deadline projects, she still reached out to help a colleague in need.

I know that I am fortunate to witness these acts of professional respect and care. Whenever I am out recruiting college students for internships, they often ask me what makes people stay at your firm, and I am able to cite examples such as these. Professional respect and consideration are the reasons that employees stay with a firm. A respected and cared-for employee is a company's best cheerleader. Take the time to find out if your

employees are happy, and if not, how you can make them feel like a valued member of the team.

Trust, commitment and love represent the foundation of a successful team. If you seem to be missing any or all of these components, be the catalyst for change to help your organization work more like a team rather than just a collection of individuals. Only then can you win a championship, or in your case, a true tax season success.

IF WE NEVER PUT FAITH
IN THE PROCESS,
WE CAN NEVER EXPECT
IT TO WORK.



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▪ ALL AROUND NSA

BACK BY POPULAR DEMAND: NSA HOSTS GEAR UP INDIVIDUAL TAX SEMINAR

The Gear Up's industry-leading two-day 1040 course attracts thousands of attendees each year. Attendees receive a comprehensive manual that alone is worth the price of registration! Gear Up's speakers are superlative in their fields as hands-on practitioners and recognized authorities.

This comprehensive course covers key tax issues for completing complicated individual returns. All topics include coverage of new legislation and extenders, revenue rulings and procedures, and case law to help the busy practitioner keep current. Speakers are all practicing preparers who will share practical tips and insights to help you get ready for tax season.

Mohegan Sun, created in 1996 by the Mohegan Tribe of Connecticut, is one of the world's most amazing destinations with some of New England's finest dining, hotel accommodations, retail shopping, live entertainment and sporting events. Amenities include: three world-class casinos, a 10,000 square foot pool, a luxurious day spa, and a state-of-the-art poker room. Make a vacation out of it!

Topics include:

- Complete coverage of new tax rates for higher income taxpayers
- Return of the phase-out of itemized deductions and exemptions
- New Medicare taxes effective in 2015
- Health care insurance penalties effective in 2015
- Permanent and temporary extensions
- Updated information on Form 1099
- Changes to the IRS Voluntary Classification Settlement Program
- Due diligence requirements for claiming the EIC
- Changes to Circular 230 and other IRS preparer requirements
- Business and energy extenders
- Reporting foreign financial assets on Form 8938
- Good news on AMT and transfer taxes
- Safe harbor deduction for home offices

Schedule:

November 5: 8:00 am - 4:45 pm

November 6: 8:00 am - 4:45 pm

NSA Gear Up
1040 Individual Tax Seminar
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CPE TAX /
TAX UPDATE

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ACAT ACCEPTING REGISTRATIONS FOR THE NEXT TESTING WINDOW EXAM DATES: JUNE 1-30

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:

- ABA Accredited Business Accountant/Advisor®
- Accredited Tax Advisor® (ATA)
- Accredited Retirement Advisor® (ARA)
- Accredited Tax Preparer (ATP)

Testing for these exams is held at PSI Testing centers, located throughout the country. The next testing window is June 1-30, 2015.

For more information and to register to earn one of these credentials, visit acatcredentials.org.

IRS TO REFUND TEST FEE FOR RTRP CREDENTIAL HOLDERS

IRS announced that the RPO is refunding the test fee to all RTRP holders who passed the exam to receive this credential. Letters will go out to the preparers on May 28. Checks will be mailed on June 2, 2015. The checks will be mailed to the address on the PTIN file. The list has already been pulled so addresses cannot be updated at this point.

Checks to be issued is approximately 89,000 preparers, totaling approximately 10 million dollars. There will be procedures and additional staff allocations to handle questions and phone calls from preparers who took test.

Additionally, the RTRP credential will no longer be recognized by the Service however, no efforts will be made to penalize preparers who continue to use it.

NSA LAUNCHES NEW RESPONSIVE DESIGN WEBSITE

In an effort to provide members with the very latest website technology, NSA has launched a new website. This website is still located at www.nsacct.org. Your login did **not** change. What did change?

- This new, responsive website is scaled to fit on any screen, whether you are viewing on a computer screen, tablet, or smartphone.
- The website is hosted by the same provider as the MemberConnect members site, where the resource libraries, discussion forums, event calendar, and other members-only content is housed. This will provide better search results, as all content is located in one searchable database.
- The new design is clean, easy to read, well organized, and it has a very user-friendly interface, making it easy to navigate and find the many resources available to you as an NSA member.

We are confident that you will find this a great enhancement to your membership and that the many improvements will make the many reasons you joined NSA at your fingertips. Have you seen it yet? If not, go to www.nsacct.org today and take a look. A sample of the new homepage is on the next page.

Questions? Contact us at members@nsacct.org or 800-966-6679.

NSA WELCOMES KAREN HAWKINS, NASBA PANEL TO THE 70TH ANNUAL CONVENTION

Speakers

[Visit the Convention Website](#)



Ken Bishop
NASBA President and CEO

Ken L. Bishop serves as president and chief executive officer of NASBA as well as chief executive officer of NASBA's ethics arm, the NASBA Center for the Public Trust (CPT). Prior to acceding to the president and CEO role in January 2012, Bishop served as executive vice president and chief operating officer of NASBA, where he was responsible for leading NASBA's business and testing operations.



