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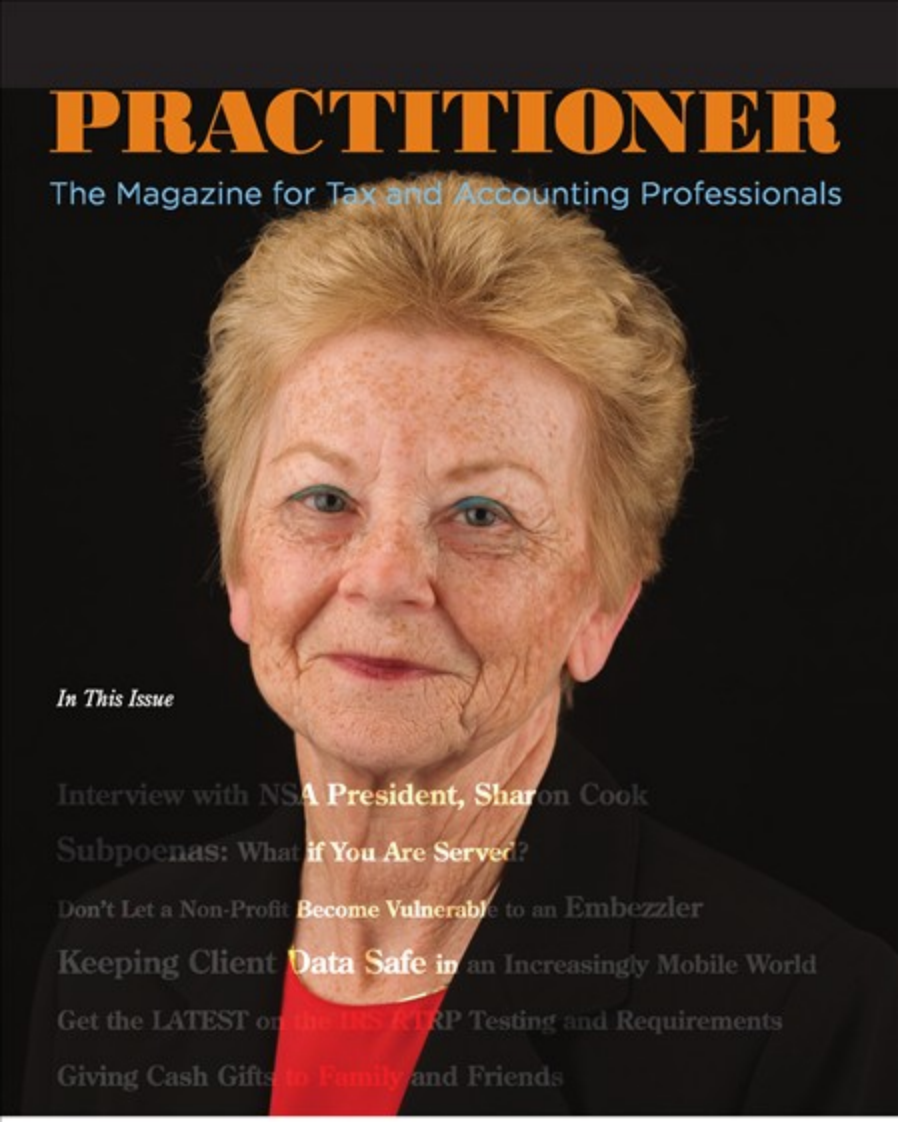
The Magazine for Tax and Accounting Professionals



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Hyatt Regency Maui

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By Sharon E. Cook

When I joined NSA in 1988, I never thought about being President one day. In my 23 years of membership, NSA has provided me the skill, knowledge and tools to be your President. But of course, it takes more than a President to run an organization. I could not do the job without the help of our volunteers and staff. I want to personally thank them for serving with diligence and dedication.

Have you ever been a mentor or had a mentor? The experience is beyond compare. I urge you to become a mentor to a member who doesn't participate and watch them grow in knowledge and skills. Before long they will be participating in the society. You need to talk to them, teach them and thank them—my 3 T's approach. It is a way to grow membership and grow leaders.

The affiliated state organizations (ASO) are very important to NSA; their strength makes NSA stronger. I invite and encourage the ASO's to let NSA know what is happening in their state. This provides NSA with the information necessary to provide better service to them and to their members. I have an open door and am always willing to talk about issues.

If you missed the convention in Anchorage, our convention in 2012 will be in Maui, Hawaii, August 23rd – 25th. Registration will open in October 2011. You will receive information on this shortly, if you have not already.

Have you set up your profile in MemberConnect? It is a wonderful way to communicate with other members through Tax Talk as well as to make friends across the country that you will have forever. There is a webinar that will help you navigate the website.

I want to congratulate John Ams for being named as one of the most influential people in Accounting Today. We are fortunate to have him as our Executive Vice President.

I look forward to serving our members the coming year and doing what is best for NSA with professionalism and integrity.

Respectfully,

Sharon E. Cook

Sharon E. Cook, EA, ABA, ATA, ATP, ARA
NSA President 2011-2012

NSA Legislative Link

The IRS Preparer Competency Exam – Now What?

The IRS has just announced that preparers wanting to become IRS "Registered Tax Return Preparer" may begin taking the exam right now. What should you do —and what should you know —before you take the exam?

Let's first mention what we know. The exam will be 2.5 hours long and cover 120 questions. Form 1040, the 1040 instructions, and Pub 17 will be available at the test center only online (you cannot bring your own copy with you). A handlheld calculator will also be provided. Pass/fail information will be available immediately except for the first 2,400 exam takers. The IRS will use these first exams to validate the test questions, so results will not be available for some weeks following the test.

How should someone prepare?

Recommendation: Since the answers will be in either format, make sure you are not intimidated by the multiple choice or true/false test format.

Beginning on [insert date] NSA will be offering an educational tool/tutorial/webinar to help you brush up on what you need to know to take this kind of examination. Also, the IRS has posted two useful pieces of administration:

1. a video on "What to Expect on Test Day" at http://www.youtube.com/watch?v=Q5FbshBloCw; and
2. an online sample test to demonstrate how an online test works at http://www.prometric.com/clientfiles/irs/irsrp/index.htm

Recommendation: Take the exam in April or May, not now.

The exam available now is based on the 2010 Internal Revenue Code. The IRS will update the tax law on which the exam is based in early April so that the exam available after April 15 will be the 2011 Code – the very same Code preparers will be working with for hours and hours during the upcoming tax season. In other words, if you prepare a number for Form 1040 returns during tax season you will also be taking a cram course on the tax content in the exam. Why not take the exam right after that tax season cram course?