Karen Hawkins
Director of IRS
Office of Professional
Responsibility

Karen L. Hawkins is the Director of the IRS Office of Professional Responsibility. Prior to taking this position in April, 2009, Ms. Hawkins was in private practice at the Oakland, California law firm of Taggart & Hawkins where she specialized in civil and criminal tax controversy cases for nearly 30 years. She has been a frequent speaker and writer on a variety of diverse tax law topics including: Innocent Spouse Relief, Attorney's Fees Awards; Collection Due Process; Civil and Criminal Tax Penalties; Tax Court Litigation; International Tax issues and Ethics in Tax Practice. Ms. Hawkins has a number of reported precedent-setting tax cases to her credit in the US Tax Court and Ninth Circuit Court of Appeals. Ms. Hawkins has recently announced she is leaving her post at the IRS, effective July 2015.



Walter C. Davenport, CPA
NASBA Chair

Walter C. Davenport, CPA, serves as the 2014-15 chair of NASBA. From 2003-2012, he served on NASBA's Board of Directors, as director-at-large and as Middle Atlantic regional director. Mr. Davenport is a former chair of NASBA's Administration & Finance, Audit, CPA Licensing Examinations, CPE Advisory, and Strategic Initiatives Committees. Additionally, he is a former member of NASBA's Uniform Accountancy Act, Compliance Assurance, Relations with Member Boards, Meetings and Events, Nominating, and Licensing Requirements Committees, as well as the Standards Study Group.

NSA 70th Annual Convention & Expo 2015 Registration Form



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MAIL this form with a check or credit card payment to:
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Cancellation Policy: Registration fees are refundable (less a \$75 per registration administration fee) until August 1, 2015.

No refunds after August 2, 2015.

Questions? Call NSA toll-free: 800-966-6679

REGISTRATION PACKAGES

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NSA PAC Suite Deal Raffle

Buy your NSA PAC Suite Deal Raffle ticket(s) and you'll be entered to win an upgrade from a standard room already purchased to a Suite for up to 5 nights. Raffle ticket sales end on August 1st. The drawing will be held on August 10, 2015.

NSA PAC Suite Deal Raffle Tickets: \$50 each x _____ = _____
The PAC cannot accept corporate contributions.

NSA Scholarship Walk Donation:

Pre-registration: \$35 per person x _____ = _____
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★ 2015 IRS TAX FORUM * NSA SPEAKERS ★

The highly-rated speaker team of Kathy Hettick, EA, ABA, ATP and Gene Bell, EA, ATP, CFP returns to the IRS Tax Forums this year to share their expertise on two brand new topics. The two sessions detailed below will be presented at each of the Forums this summer.



Kathy Hettick, EA, ABA, ATP



Gene Bell, EA, ATP, CFP

Advantages and Disadvantages of Electing to be Taxed as an S-Corporation

Corporations continue to be the most popular entity for a small business, but is it the best choice for your client? This session covers the tax advantages and disadvantages of electing to be taxed as an S-Corporation. It will focus on the following issues: built in gains; last in, first out (LIFO) to first in, first out (FIFO); hot assets; net investment income tax (NIIT), double taxation; flow through; insufficient basis and at-risk rules. The presentation also discusses passive activity; debt basis; fringe benefits; distributions vs. payroll; dividends; small business stock sale; one class of stock; inability to make special allocations; limited shareholders; limited liability; perpetual life; strict administration; and avoiding accumulated earnings tax.

Client Consents and Disclosures - “How To” for the Tax Professional

More changes to Code Section 7216 became effective January 1, 2014. Tax professionals need to know the rules of Section 7216 and Section 6713, including how and when you are allowed to disclose or use taxpayer information and how the Affordable Care Act (ACA) impacts disclosure. This session provides an overview of the rules and related compliance penalties, along with suggested “how-tos” for implementation, while still managing a trusted relationship with your client. With a proper process in place, these regulations can improve both your tax practice and your relationships with your clients.

Register at www.irstaxforum.com

★ 2015 IRS TAX FORUM SCHEDULE ★

Registration is open for the 2015 IRS Nationwide Tax Forums. NSA members can use the code 2015=NSA-\$\$10 during registration for a \$10 discount off the registration price. Click on the links below for more information on locations for the 2015 Forums. To stay informed, follow us on Twitter (@NSATax), or click on this link to visit the [IRS Tax Forum webpage](#).

Five locations to choose from



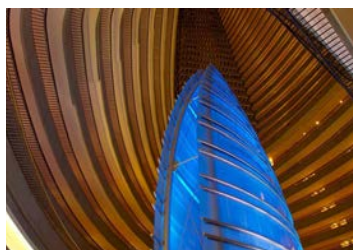
National Harbor (DC)
Gaylord National Resort &
Convention Center
July 7 - 9
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Denver
Hyatt Regency Denver at
Colorado Convention Center
July 28 - 30
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San Diego
Town and Country Resort
August 11 - 13
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Atlanta
Atlanta Marriott Marquis
August 25 - 27
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Orlando
Hyatt Regency Orlando
September 1 - 3
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Registration is open at www.irstaxforum.com

See you at the Forums!

Top 12 Tax Issues

The tax season of 2015 for the filing of 2014 individual and business tax returns wrapped up recently and not all too soon. It was a difficult tax season with new provisions under health care reform and some final regulations regarding the handling of repairs vs capitalized improvements.

The NSA Tax Help Desk handled hundreds of inquiries and as a recap we have summarized some of the tax issues and questions that were raised during the first four months of 2015. The NSA Tax Help Desk handled hundreds of inquiries and as a recap we have summarized some of the tax issues and questions that were raised during the first four months of 2015.

The receipt of foreign income by U.S. taxpayers is another issue that often comes up. There are often times when U.S. taxpayers, either citizens or resident aliens, will be filing here in the U.S. and will receive income from a foreign country. Very frequently it is a pension, or the foreign country's version of social security. The general rule here is that an individual filing a Form 1040 will be required to report their "worldwide income" and then use the foreign tax credit, or Form 1116, to eliminate the double taxation that may result when this income is also subject to tax in the source country. The resolution here will often depend upon the "tax treaty" between the U.S. and the foreign country where the income was sourced. There are also issues involving the use of the Form 2555 and the foreign earned income exclusion. This will normally occur when a U.S. citizen travels to and works in a foreign country for normally more than a year, or at least 330 days. This exclusion is limited to foreign "earned income" vs. other sources of retirement or portfolio-type income.

The trust return or Form 1041 is a very frequent inquiry from NSA members. The questions vary widely for issues surrounding the decedents' estate, which is the Form 1041 that is formed after a person passes away. It handles the decedents' post-death income and expenses. The treatment of the disposition of the decedents' personal residence is often an issue. This property will typically receive a stepped-up basis under IRC Sec 1014 following the owner's death. This stepped-up basis then normally results in a loss on the subsequent disposition. The beneficiaries of the decedents' estate can benefit from this loss if the residence is first distributed to the beneficiaries before the sale. This is important because of an internal IRS memo—See SCA 1998-012. Then there are issues surrounding distributable net income (DNI) and accounting income. One of the more common questions is the ability or inability to pass-through capital gains from an estate or trust filing a Form 1041.

This tax season saw many questions about reconciling Form 1098-T and Form 1099-Q, dealing with education expenses and IRC Sec 520/530 plan distributions. The funny thing with this issue is that the IRS has a form for us to reconcile everything that takes the form of possible income—except for this particular situation. We, as practitioners, are required to reconcile the numbers on the forms just described and place on Line 21 of the Form 1040, the proper amount.

Fewer taxpayers experienced foreclosures and repossessions in 2014 than in prior years, but it remained a frequent inquiry at the Tax Help Desk. The handling of a Form 1099-A and/or Form 1099-C when a taxpayer loses either their personal residence or a rental property will always result in a deemed sale if the taxpayer has physically lost title to the property. Form 1099-A will normally produce proceeds either from the debt balance of the fair market value (FMV) if lower. This, compared to the basis of the property, will produce a gain or loss. If "recourse" indebtedness is involved, there could be debt forgiveness income. If the Form 1099-C is also issued and in the mix of the tax situation, there may be the need to look into IRC Sec 108 and the Form 982 to potentially find an exception to the COD income being taxable. This issue is very well addressed in IRS Publication 4681.

There were all kinds of inquiries requesting guidance on how to handle final business tax returns, when entities, such as the S-Corp, an LLC—filing as a partnership or a traditional C-Corp closed down. The final distribution of assets or their sale, and the gains or losses that were generated. How basis in corporate stock is calculated or inside vs. outside basis of an LLC or 1065 is figured. Filing requirements with the IRS, and how to close down an entity's state charter. What is an installment note remains or was generated from the final asset disposition.

The issue of travel deductions will often come up in the e-mail's received. The issue of commuting miles vs those deductible as business miles, the concept of the "tax home" and the issues involving a temporary assignment vs. one that is or will become permanent. For when the "per diem" methods of substantiation and business expense deductions can be used or how and who absorbs the reduction in the deduction for the "meal" portion of a business trip. For how a "home office" can convert commuting into deductible business miles or an "accountable" reimbursement plan can make the whole issue "moot". The bottom line with the answer or solution to most tax inquiries regarding "travel" is that of adequate substantiation – keeping and maintaining records to support the where, when and with whom of the business trip. This like the "mileage logbook" for supporting a vehicles' business use becomes the backbone to supporting the deduction.

The issue of insolvency and the non-taxability of COD income came up in quite a few inquiries this tax season. Taxpayer who renegotiated a loan or mortgage or were relieved of credit card debt can avoid the income tax on this income under IRC Sec 108 and the use of Form 982. This insolvency exception required the taxpayer and/ or not the spouse to prove that at a date immediately prior to the discharge event, the taxpayers' liabilities exceed their assets by at least as much as the COD amount, which is normally found in Box 2 of the Form 1099-C that would be issued by the lender. This issue is cover in IRS Publication 4681, and that publication also provides an insolvency worksheet, as well as some of the specific assets and liabilities that need to be considered.

The non-taxable like-kind exchange of real estate or the trade-in of a vehicle will prompt the need to review the rules under IRC Sec 1031 and the use of the Form 8824. Not as common a question as most of the other mentioned but one that is nice to be aware of. One of the more common forms not filed with the Form 1040 is the Form 8824 when a taxpayer trades in their business use vehicle for another at the dealership. This trade-in is technically a "like-kind exchange" under IRC Sec 1031 and required that the taxpayer file the Form 8824 in the year of the trade-in. This is probably a frequently missed filing requirement. The like-kind exchange involves the swapping or trading of properties held for use in a trade or business or for the production of income, i.e... rental property. Often times with real estate there is a delay in the relinquishment of one property and the acquisition of its replacement, this is where there would be the need for an intermediary, or an escrow agent to hold funds and handle the transfer of title. This transaction can be as simple as two individuals' trading vacant lots or the vehicle trade-in but can quickly get complicated with real estate, where values can vary, there can be mortgages or debt on the properties and there can be delays, construction or improvements and/or "boot" which can cause gain.

Taxpayers who draw too early from their retirement plans or IRA's is a frequent question from NSA members. This issue will usually be presented with an unusual event, some need the taxpayer has, a hardship or financial situation where the need for the money will outweigh the tax and associated 10% early distribution penalty. However under IRC Sec 72(t) there are almost twenty (20) different exceptions to the 10% penalty. Remember, this exception under Sec 72(t) is just an exception to the 10% penalty and not to the Federal income taxation. Reasons like disability, separation from service after age 55, or the substantially equal periodic payment exception, Then there are a couple that are just eligible for use to defend the IRA distribution only. These include an exception for a first-time personal residence purchase or to pay for higher education expenses.