Review the sample "test" in the link above. You will see there are five sample questions. If you prepare even a small number of 1040s you will likely have to answer similar questions for your clients a number of times. Again, you will be studying for the exam based on current law (not the 2010 Code) while earning money by preparing returns. Take the exam after tax season.

Preparers have until December 31, 2013 to successfully complete the test. However, if you simply want to take the exam to get it over with, NSA already offers a study course that can serve as a primary study guide or as a supplement to information you may already have. The course is available for purchase at www.nsacct.org.

Recommendation: Know the Code, not software.

The IRS Preparer Office is interested in whether preparers know the Code rather than how to merely input information into tax software. So, when you are preparing tax returns during the upcoming filing season, take note of whether there is a limit on some deductions (example: charitable contributions), whether some items are only deductible above a certain percentage (example: medical expenses) or how to compute basis on a home purchase.

Some NSA members who are older and have been tax professionals for some years are upset about the exam, and understandably so. However, as a group they are likely better equipped to take the exam than others. Why? Because they started preparing returns before tax software claimed to make everyone a tax expert. Many started by doing 1040s by hand and probably know more about deductions, credits, limits than they care to admit. Moreover, they know where a particular number is supposed to be entered on a return and whether that number should be adjusted based on limits or other adjustments required by the Code. To remind yourself that you are in this knowledgeable group, just look at the IRS's five sample questions at http://www.prometric.com/clientfiles/irs/irsrp/index.htm.

To summarize, make sure you familiarize yourself with the test format, what you can/cannot bring to the test center, and plan to take the exam right after tax season, when you have "practiced" for the exam by actually preparing returns.

I am confident you will do just fine on the exam.

John G. Ams, CAE
Executive Vice President
National Society of Accountants
Alexandria, VA

New to Linkedin?

It's as easy as 1-2-3 with our Quick Start Guide

1 Create a profile

- Add a profile photo
- Take a few minutes to list your current and previous positions and experience
- Add your education experience
- Create a personalized summary paragraph: "pitch" yourself

2 Find colleagues and friends

- Use the webmail import function to find existing LinkedIn users
- Upload your Outlook contacts and find connections
- Find classmates and colleagues

3 Use your new profile to:

- Network with other tax and accounting professionals
- Search in "Service Providers" to find trusted recommendations from people in your network
- Join common interest groups, have discussions, post and read industry and practice related news
- Search for and post jobs as an employer or as an individual seeking employment

http://www.linkedin.com

7 Ways to Achieve Success Through LinkedIn

How Small Firms Can Get the Most Out of LinkedIn

By Hugh Duffy

Are you using social media in your business practice? Do you use Twitter, Facebook, or Linkedin for personal use? This article, the first in a series, brings you tips on tapping into the latest in social media outlets that can help you keep your practice visible and provide the best level of service to your clients. Learn how to use your expertise to become the sought-after voice on tax and accounting topics.

Among social media channels, LinkedIn is still considered the most helpful to building business because it retains a more professional demeanor than Facebook and Twitter, while offering a number of built-in tools to connect with like-minded colleagues.

Because of their size and local proximity, accountants working in small firms and companies will find many reasons to maintain an active LinkedIn account. With the intent to retain clients, prospect for new clients, and increase referral sources, LinkedIn offers a nonthreatening environment focusing on an any of expertise and strong networks.

As with any activity, the more you reap with LinkedIn, the more you sow. If you are satisfied with making just a few connections, you'll most likely find LinkedIn to be more a source of entertainment than a viable business assistant. Accountants who progressively build their online networks add to their credibility and position themselves as qualified professionals who are helpful, knowledgeable, and savvy.

The following list includes several key steps to achieve success through LinkedIn.

1 Increase your visibility.

By adding connections, you increase the likelihood that prospects or referral sources will see your profile first when they search for someone in accounting services. People would much rather work with people who their friends know and trust.

2 Improve your connectability.

Most new users only include their current firm or company in their profile. By doing so, they limit their ability to exponentially increase their connections. Fill out your profile like it's an executive bio, including past companies, education, affiliations, and activities. You can also include a link to your profile as part of your Outlook or e-mail signature.

3 Increase traffic to your Website.

LinkedIn allows you to make your profile information available for prospects. To do this, create a public profile and select "Full View." Also, instead of using the default URL, customize your public profile's URL with your actual firm name or something descriptive (e.g, My Accounting Firm).

4 Ask for advice and answer questions.

LinkedIn Answers (under the "More" tab) allows you to broadcast your business-related questions to your network and to the greater LinkedIn universe. Answering a question someone else has asked may give you "expert" status.

5 Join a LinkedIn Group.

There are literally thousands of groups on LinkedIn based on a wide range of professional and personal interests. When you join a group, you receive e-mails whenever someone posts any information to the group's page. You can opt-in on this with once-daily, batch e-mails or have a message sent every time someone posts. Groups are a great way to participate in active conversations about areas of interest to you, while also increasing your online presence.

6 Use "advanced search."

Prospect for new business by searching industries, professions and businesses. Suppose you have a tax niche working with restaurants and food service. Search "restaurants" in your local area and the results will include a variety of connections, in and out of your network. Use quotation marks and "and" in your search to receive more specific results. Then, search your shared connections to those people and begin making connections.

7 Integrate Twitter With LinkedIn.

If you are a Twitter user, you can integrate your Twitter account with LinkedIn. When you post to Twitter, you can automatically send the same post to LinkedIn, so it becomes your most current "status."

Many practitioners want to know if upgrading a LinkedIn account is worth the money. For example, a basic "Business" account is $24.95/month, a "Business Plus" account is $49.95/month and the high-end "Executive" account is $99.95/month. There are discounts if you pay annually. Each level builds on benefits and offers distinctive advantages. However, the investment depends on how deeply the firm and its accountants want to use LinkedIn as a networking and business-building tool, compared with other ways to connect.

NSA Members

Are we using social media?

NSA recently conducted a website poll to determine if members are using social media in their practices. The results may surprise you.

Remember that LinkedIn is only one tool in an entire portfolio of networking. Firms and companies should review all of the ways to reach potential clients and referral sources before deciding which services are most cost effective and best suited to their needs.

Next Time: Using FaceBook as a Business Tool

Hugh Duffy is co-founder and chief marketing officer of Build Your Firm, a practice development and marketing company for small accounting firms and accounting firm website design. Hugh teaches a series of Accounting Marketing Workshops; writes an email newsletter reaching thousands of accountants; and is frequently published in various publications, including National Society of Accountants, state CPA society magazines, the CPA Practice Advisor and Progressive Accountant. He can be reached at 888-999-9800 x151, or at hugh@buildyourfirm.com. In addition, connect with him on LinkedIn.