The issue of how to handle a casualty loss or the situation where a governmental entity exercised its' imminent domain and took a section of the taxpayers' property paying a settlement for damages or the actual taking of the property. Then by using IRC Sec 1033 to defer the gain or allow the proceeds to be absorbed by the basis of the taxpayers property solved the issue or postponed the taxability of the gain by spending the proceeds on qualified replacement property.

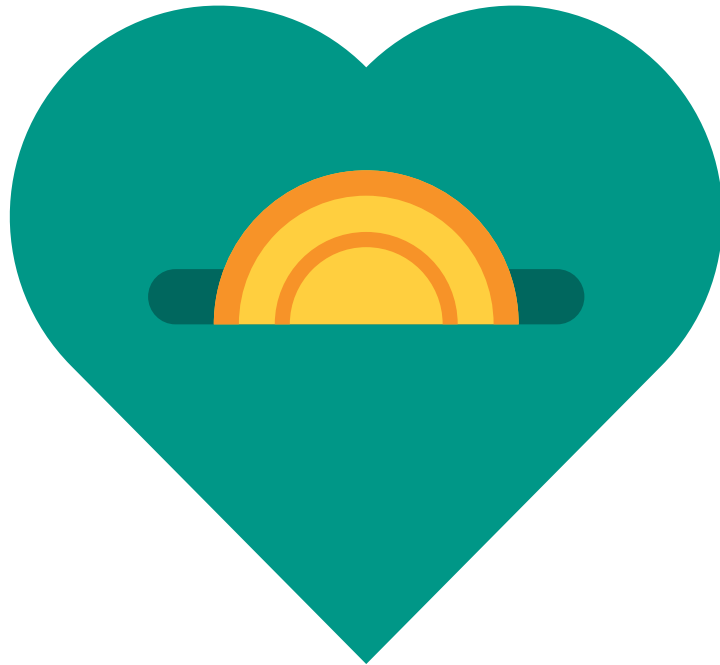
The whole issue of the net operating loss (NOL), its' proper calculation, the mirroring calculation for alternative minimum tax (AMT) purposes, and its' carryback and/or carryforward provision will often arise during the tax season and maybe even more so during the extension season as tax practitioners' will put off those amended NOL carryback returns for the summer months. The ability to carry back this "loss" two (2) years using either the Form 1045 or the Form 1040-X, under IRC Sec 172 will often generate great opportunities to meet with our clients on a rather positive note, a refund claim, during the off-season. Not only can it create goodwill with your client, it often carries with it a billing opportunity for another tax return for the client in question.

A very common tax question during tax season involved when, where, and how interest expense is deducted. The rules surrounding IRC Sec 163 can get very complicated very quickly, with limitations on how much can be borrowed, whether or not the loan is secured or how the borrowed money is spent. A common answer or solution to the "interest expense" deduction is often found in the "tracing rules" of IRS Regulation 1.163-8T and IRS Notice 89-35. Absent the exception for the personal residence rules, interest expense is governed not by what secures the loan but on how the loan proceeds are spent. In other words, you trace the use of the borrowed funds to the expenditure and the character of that expenditure will determine the nature or character of the interest expense deduction. Therefore, borrowed money spent on the stock market will generate "investment interest" expense, and loan proceeds spent on a rental property will produce "passive activity" interest expense. You "trace" the use of the loan to determine how to classify the interest expense.



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Main Street Tax News

RETURN FILED WITH STOLEN PTIN: WHAT TO DO

We all know about a taxpayer's identity being stolen and used to file a fraudulent return, but what if a tax professional's PTIN is used stolen and used to file a return?

This scenario actually played out last week. It seems that a new EA, who had never signed a taxpayer's return before, received an IRS penalty notice for failing to include a required EITC worksheet on a filed return. When the EA went online to check on their PTIN account, the EA discovered that over 100 returns had been filed using the EA's name and PTIN. Apparently, the fraudulent preparer simply did not want to get continuing education or run the risk of being subjected to preparer penalties, but did want to get paid for return preparation. Solution: use another preparer's name and PTIN.

What should you do if you are facing this situation? The IRS Return Preparer Office advises filing a Form 14157, Complaint: Tax Return Preparer and also to login to your PTIN account to check whether everything is still as it should be, including name, address, etc.

NSA believes this procedure can be improved. First, it is difficult for the EA in our example above to fill out a Form 14157 without making it seem the EA is complaining about him or herself, resulting in the IRS opening a file on a complaint file against the honest preparer. Second, our EA's local IRS Practitioner Liaison says he is unaware of an IRS procedure for the replacement of a PTIN that has been compromised.

There seems to be no IRS procedure to abate the penalty for the failure to include the EITC worksheet, even in the case of the misappropriated PTIN.

FASB TO PROPOSE ONE-YEAR DEFERRAL OF NEW REVENUE RULE EFFECTIVE DATE

The Financial Accounting Standards Board voted 4-3 to propose deferring the effective date of the new revenue accounting standards one year for public and private companies.

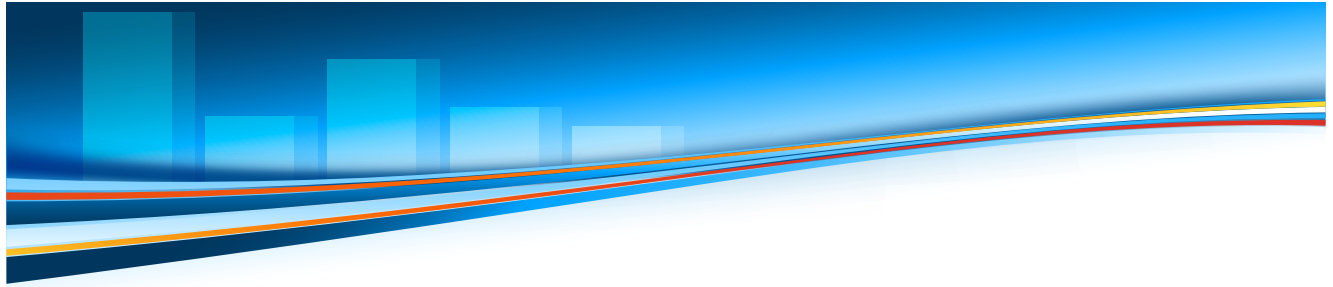
FASB also voted to propose allowing companies that want to adopt the guidance at the initial Jan. 1, 2017, effective date to do so.

The one-year deferral means public companies would apply the guidance to annual periods beginning after Dec. 15, 2017, and nonpublic companies would apply it to annual periods beginning after Dec. 15, 2018.

"Early adoption is very important to me for those who have already incurred significant costs to meet the original effective date," FASB Vice Chairman James Kroeker said. "Those where the financial reporting might be a much better reflection of their economics, I think tend to be those who are thinking more seriously about early adoption as well, so that would be important to me."

The board said it will issue an exposure document for public comment on its proposal to defer the guidance. Companies will have one month to comment on the proposal.

The new revenue rules, Revenue from Contracts with Customers, were jointly issued by the FASB and the International Accounting Standards Board in May 2014. The guidance provides a converged standard for recognizing revenue worldwide.



AICPA APPEALS DISTRICT COURT'S RULING ON IRS VOLUNTARY TAX PREPARER PROGRAM

The American Institute of CPAs is appealing a district court that it lacked standing to sue the IRS about the IRS tax preparer program. Of course, the underlying reason the suit was originally filed is the AICPA claim that the tax preparer program is hurting the accounting group's business by giving the impression that all tax preparers are equal.

The district court in October 2014 held that the AICPA lacked standing to bring the case and dismissed it under Federal Rule of Civil Procedure 12(b)(1).

In its brief filed this week in the U.S. Court of Appeals for the District of Columbia Circuit, the accounting group said the IRS's annual filing season program "harms its members by distorting the competitive marketplace," in addition to saddling them with new administrative tasks.

In its lawsuit, the accounting group focused on the fact that the IRS has said preparers who obtain a record of completion and are listed in an IRS directory "stand out from the competition because they will have a recognizable record of completion that they can show their clients," and that IRS Commissioner John Koskinen has said these preparers "will stand out from the competition."

The AICPA alleged that the program is invalid because the IRS lacks statutory authority to adopt it; because the IRS denied the public its notice and comment rights under the Administrative Procedures Act; and because the guidance related to it is arbitrary and capricious, including the fact that the IRS failed to consider "the important fact that the program will confuse consumers."

Although the program is presented as if it were voluntary, the AICPA said it is de facto mandatory in part because "preparers face overwhelming competitive incentives to comply with it to avoid losing business."

However, the court said the agency's competitive harm argument was without foundation and speculative, and that

there is nothing inherently confusing about a new, voluntary designation that allows so-called unenrolled tax preparers—those without CPA, attorney or enrolled agent credentials—to distinguish themselves in relation to other unenrolled preparers.

IRS TO MAKE CHANGES IN CORRESPONDENCE EXAM PROCESS

The IRS has conducted a comprehensive review of the correspondence exam process and is planning to make several changes, all of which are designed to make it easier for taxpayers and tax practitioners to communicate with the IRS.

In a meeting at IRS headquarters with NSA representatives and others, IRS officials revealed that pilot programs will be conducted to allow:

Virtual meetings between IRS examiners, taxpayers, and practitioners. Think Skype and similar video services. The IRS believes better use of video technology in this difficult budget environment will allow it to have better communication with the public and that the video interaction would also lead to a better understanding of the issues and more case closures.

Secure email communication with the IRS. The procedure would require users to login to a secure web portal. Once logged in, practitioners could send emails and documents to IRS correspondence audit examiners.

In addition, we also learned that responders assigned to the practitioner priority service line in the correspondence exam area are now required to have at least three years of experience with the IRS.

In all, these are positive developments and we look forward to working with the IRS on the implementation of these and other enhancements that will make IRS communications a bit easier for tax practitioners.



NSA MEMBER SPOTLIGHT



Many people try to do their taxes themselves with the help of software, such as TurboTax. While these folks may represent a lost business opportunity for some tax professionals, for Dave Rancourt, EA, ATA, ABA, ARA, the do-it-yourselfers are an extra source of income. That's because TurboTax users who are being audited (and who purchased audit insurance) are referred to Rancourt by the insurance company. Along with tips about that extra revenue stream, Rancourt has advice for NSA members on matters such as owning an H&R Block franchise. He also shares the unique way he made a couple of extra dollars in high school.

DAVE RANCOURT

You get referrals from Turbo-Tax for clients who are being audited. Can you talk about that, as well as some of the most common mistakes you see people making with TurboTax?

Turbo Tax sends me the names of Florida tax clients that are being audited. These clients have prepared their own tax returns, and purchased audit insurance at the time they completed their returns. When the IRS sends out an audit notice, tax payers contact Tax Resources, the audit insurance company, who in turn contacts me to see if I am interested in taking the case. All of the audits are of self-prepared returns, and most of the mistakes are Schedule A or Schedule C items, along with

unreported income.