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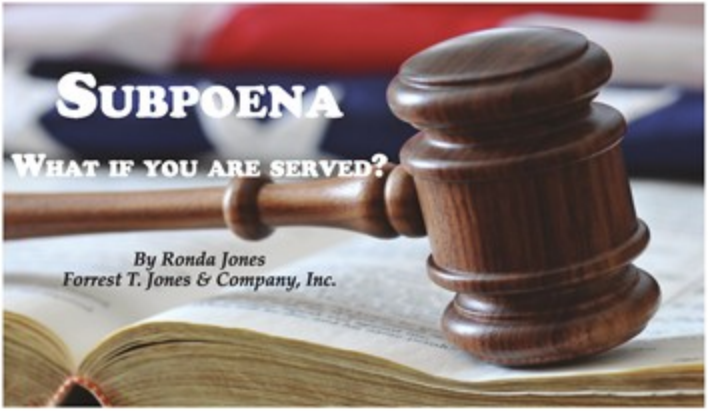

Subpoena

What if you are served?

By Ronda Jones
Forrest T. Jones & Company, Inc.

Your first inkling that a client or former client may be involved in a lawsuit could be when you are served with a subpoena to produce records or to testify at a deposition regarding the services and advice you provided to this client.

The suit may involve the client going through a messy divorce, a business partnership breakup, or a controversy involving the sale of a business or real property. It may involve multiple defendants, of which your client is but one defendant.

> The subpoena subjects you to the jurisdiction of the court and contains sometimes rigorous time constraints for a response.

The case might arise from an estate of a deceased client and the heirs are fighting over the estate. Subpoenas often demand other documentation unrelated to what you did for the client: documentation about your education, licensing, work history, business practices, and personal character.

Regardless of the origins of the suit, you are being ordered to testify or produce documents and you should not take that order of the court lightly. You quickly need the advice of an attorney to be sure your actions are appropriate and don't create problems for you or your client. The subpoena subjects you to the jurisdiction of the court and contains sometimes rigorous time constraints for a response. An attorney can advise you how to properly handle the matter, which might include advising the client or the client's attorney of the subpoena and permitting the client to take the necessary legal steps to resist or quash the order. In some instances, you might not want to, or be required to, allow the client to step in that way, but without the advice of an attorney you are risking exposing yourself to unknown liability.

Even though the subpoena appears innocent enough on its face and the information called for seems straightforward, the results may be unexpected. For example, the subpoena may order you to testify at a deposition, where there might be multiple attorneys questioning you who represent several different parties in a case: your client, the plaintiff suing the client, heirs to an estate, insurance company representatives, and perhaps even attorneys representing parties in a class action lawsuit. The deposition may be videotaped and allow in other parties via teleconference. Depositions are usually daunting experiences—not only are you questioned about services performed for the client, but also about your own character and experience, sometimes with the intended goal to discredit you.

Say you've been served with a subpoena to produce documents and/or to testify in a deposition, but haven't been served with a lawsuit/petition (not yet, anyway) and you haven't seen the underlying lawsuit to even know what's at stake. Do you:

- start handing over documents to comply with the deadline—maybe to signify that you are a cooperative person, so other parties might "go easy" on you? It's tempting, especially if you feel you didn't contribute to the client's problem.
- review your files and emails and start organizing—delete or shred things that worry you?
- contact your client or a related party to "get the scoop" and coordinate what documents you will supply or withhold or discuss in a deposition?

Resist these actions! They could be harmful to you and your client, and some are unlawful. Computers are often subpoenaed, and anything you re-arrange or delete would be questioned and can put you at legal risk. Talking to

other parties, handing over unnecessary documents, or not presenting them in the proper fashion could compromise your position if you are ultimately made a party to the suit, risks your inadvertent disclosure of inappropriate or confidential information, and may even cause you to be sued or sanctioned by the court. Remember, attorneys for the plaintiff are going to look for as many parties with "deep pockets" as they can locate, and the subpoena process can supply them with an array of new sources from which to seek damages or settlement money.

It's crucially important to have an attorney advise you before responding to a subpoena to help prevent being brought into the ongoing litigation. Your attorney might counsel you "in the background" if you are only asked to present documents, but you will want an attorney to appear and sit with you in a deposition, to prepare you to respond to questioning, and to stand up for you if the questioning is unreasonable. The attorney might also file an objection to the subpoena, if appropriate, move to have it quashed, or request an extension for more time.

IT'S CRUCIALLY IMPORTANT TO HAVE AN ATTORNEY ADVISE YOU BEFORE RESPONDING TO A SUBPOENA TO HELP PREVENT BEING BROUGHT INTO THE ONGOING LITIGATION.

If you have professional liability insurance, check your policy to see whether it provides legal expense coverage for situations where there is no formal "claim" applicable under the policy, but where you are subpoenaed. A few insurers provide this coverage and control selection of the attorney who will assist you, and you would need to notify the company immediately.

The accountants professional liability insurance policy that NSA endorses, through Forrest T. Jones & Company, now includes supplemental coverage for attorney fees to assist with response to a subpoena for documents, deposition, or trial testimony if no "claim" or lawsuit has been made to which the Insured is a party.* There is no deductible and it does not reduce the basic liability limit.

If you don't have insurance to cover legal assistance costs to respond to a subpoena, it is still in your best interest to retain an attorney. If you have the time, interview a few attorneys (some will offer free initial consultations), in order to find the one best suited for your matter.

*As of 7/15/11, most state insurance departments have approved use of the form. Refer to policy language for coverage conditions.

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Don't Let a Non-Profit Become Vulnerable to an EMBEZZLER

By Erik H. Lindquist, CFE

HEY, EVERYBODY! [INSERT YOUR NAME HERE] IS AN ACCOUNTANT AND WOULD BE PERFECT FOR THE TREASURER'S JOB ON THE [INSERT VOLUNTEER ORGANIZATION NAME HERE] BOARD!

I am sure everyone reading this has heard these words before. I don't think I have served on a single volunteer committee or non-profit board in which I wasn't appointed the lucky financial guy. Now, with many years of experience cleaning up previous treasurers's work products, I have some advice for you. Don't say "yes" until you have seen the books and records and you have gained some knowledge of how the organization works. Your volunteer experience may turn into a nightmare of uncovering fraud and abuse, including all the pain that goes with tracking and prosecuting perpetrators of charity/non-profit theft. In this article, I will provide some basics for assuming the reins and the tools for achieving a smooth transition if you decide to take over.