These referrals generate approximately 7-10 percent of additional revenue for my practice. Accountants and tax professionals who have a special interest, such as auditing, small business accounting or computer fraud detection (can leverage those areas) to make extra income.

As to common mistakes, when it comes to contributions, people have these outlandish amounts, with no verification. And on miscellaneous deductions, called business expenses, people include a lot of things that they really don't have any proof of.

On Schedule C, the things I've no-

ticed are, that people don't put in all of their 1099s, and they overstate their expenses—they usually will take 100 percent of the cell phone, instead of a portion of it—and all of their mileage. But the big thing is meals. And they get thrown out because they don't record who they ate with, or what they talked about.

Let me give you an example. This gentleman was a painter. He had a 1099 of \$199,000. He had meals totaling \$168,000. I said to him, "You'd have to eat at Ruth's Chris three times a day, and it isn't even open for breakfast." And he had no proof whatsoever.

How did it come about that you got referrals of TurboTax based audit clients? Was it word of mouth?

It started out with a doctor who did his own return, self-prepared. He went to the IRS audit, but it didn't turn out the way he wanted, so he hired a CPA firm. They, in turn, had heard that I had been successful at a couple of audits, so they retained me. That was the first one. As it turned out, it worked out so well for the doctor that he ended up getting money back, and he wrote a letter to Tax Resources saying how pleased he was with me. Because he had purchased the insurance, if he ever had a problem, he (could) contact me immediately. That's how it all came about.

Then they contacted me and said, "Hey, Dave, would you be willing to represent our clients, if we have any?" (Those were the key words, "if we have any.") This was probably 10-12 years ago. The first couple of years, it was something like 5 to 7 clients a year.

So what would you say is the best way for other tax and accounting professionals to get these kinds of referrals?

I would say the best way is networking. If someone came to see me, for example, I don't enjoy accounting and monthly write-ups. So I refer that out. By the same token, some of the accountants in the area contact me if they have an audit.

Tell us about your practice. How large is it, and do you have specialties (other than TurboTax)?

My practice (Rancourt & Rancourt, Inc., in Sarasota, Florida) has approximately 600 clients, with 60 percent are individuals and the balance is in business returns and trusts.

You are on the Board of Governors for NSA's District 4. Can you tell us about that? What are your duties?

As a governor, my duties are to help lead NSA in membership and revenue growth, along with representing District 4 (Florida, Georgia, South Carolina, North Carolina) membership in accounting and tax law changes.

Similarly, can you talk about your experience on the ACAT Board and the Taxation Committee?

When I was on the ACAT Board, my responsibility was to inform the general public and membership of our exper-

tise by promoting the various credentials that professionals could obtain, such as: Accredited Business Accountant, Accredited Retirement Accountant, Accredited Tax Advisor, and Accredited Tax Professional.

The Committee on Taxation met monthly, or when Congress or the Internal Revenue Service proposed tax law or rule changes that would impact the profession. Often we would have a rush meeting to consider a specific bill coming before a congressional committee. The taxation committee helped with new rules and regulations for Circular 230 (a publication of certain U.S. Treasury regulations which include the rules governing practice before the U.S. Internal Revenue Service), preparer penalties, etc.

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“The most enjoyable things about NSA is the networking and making friends, along with education opportunities.”

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What are your favorite things about being an NSA member?

The most enjoyable things about NSA is the networking and making friends, along with education opportunities. I believe in the education NSA provides, and in its role as protector of the "Main Street Accountant." I have been instrumental in attracting many new members by helping out at the NSA booth at the IRS Tax Forums.

You owned several H&R Block franchises in Maine. What was that like, and what would you say to someone planning to own such a franchise?

When I had my H&R Block franchises in Maine, it was a tremendous experience, as I was able to see the growth of the tax profession. For me, it is a great opportunity to learn more about taxes. I would recommend it for those just starting out; a franchise provides a supportive structure with an opportunity for growth.

You were president of the Florida Society of Accountants from 2000-2001. What are the most memorable things about that experience?

Like NSA, it was the networking and friendships. We give our members quality education, as several never went to conventions or seminars elsewhere.

Where are you from originally?

I moved from Maine to Florida in 1991. I sold my H&R Block franchises and purchased an accounting and tax practice, which had 176 clients, from an individual.

When did you know you wanted to be an accountant?

When I received my first W-2, at the age of 15, my boss told me I had to file an income tax return. Back then, I filed a short form, which consisted of a small IBM card.

I went to the local IRS office and got instructions on how to fill out and file the form. I did this in high school study hall. One of the teachers saw me and asked if I would do her tax return. I said yes; then she proceeded to inform me that she was not going to pay me more than she paid her preparer. She was giving her preparer three dollars, and she only gave me two.

I realized at that point that I wanted to be an accountant.

Because of that, she gave me a referral and I ended up doing another teacher's return. Here's the ironic part. They both had the little short form, and this was during the middle of the week. All of a sudden, on Friday afternoon at about a quarter to three, we heard over the school P.A. system, "The principal wants to see Dave Rancourt in his office."

Everybody looked at me like, "What did you do wrong?" So I went down and his secretary said, "He wants to see you now, so I'm going to close the door."

My heart was beating. He said to me, "I understand you've been doing taxes during school?" Well. I'm thinking, do I say yes or do I lie?

He said, "Do you know how to do the long form?" I had no idea what he was talking about, but I said, "Yes."

So I went back over to the local IRS office and got Pub 17, and started doing the long form. The thing that depressed me the most was this, here's a teacher making \$100 a week.

But I've always enjoyed doing taxes.

Tell us about your family.