In the most recent survey by the Association of Certified Fraud Examiners, which looked at occupational fraud and abuse, non-profit frauds comprised nearly 10% of all frauds detected.[1] I would be willing to bet that each one of you reading this today can think of a local PTA, church, sports club or charitable organization that has been victimized by an unscrupulous 'treasurer' or staffer who had access to cash or donations and absconded with funds entrusted to his or her care. I would also be willing to bet this is the most underreported category of fraud because the embezzlers were volunteers and plead 'stupid' when confronted.

Unfortunately, non-profit organizations are particularly vulnerable to individuals who are either careless and attempt to cover up their errors or who intentionally take advantage of an organization for financial benefit.

In a recent case in Michigan, the treasurer of a local hockey association began making deposits to bank accounts and to a foundation in the association's name, in order to, in his words, have better control over the funds. The financial statements were altered at some point to hide the balances from the board members. The board members clearly had trust in this treasurer, who was a CPA and respected member of the community, and they fell victim to this ill-placed confidence. The treasurer stole more than $50,000, was convicted and served 45 days in jail with full restitution ordered to be paid upon his release. [2]

Why does this happen with such regularity? In my experience, most volunteer boards do not want to take on the added responsibility of overseeing the financial condition of their organiza-

tion once they have passed this role off to a purported expert in the field. "Trust" is the common buzzword heard from victim organizations as they are picking themselves up and dusting off the stench of a publicly aired embezzlement. "We had such trust in Jim...he was such a nice guy!" "Jim always talked about his kids, and his dedication to our mission was on display wherever he went."

Welcome to the reality of non-profit asset/risk management. If you take on a position as the noble volunteer accountant, assume that controls have been lacking and that you will be the first target if strange activities begin revealing themselves. You must approach a volunteer treasury job as though you are being paid to control and protect the organization's mission and purpose.

Using our old friend the fraud triangle once again, let's look at the three elements of pressure, opportunity and rationalization to understand how perpetrators of fraud operate.

PRESSURE

Pressure can create a perfect storm of activity if a treasurer has an un-shareable financial need. Imagine the non-profit board chairman appointing a treasurer who comes recommended by upstanding community leaders and who has the right credentials and a winning personality. What the chairman may not know is that this pillar of the community has business and personal debts that would be embarrassing if they became known. Or perhaps there are health care costs or gambling debts threatening to drive this person into a devastating bankruptcy. The possibilities are limited only by the imagination.

During board meetings, the presentation of the treasurer's report is often quick and perfunctory. A treasurer with financial pressures could easily think that if he or she used the organization's funds to get themselves out of a jam, the other board members would be none the wiser—especially because they have complete trust in this great person.

Most people without an accounting education find accounting rules complex, confusing, and overwhelming. Board members are often grateful to have someone manage the finances who seems to be competent. Any discrepancies can be easily passed off as "accounting rules" and other board members will go along so as not to look ignorant or, frankly, not to lose the board member who seems to know how to handle the accounting for the organization.

In my experience on these non-profit boards, the agenda quickly moves to more interesting topics like fund raising and operational needs which seem more pressing in the context of a monthly or bimonthly meeting. In the haste to fulfill the organization's mission, the financials are quickly approved if the treasurer simply announces how much cash is in the bank and that the filings have been done on time. Substance on the financial details doesn't even make an appearance; brevity and comfortable numbers grease the meeting.

Treasurers who face a personal financial crisis, and who have some lack of ethical standards, will quickly realize that the opportunity to relieve themselves of some "unfair" burdens may be staring them in the face.

OPPORTUNITY

Let's examine all the ways an unsupervised controller of funds can scan the horizon for potential sources of cash/assets which could be peeled away from the balance sheet. Opportunities can mean different things depending on the level of financial sophistication of the embezzler. [And it is embezzlement even when the perpetrator says, after being caught, "I meant to pay it back. It was just a temporary loan."] When I do a fraud examination, I need to quickly determine how much the embezzler knows regarding the flow of transactions and the internal controls designed to monitor these activities. Many treasurers have been given the role of treasurer because they have always been good with numbers (run screaming from the room), did the job for the last PTA they were a part of or, in the most delicate of cases, the person is a degreed, credentialed accountant. This is not meant to imply that the more accounting savvy the embezzler has, the more sophisticated the deception must be, but it is a reasonable baseline from which to start.

Opportunity is largely managed through proper internal controls and the standard separation of duties. When cash is handled and reconciled, the person authorizing payments must be different from the person writing the checks and a still different person

WHEN CASH IS HANDLED AND RECONCILED, THE PERSON AUTHORIZING PAYMENTS MUST BE DIFFERENT THAN THE PERSON WRITING THE CHECKS AND A STILL DIFFERENT PERSON SHOULD RECONCILE THE CHECKBOOK(S).

THE MEDIAN LOSS IN A NON-PROFIT FRAUD IS $90,000[3]; THE LIKELIHOOD OF THIS AMOUNT BEING REPAID TO THE DAMAGED ORGANIZATION IS SLIM.

should reconcile the checkbook(s). This may seem impossible in a small non-profit but it is critically important to make this happen, even if other board members have to take on one of these roles. If there are inventory or equipment purchases for this organization, a purchase order system should be instituted to control what is purchased and when. My first exposure to purchase fraud occurred while I was in high school. A well-respected honor student had access to a club's checkbook and bought scuba gear for his own use and benefit. Since the club was the Dive Club, the purchases went unnoticed until he bragged about it to a friend.

No organization is too small to place reasonable internal controls designed to thwart the scheming of a financially stressed individual.

RATIONALIZATION

Here is the most human of the three elements of fraud. If you have served on a non-profit board as a treasurer or chairman, you are painfully aware how much work is expected of you and that it is without compensation. Hence the most common rationalization for committing embezzlement as a volunteer is, "I work hard and I don't get the appreciation I deserve...they owe me this money for everything I have done for them." Another typical rationale is, "These guys don't care how much we make so long as there is money available when they need it." Pragmatic embezzlers have this mindset so well ingrained in their psyches that they are often capable of carrying out embezzlement without any outward signs of guilt or tell-tale behaviors.

The danger to the organization becomes even more acute as embezzlers initially get away with their frauds and then justify their behavior by promising themselves that all the borrowed money will be paid back before anyone notices. They can't leave, for fear of being caught, and are stuck in a self-perpetuating system of fraud. The median loss in a non-profit fraud is $90,000[3]; the likelihood of this amount being repaid to the damaged organization is slim.

So you want to be treasurer of your neighborhood association? You need to start from scratch when you embark on a volunteer position as a treasurer. Take these steps first or ask yourself these questions.

- Talk to the existing treasurer and other board members.
- Get a sense of the scope of the job. Did the previous officeholder have the knowledge/experience to handle the work?
- Aside from the obvious sense of relief of handing off the reins to you, does the outgoing treasurer exhibit any anxiety or aloofness?
- Is there a proper separation of work among the board members and will everyone take responsibility for a financially sound organization?
- Have strong (or any) internal controls been put in place for the critical cash/asset management?
- Review the IRS filings and compare the reported document with what you know about the structure and management of the organization.
- Encourage frequent executive sessions and lunch meetings to gauge the involvement of all critical members. Are frustrations evident? Has proper recognition been made to those who contribute to the health of the group?

We all must use our talents to the best of our abilities and I firmly believe that to volunteer our services to an organization committed to a greater good is laudatory. I get great satisfaction from offering my services if they can help stabilize and develop a worthy organization's mission. The danger for any volunteer accountant is revealed when the handoff has a poison pill hidden in the financials. You may frequently find mistakes of omission or carelessness but the challenge is deciding when a mistake is a just a mistake versus a cover up that might blow your new organization out of the water.

Now, go out there and make a difference!

Endnotes

[1] Report to the Nations on Occupational Fraud and Abuse; 2010 Global Fraud Study, Association of Certified Fraud Examiners, Austin, TX.

[2] "Mugavero Back Behind Bars," Soo Evening News, 14 August 2003, sec. News.

[3] Report to the Nations on Occupational Fraud and Abuse; 2010 Global Fraud Study, Association of Certified Fraud Examiners, Austin, TX.

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www.fraudmedic.com

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NSA ELECTS 2011-2012 OFFICERS AND DIRECTORS

www.nsacct.org

The NSA's officers, District Governors, and State Directors were elected and installed at its 66th Annual Meeting in Anchorage, Alaska.

The officers for 2011-2012:

- President – Sharon Cook, EA, ABA, ATA, ATP, ARA, St. Louis, MO
- First Vice President – Harlan Rose, EA, ABA, Marshfield, WI
- Second Vice President – Steven J. Hanson, CPA, Cokato, MS
- Secretary-Treasurer – Brian L. Thompson, CPA, Little Rock, AR

NSA Board of Governors for NSA Districts III, V, VII, IX and XI were elected for two-year terms ending in 2012. Elected to first terms were: William R. Silzer, ABA, ATP (District III) and Brian Iwata, CPA (District XI). Re-elected to second terms were Jerome V. Sweeney, II, CPA, JD, ABA, ATA, ATP (District I), Durette D. Hauser, EA, ATA, ABA, ATP (District V), Eric R. Hansen, ATP (District VII), and Joyce Funkhouser-Lingelbach, EA, ATA, ATP, ARA, LTC (District IX).

State Directors stood for election and re-election in Districts II, IV, VI, VIII, and X. Elected to first terms as State Directors were: Sharron Cirillo, LPA, ABA, ATP (DE – District II), Gerald Brenneman, CPA (PA – District II), Bradley S. Crain, CPA (AR – District VIII), Joanne M. Elsen, CPA, ATA, ATP (AZ – District X), and Morris H. Miyabara, EA, ATA (CA–District X). Re-elected for second terms as State Directors were: Joe Mesquita, PA, ATA, ATP (NJ – District II), James Alfred Johnson (NY – District II), Maria T. Maiz (PR – District II), Lawrence A. Fischer, CPA, ABA, ATA, ATP (FL – District IV), Michael P. Salazar, CPA, EA, ABA (GA – District IV), Curtis Banks Lee, Jr., ATA, ATP (NC – District IV), Joseph Sanford Cone, ABA, ATA, ATP, AP (SC – District IV), Cynthia L. Hunt, EA, ATA (AL – District VI), Pamela C. Stamps, CPA (MS – District VI), Debra J. Cope, CPA, ATA, ATP (TN – District VI), Dexter James Dubon, CPA, EA (LA – District VIII), Mae S. Yee, CPA (NM – District VIII), Kellie Wright (OK – District VIII), and Richard Staley, EA, ATA, ATP (TX – District VIII).

ACAT ELECTS NEW 2011-2012 OFFICERS AND DIRECTORS

www.acatcredentials.org

The Accreditation Council for Accountancy and Taxation (ACAT) elected several new officers and directors in August 2011.

The officers for 2011-2012:

- President – Wanda Goodson, CPA, ABA, ATA of Goodson Accounting & Tax Services in Dawsonville, GA.
- Vice President – Roy Frick, EA, ABA, ATA, ARA, LPA of Frick Accountants Ltd. in Ocean City, MD
- Donald G. Yoder, LPA, EA, ABA, ATA of Bontrager Tax, Accounting & Consulting in Kalona, IA was re-elected as Secretary/Treasurer for a second year.

Two new members elected to the ACAT Board of Directors include:

- Harlan D. Rose, EA, ABA of Data Flow Corp. in Marshfield, WI
- Sharron M. Cirillo, LPA, ABA, ATP of SC Associates in Middletown, DE

The Public Director elected to the ACAT Board of Directors is Peter M. Berkery Jr., CFP of Oxford University Press.

Three additional Directors continue their terms, including:

- Past President, Daniel E. Setters, EA, ABA, ATA, ATP, ARA of Accounting Plus Tax Solutions, Inc. in Champaign, IL
- Carla Rich, DPA, CPA, ABA of Pensacola Junior College in Pensacola, FL
- Michael D. Kinkade of Cossatot Community College of the University of Arkansas in Nashville, AR.

NSA HONORS AWARD WINNERS AT 66TH ANNUAL MEETING

www.nsacct.org

The best and brightest in the accounting profession were honored at the National Society of Accountants (NSA) 66th Annual Meeting in Anchorage, AK. A range of individuals and NSA Affiliated State Organizations (ASOs) were presented with major awards.

Accountant of the Year

Paul Thompson is named Accountant of the Year

The Accountant of the Year award is given to an individual member in recognition of outstanding achievement and service to the accounting profession, the state society, and the community. This award was presented to Paul Thompson, ABA, ATA, ATP, ARA, a longtime NSA member.

Thompson has been a speaker on tax and accounting issues and is currently Chair of NSA Federal Taxation Committee. He has participated in meetings with the IRS in Washington, DC to discuss tax issues affecting small businesses and individuals. He recently participated on the IRS Advanced Circular 230 Ethics Panel at an IRS Tax Forum and frequently testifies before the IRS representing NSA members, taxpayers, and tax preparers.