My wife and I have been married for 45 years. She is an

DAVE

FACTS

RANCOURT

- Receives audit REFERRALS from Tax Resources, an audit insurance company.
- Joined NSA in 1989.
- Was NSA Accountant of the Year in 2013.
- Started in ACCOUNTING by preparing his teacher's income tax return.
- Holds EA, ABA, ATA, and ARA credentials.
- Served as Vice Chair for the Federal Taxation Committee for NSA.
- Current NSA District IV Governor



NSA MEMBER SPOTLIGHT

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accountant and an RN who currently does coding for various home health agencies. I have two sons, both married, and four grandchildren. My oldest son is a pilot for both the military and Southwest Airlines. My youngest is vice president of commercial lending for a large worldwide bank.

Do you have a favorite book, movie or other resource you would recommend to other NSA members?

Tho Being a baseball nut, my favorite book was written by my idol, Ted Williams, The Science of Hitting.

What do you do for fun?

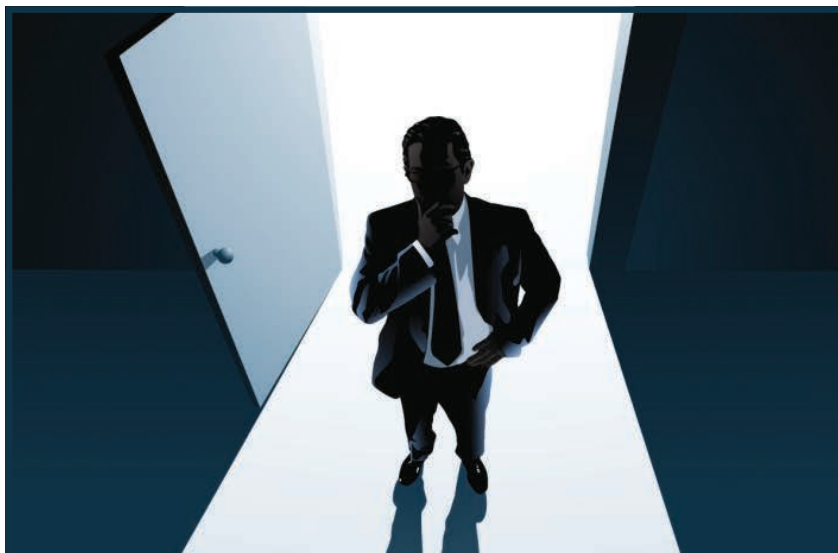
I enjoy spending time with family, especially the grandchildren.

Anything else you'd like to add?

I was selected as NSA Accountant of the Year in 2013. With this honor I joined a prestigious and elite group of professionals, for whom I have the greatest admiration.



*Julia Wilkinson, Freelance Writer
Alexandria, VA
Author, "The eBay Price Guide" (No Starch Press)
"eBay Top 100 Simplified Tips & Tricks" (Wiley)
Founder, yardsalers.net*



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PREVENTING CRISIS PART IV

By Mark H. Fowler, CMC, CPA (Inactive)

KEY PROJECTS THAT CAN START A PROCESS OF CHANGE

We want to help our clients better navigate growth, avoid what looks like a disaster in the making, or mitigate their risks so that they don't find themselves too close to the edge of the cliff. Where do we start, and how do we become a bigger part of the equation of resolution and solution? Start small. Simple is always better. Half-day or one-day projects are the place to begin to earn the attention that you may not have garnered before because you may have focused your time on core services and not ventured into the "other" support services before.

Here are ten services that add value, increase client/advisor rapport, and can create positive change in the client's business—and remember: even small change can be good change:

Where Does Business Come From? This is a simple but important analysis to help clients understand what circumstances, events, and individuals have the most impact on whether a client or customer is likely to become and stay a customer. For instance, several years ago, we did a study of our own business and found that it was the activity of working with other professionals on specific and difficult projects that generated the most new business. Rolling up our sleeves together was the tipping point. Our marketing endeavors, speeches, articles, workshops, and newsletter were important, but it was the relationships that generated the most new work.

Tracking the Top Five Product Lines. Looking back over a four-, five- or six-year window (we personally like a ten-year window) can give a company a great deal of information on how these supposedly most important products are actually affecting the revenue stream. An assessment might reveal that new product lines are rising to their potential; that a particular product line (or lines) may be diminishing rapidly, that certain older lines are beginning

a resurgent cycle (or need resuscitation), et cetera. Many companies don't step back and look at a broader perspective to assess which products have been the most important in certain years, or over time.

Tracking the Top Five Customers. Similar to the product review above, looking back at customers over a period of years can hone a company's understanding of how customers are reacting to products, how well they themselves are doing (for instance, maybe they were the top dog three years ago, but are they the top dog now?), how a given customer's loyalty may have changed, and so on. If we can help a client uncover areas of possible challenge in the top five customers, it may be that there are challenges throughout the rest of the revenue stream. Again, starting small can help reinforce how we can be of real value as advisors.

Inventory turns. "Inventory turnover" is defined as: "A ratio showing how many times a company's inventory is sold and replaced over a period." (Investopedia, <http://www.investopedia.com/terms/i/inventoryturnover.asp>). Many small- to medium-sized businesses do not have time to dig into analyzing the effectiveness of their products, and in particular the management of these products. Buying patterns, purchasing effectiveness, budgeting, and vendor relationships are topics that many companies rarely investigate at a depth where real change can occur. A small start here that could enhance a client's wellbeing quickly might be to begin to look at the policies and procedures relating to purchasing.

Cash management. Daily, weekly, and monthly cash management programs are a compelling way to help clients begin to understand how and why cash is powerful. But more powerful is the time that this process opens up for owner/managers to make real impact on and in their

business while managing cash in a more comprehensive manner. We are not addressing the financial variety of cash management; we are talking about a comprehensive operational approach that merges day-to-day operating dynamics with financial restrictions and available funding to create a process that anticipates where cash is flowing in and that is monitored almost daily, putting the company in a truly real-time and proactive position. (For additional perspectives, please see “Time is King,” by Mark H. Fowler, CA CPA Magazine, June 2009 (<http://www.calcpa.org/content/25474.aspx>).

Key performance indicators. “A Key Performance indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives.” (Klipfolio, <http://www.klipfolio.com/resources/articles/what-is-a-key-performance-indicator>.) Whether it is a project such as the construction of a building or daily tracking of items such as average order size or gross profit per order, key indicators help companies track, evaluate, and course-correct their plans. Think of them as a navigational tool that helps the business navigate the waters and determine the direction of its ship. We often recommend that key indicators, especially daily ones, be limited to three to five. Too many can get confusing, and it is important to develop a set of indicators, or a model, providing metrics that truly add pertinent meaning to the process. Here is where the advisors can bring value. We accounting, tax, investment and consulting types excel at analytics. Here again, start small and help clients to begin to understand that tracking results is as important as developing new products and achieving new sales.

Cost analysis. We would all be surprised to know how little the average business understands about costs relating to its products and services. It’s not that businesses are hiding from this information. It’s just that other daily challenges seem to take precedence. Helping a client put together a strong and reliable bill of materials for some of its major products could help advance the process toward a more global approach to cost analysis. Helping the client to create some cost centers around similar products to begin to verify actual gross profit, even though a cost accounting capability might not be available, can again help the client see the benefits of analytics in enhancing cost-effectiveness, which can dramatically improve any business.

Customer payment histories. Receiving prompt, full payment for products and services is critical to how well a company survives or thrives. Knowing which customers are true moneymakers isn’t always a straightforward process. For example, one customer might buy consistently or in volume, but pay slowly and often late. Another might make good-sized purchases but often return a certain percentage for credit, ultimately paying less than other customers. This data might only show up when we analyze customers’ payment histories apart from their purchasing

patterns. Changes in payment patterns also show up in a payment history analysis and can be an indication of trouble in the customer company or in its loyalty to our client. Analysis of inconsistent payment habits of customers in relation to the sales personnel serving those customers may indicate that conversations are in order with both the customer and the salesperson. Cash receipts are the life force of a business. If cash is slow, then there may need to be some consideration of modifying the company’s credit facility. There is a great deal that advisors can do to help clients to begin to see that most areas of the business are multi-dimensional and, most importantly, are connected to the whole organization. Helping each department to appreciate where it fits into the business equation and to see how all of the departments are connected can increase teamwork, collaboration, and success. Better understanding of customer payment policies can be one of the best avenues for bringing clarity to everyone about how the business succeeds.

THERE IS A GREAT DEAL THAT ADVISORS CAN DO TO HELP CLIENTS TO BEGIN TO SEE THAT MOST AREAS OF THE BUSINESS ARE MULTI-DIMENSIONAL AND, MOST IMPORTANTLY, ARE CONNECTED TO THE WHOLE ORGANIZATION.

Employee turnover. Turnover is an important consideration, whether the business consists of 10, 10,000, or 100,000 team members. Turnover can occur for many different reasons, from being a naturally occurring event to happening as a result of improper hiring practices, poor supervisory skills, marginally developed job descriptions, unclear strategic imperatives relating to growth, inadequate Human Resources capabilities, and more. This type of analysis lends itself well to a phased approach of half-day or day-long sessions in which the client can begin to grasp the benefits of understanding the unique dynamics surrounding team members. Putting the right people in the right positions, all functioning effectively, is the goal—and whatever can be done to make that more of a reality is exceedingly important.

Loan agreements. We’ve often come into a crisis situation and found any number of surprises surrounding the banking and other loan arrangements. These loans could include equipment, working capital, vehicles, bonds, loans from officers/owners, loans from non-operating shareholders, and more. They may contain restrictions/covenants on any number of operational and capital-based benchmarks—or, in the case of the more personal loans,

there may be improperly documented agreements—all of which can spell disaster if the company were to find itself in bankruptcy. In addition, there may be opportunities to refinance any number of these loans at more advantageous rates, fees, and considerations. Most small- to medium-sized businesses have minimal understanding of the dynamics and consequences of borrowing money. Approaching clients about discussing this subject from a preventive standpoint can reinforce an intention of educating them and can build a stronger relationship. Loan analysis can lead to financial benefits or to the discovery of challenges on the horizon that are better handled before they come up without warning down the road.

[Read Part I in the series](#)
[Read Part II in the series](#)
[Read Part III in the series](#)

Summary

This article series was designed to offer a view of the landscape of businesses as they grow and develop and to help us as advisors be of more service to clients. Three key points to remember are: 1) businesses evolve and change, and without a compassionate and managed approach, the ship can run aground, lose its way, or sink beyond repair; 2) as advisors, our interactions and conversations with and on behalf of our clients are essential in helping our clients' businesses thrive; 3) we can be most effective in our role as advisors when we work with and facilitate the involvement of other outside professionals as needed. In so doing, we will be providing the most effective and productive service possible—a holistic approach that no one else can provide.

*Mark H. Fowler, CMC, CPA (Inactive), is the president of Stowe Management Corporation, a corporate reengineering firm based in Santa Monica, California. He has worked with bankers, accountants, and their clients for more than thirty years, specializing in turnarounds, succession planning, mergers, acquisitions, and corporate growth. He is also the co-author of the book *Revolutionary Conversations™: The Tools You Need for the Success You Want*, which recently won the Gold and Bronze awards at the 2014 Global E-Book Awards.*



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