Affiliated State Organization (ASO) of the Year

The award was given to the Oregon Association of Independent Accountants. This special award was created in 2000 to honor the overall achievements of an ASO and its work in promoting and implementing NSA programs, including membership recruitment, member services, seminar and education sponsorship, legislative activity, and financial stability.

State Director of the Year

Christine Freeland receives the award for State Director of the Year

Christine Freeland, CPA, ABA, ARA, CFP, of Chandler, AZ was honored with the Norma Kraus Memorial Award as State Director of the Year. This award recognizes an outstanding state director for excellence in carrying out the many duties of this position, including leading their state society, recruiting members, promoting seminars, and serving as a liaison between NSA and their state society.

National Editorial Award

Recognition for this award included two individuals who were honored in separate categories. Gloria Juhl Raney was honored for Best Original Article for her story, "Ethics, Mountain Climbing & Fishing in the Gulf," which appeared in the September 2010 issue of The Kansas Public Accountant. John E. Iacono, CPA, of Iacono and Iacono, Inc., received the award for Best Series of Articles for his series of stories about "Ethics and Ethical Behavior," which appeared in the Minnesota Association of Public Accountants newsletter, The MAPAN.

Distinguished Service Award

Curtis Banks Lee receives Distinguished Service Award

This award was presented to Curtis Banks Lee Jr., ATA, ATP, of Raleigh, NC, in recognition of his significant and exemplary contributions for the betterment of NSA and its membership as well as the accounting profession. The Distinguished Service Award recognizes continuous service, loyalty, and dedication to NSA. He was just re-elected to a second one-year term as Administrative Chair of the NSA Right to Practice Committee, which is responsible for accounting standards, federal taxation, and state regulation and oversight.

Keith Billings Memorial Award

This award was presented to two outstanding ASO publications, including The Free State Accountant, published by the Maryland Society of Accountants, and The Kansas Public Accountant, published by the Public Accountants Association.

Charles W. McAllister Award

This award was presented to ASOs in four categories, honoring them for the highest net increase in NSA membership during the past year. Winners this year are: Division I (fewer than 100 members): Mississippi and South Dakota; Division II (100-250 members): Iowa; Division III (250-500 members): Florida; and Division IV (500+ members): California

Best ASO Website

This award was presented to ASOs in two categories. For Division I (fewer than 300 members), the award went to the Arkansas Society of Accountants, and for Division II (300 or more members), the award went to the Washington Association of Accountants.

Tax Talker of the Year Award

The NSA "Tax Talker" bulletin board is a tremendous resource for tax professionals and has attracted more than 1,000 participants. Of all the contributors, one person has posted over 3,818 responses since 2006, often citing the Internal Revenue Code section that applies to a question, delivering targeted answers, and deferring to others when they have answers that may be more on point. The Tax Talker award went to that person, William Delaney, EA, ATA of Westwood, MA.

Congratulations to all of the 2010-2011 NSA award winners.

NSA 67th Annual Meeting & Expo in Maui

August 22 - 25, 2012

Registration for the next annual meeting, set in beautiful Maui, is now open!

Headquarters Hotel
Hyatt Regency Maui
200 Nohea Kai Drive
Lahiana, Hawaii
Click here to view the hotel website

NSA is pleased to offer exceptional hotel room rates for members attending the annual meeting. These rates are significantly below the rates otherwise available. Rooms in the NSA room block do not require an advance purchase or nonrefundable hotel deposit and include the mandatory $25 daily resort fee per room. Our rates are as follows:

Room type	*Regular rate plus resort fee*	*NSA Convention Rate*
Resort view	$314	$169
Partial Oceanview	$354	$189
Oceanview	$394	$219
Oceanfront	$434	$230

In order to allow as many members as possible the opportunity to take advantage of the exceptional room rates at the Hyatt Maui, hotel reservations will be available only to members who register and pay the full early bird registration fee of $579. Members will be initially limited to reserving two rooms. NSA may make additional rooms available at a later date, subject to availability.

Annual meeting registration and hotel reservations must be made online at www.nsacct.org. You will not be able to call the Hyatt Regency Maui and make reservations in NSA's room block. Follow the links on the NSA Annual Meeting web pages to register for the annual meeting. Once your registration is complete, you will receive a confirmation email. In that email is a link to follow to the hotel online reservations. Please note that members are limited to two rooms per reservation. If you decide to reserve two rooms, the reservation may be for two rooms of different types and with different arrival/departure dates. NSA rates are available for arrival beginning on August 16, 2012 and departure no later than August 30, 2012.

Venice Falls, Maui

Click here to register today!

August 22–25, 2012
Hyatt Regency Maui

2012 REGISTRATION FORM

Please print legibly to avoid errors and delays on-site

Name _____

Title _____

Name to Appear on Badge _____

Company _____

Street Address _____

City _____

State _____ Zip _____

Phone _____ Fax _____

E-mail _____

NSA Member ID# _____

CTEC Member ID# _____

☐ This is my first NSA Convention.
☐ I am an ACAT credential holder.
☐ Special meal request: _____
☐ I have special needs and would like to be contacted by an NSA representative.

4 Easy Ways to Register

Fax form with credit card payment to: 703-549-2984

Mail this form with a check or credit card payment to: NSA, 1010 North Fairfax St., Alexandria, VA 22314

Call NSA toll-free: 800-966-6679

Online: www.nsacct.org

Method of Payment

☐ Check ☐ American Express ☐ Discover ☐ MasterCard ☐ Visa

Credit Card # _____ Exp. Date _____

Signature _____

Check # _____

Total Due: $ _____

Cancellation Policy: In accordance with NSA policy, the NSA registration fee is refundable (less a $75 per registration administration fee) until August 1, 2012 should someone's plans change. In that event, any room reservation you have made will also be cancelled.

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

REGISTRATION PACKAGES

		Early Bird Discount by July 1* (*postmarked)	After July 1
Full Conference Includes a full year NSA membership →	**Member:**	___ $579	___ $679
	Nonmember:	___ $699	___ $799
	Spouse/Guest:	___ $259	___ $299
	Each child 6–17:	___ $139	___ $139

Spouse/Guest/Child Name _____

Spouse/Guest/Child Name _____

Spouse/Guest/Child Name _____

Daily Rates (Please select option, and days you wish to attend.)

☐ **1-Day**
___Member: $229
___Nonmember: $259

Select 1 Day
___Thursday 8/23
___Friday 8/24
___Saturday 8/25

☐ **2-Day**
___Member: $399
___Nonmember: $429

Select 2 Days
___Thursday 8/23
___Friday 8/24
___Saturday 8/25

Additional Tickets (order now, prices increase $10 onsite)

The Old Lahaina Luau is an optional event and is not included in the registration fee. before the rates for the luau.

___Adults/Old Lahaina Luau 8/23: $99 x ____ = _____
___Children 3-12/Luau* $72.50 x ____ = _____
___ACAT Reception 8/24 $40 x ____ = _____
___Awards Breakfast 8/25: $40 x ____ = _____
___Installation Banquet 8/25: $90 x ____ = _____

* Children age 2 and under are free if seated in lap or high chair. Luau rates include transportation.

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, 2011.

NSA PAC Suite Deal Raffle Tickets: $50 each x ____ = _____

The PAC can not accept corporate contributions.

Hotel Information: Hyatt Regency Maui Resort & Spa

Room rate: $169–$230 King/Double

Rooms at the NSA group rate, which includes the $25 daily resort fee, will be available for arrival beginning on August 16, 2012 and departures no later than August 30, 2012. Cut-off Date: July 29, 2012 if rooms are still available in the room block.

In order to allow as many members as possible the opportunity to take advantage of these exceptional room rates at the Hyatt Maui, hotel reservations will be available *only to members who register and pay the full early bird registration fee of $579*. Even then, the member will be initially limited to reserving two rooms. NSA may make additional rooms available at a later date, subject to availability.

You will not be able to call the Hyatt Regency Maui and make reservations in NSA's room block. Once your annual meeting registration is complete, you will receive a confirmation email. In that email is a link to follow to the hotel online reservations. Please note that members are limited to two rooms per reservation. If you decide to reserve two rooms, the reservation may be for two rooms of different types and with different arrival/departure dates.

NSA National Society of Accountants

Office Use Only: ____ACAT ____GG ____SD ____VIP ____CC ____FT ____ASO

UPCOMING NSA CONNECTED WEBINARS

http://webinars.nsacct.org/

NSA ConnectED webinars provide a cost-effective way for you to get CPE at your convenience. NSA is approved by NASBA, the IRS Director of Practice, ACAT, and CTEC as a provider of continuing professional education.

Marketing on a Budget: Session 2 of 3, NSA Series: Revolutionizing Your Practice

November 29 2:30 - 3:30 PM EDT (11:30 PT)

In this session, Bob Cross and Bill Parrish, will show you how to market your practice and who to market the practice to, all on a budget of $500.00 or less. These ideas have been tested in the real world and have been used successfully in a number of practices that were changed forever. So you don't have $500.00 bucks laying around, well they will even show you how to do the same thing for zero costs, just may take a few months longer to achieve the spectacular results you deserve.
CPE: 1 Hour/Business Management and Organization
Presented by Bob Cross PA, ABA, ATA and Bill Parrish, ABA, ATA, ATP, ARA

Managing the Work Flow - Session 3 of the NSA 3-Part Series: Revolutionizing Your Practice

December 1 2:30 - 3:30 PM EDT (11:30 PT)

So you have an idea of what you want to earn, you have a way to market your practice, but once you get the work, how do you manage it all effectively without passing all of the revenue on to employees? Bob and Bill have faced the same issues and have resolved the problem. Now they are happy to share their ideas with you.
CPE: 1 Hour/Business Management and Organization
Presented by Bob Cross PA, ABA, ATA and Bill Parrish, ABA, ATA, ATP, ARA

Schedule C: Have We Missed Anything?

December 8 2:00 - 4:00 PM EDT (11:00 PT)

A last minute look at Schedule C. Have we asked all the right questions? Are there deductions the client may have missed or forgotten? Does 'THE LIST' really exist (with every single penny to deduct)?
CPE: 2 Hours/Taxes
Presented by Carol Thompson, EA, ATA

Cancellation of Debt: Home vs. Credit Card

December 15 2:00 - 4:00 PM EDT (11:-00 AM PT)

What is the latest information on Cancellation of Debt (COD)? How do treatments differ between a home mortgage and credit card debt forgiveness? Did congress extend the Section 108 safe harbor for COD on a residence (due to expire in 2012)?
CPE: 2 Hours/Taxes
Presented by Carol Thompson, EA, ATA

Ethics: Current Cases

January 5, 2012 2:00 - 4:00 PM EDT (11:00 PT)

A review of the current cases involving tax practitioners and unethical behavior. This session will follow cases in the courts and OPR to see what types of problems the IRS is stopping. Learn how to report unethical tax prepareres to OPR and the IRS.
CPE: Hours/Ethics
Presented by Carol W. Thompson, EA, ATA

Disaster Losses

January 10, 2012 2:00 - 4:00 PM EDT (11:00 PT)

This class will cover the current laws regarding the tax consequences of disasters. It will also include valuable information on working with disaster victims, and reconstruction of the records necessary for the IRS, FEMA, SBA, and insurance companies.
CPE: 2 Hours/Taxes
Presented by Carol Thompson, EA, ATA

Can't make it to a live webinar? Get CPE on your schedule. NSA offers many previously recorded ConnectED Webinars located on our website, http://webinars.nsacct.org/archived.php

What to Watch for in 2012 and What We Can Learn from an Iceberg

An Interview with NSA President , Sharon Cook

By Julia Wilkinson

With another tough economic year under Americans' belts, and significant upcoming changes in the law, such as the Affordable Care Act, tax and accounting professionals have all the more reason to keep on their toes and be aware of the latest regulations.

Meet NSA's New President
Sharon Cook

Sharon Cook, EA, ABA, ATA, ATP, ARA

We sat down with NSA's newest president, Sharon Cook, to talk about a wide range of topics, including keeping up with those changes, her priorities for the year, her leadership style, and the unusual path she took to her profession.

You served as NSA V.P. last year. How do you think that role may have prepared you for being president?

Serving as 1st and 2nd vice president the last two years has provided me the opportunity to listen and learn from my predecessors. As president you need to make decisions for all NSA's members and I always ask myself what is best for NSA.

What are your goals for the coming year at NSA?

My goals this coming year are to increase and retain members, to improve our relationship with our state affiliates, and to keep up with any legislative issues that may affect our profession. The committees have new ideas and I am excited to see them implemented.

What do you think are the biggest challenges/changes facing accountants and tax professionals in the coming year?

It is important that all tax preparers have gotten their Preparer Tax Identification Number application (PTIN) from the Internal Revenue Service. If they are required to take the test they need to be aware of the study guide and prepare accordingly. We all need to understand what "qualified" continuing education is. In 2012 there are changes occurring in the Health Care Reform Act that require additional reporting requirements. As professionals, the due diligence requirement is important to avoid preparer penalties.

How did you get into the field of accounting/tax preparation? Was it the first career you had? If not, what did you do before?

When I graduated from high school, it was a toss-up whether to be an accountant or secretary. I had worked in both areas during high school. However, I was getting married and I knew that going to college was not an option so I became a secretary for thirteen years. When I had my son, I did not work. My husband, Jack, got transferred to Memphis, Tennessee, where we lived for three years. He became very ill and died. I then moved back to St. Louis to be with family.

Tell us about your family. Do you have any children?

My son, Steve, was five when we returned to St. Louis, our home town. He is my only child. When he got married, I gained a daughter in law, Terri. I also now have one grandson, Andrew. He is the light of my life.

Tell us about your firm, Kuenne. Do you specialize in any particular area? How many people are in the company?

My parents already had Kuenne Accounting & Tax, Inc. and offered me a job. Dad was my mentor and encouraged me to become an Enrolled Agent and to go for my Master of Science in Taxation. When my parents retired, I was prepared to take over the practice with my sister, Donna. It is now thirty four years later. There are four other employees in the firm and we do accounting for small to midsize businesses along with payroll and tax preparation for individuals, partnerships and S & C

corporations, estates and trusts. My son and I are also registered reps with Genworth Financial, and provide investments in stocks, bonds, mutual funds, annuities and insurance instruments.

How did you go about getting your Master of Science in Taxation?

I was able to get my Masters because I was an EA and had several years of experience in doing taxes. I went to Fontbonne University. I did have to take some prep courses such as business law, statistics, economics, etc., before I started. It took me four years to complete the degree. I would go to school at night and on weekends.

In today's challenging economic environment, is there a common theme or trend you are seeing from clients? Worry, saving more, etc.?

Many small businesses are concerned with the economic outlook as to whether they will be able to stay in business. Individuals are saving less and some are taking out of their retirement accounts to make ends meet. Those who are on social security are having a tough time, with interest rates almost nonexistent, being able to pay for healthcare, food and housing.

You have held a number of leadership positions, not just for NSA, but for the Missouri Society of Accountants, and other organizations. What are the most important things you learned in all those positions? Or are there any stories that stand out?

Being a leader means you listen to the needs of your members. It is not what you want but what is best for the members. You show professionalism with integrity through quality education ethics and legislative efforts. You provide your members with the proper tools to use in their business and make them successful.

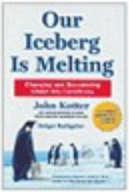
You have taught (and are currently teaching) at an adult education center. What drew you to teaching, and what do you find rewarding or interesting about it?

Teaching is fun and rewarding. I learn more than the attendees. I have taught a basic tax preparation class for staff personnel of the Missouri Society of Accountants. I now teach a tax preparation class for individuals who prepare their own return through the Thomas Dunn Adult Education Center. It is surprising how few people actually understand the law. It is rewarding when you have given them the information they need to prepare an accurate return.

What do you like to do in your spare time?

I don't have much spare time, but when I do, I like to do jigsaw puzzles and watch my grandson play ice hockey.

What are some of your favorite books, and why?



My favorite book is Our Iceberg Is Melting: Changing and Succeeding Under Any Conditions, by John Kotter. One thing that I took away is that you need to have "buy in" to make changes. It takes time to establish pros and cons, discuss, conclude, and implement. This book has taught me patience and to make sure all the facts are on the table before making a decision.

Anything else you'd like to add?

NSA has been instrumental in my professional and personal development. I look forward to this year as President and will work diligently to do what is best for NSA.

MY GOALS THIS COMING YEAR ARE TO INCREASE AND RETAIN MEMBERS, TO IMPROVE OUR RELATIONSHIP WITH OUR STATE AFFILIATES, AND TO KEEP UP WITH ANY LEGISLATIVE ISSUES THAT MAY AFFECT OUR PROFESSION.

Julia Wilkinson
Freelance Writer
Alexandria, VA

WHAT IS HAPPENING IN MEMBERCONNECT THIS MONTH?

http://connect.nsacct.org

CONNECT, COLLABORATE, COMMUNICATE

Discussions

NSA members have been busy contributing to the discussions on Tax Talk. Here are a few of the topics covered recently:

- Short sale of rental property
- Practice management software
- Selling a practice
- Church donations
- LLC corps
- Amended returns for FBAR
- Social security withholding for dependent

Blogs

Share your insight and knowledge with fellow members by creating a blog on the new NSA member site. Or stop in to read the postings. Some recent topics include:

- CA Franchise Board delays changes
- CPA comfort letters
- Meet the power duo--Bob Cross and Bill Parrish

Documents

There are over 90 client letters in the Document Library. Topics range from 2011 planning to required minimum distribution rules.

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 MemberConnect Today!

MOBILENSA: DOWNLOAD THE NSA MOBILE APP TODAY!

MobileNSA

Download it now!

The National Society of Accountants is pleased to introduce MobileNSA, our new mobile membership app. The app, available for BlackBerry, Android, iPhone, iPad, and iPod Touch, allows you to find and network with other NSA members, stay up to date with news and information, and view NSA events and happenings from the convenience of your phone or other mobile device.

DIRECTORY – Get quick access to your fellow NSA members. Search the directory by first name, last name, or company. Call and email fellow members directly from the app or touch their address to see their location on a map on your Smartphone.

NEWS – Read the latest tax, accounting, and NSA specific news, stay connected with the NSA Twitter feed, read NSA staff and member blogs, and view new additions to the document libraries.

EVENTS – Stay on top of upcoming NSA events, including webinars, ASO events, committee meetings, and more.

DISCUSSIONS – Collaborate with other NSA members, ask questions, and get answers. Tax Talk and other discussion groups that you are subscribed to on NSA MemberConnect are available on MobileNSA. Once logged in, you can post new messages, reply to another member's messages, or simply follow discussions.

MESSAGES– View and respond to messages you've received from other NSA members on MemberConnect.

CONTACTS – Save NSA member contact information to your smartphone or mobile device address book. You can also call or email a fellow member directly from MobileNSA!

Giving Cash Gifts to Family and Friends

By Tom Stemmy, CPA, CVA, EA, MMS

As a tax practitioner, how often have you found a client to be totally in the dark on how to make a simple cash advance to another individual, such as when a close friend or family member comes to them for a cash fix in a time of need? Hoping to do the smart thing tax-wise, they often ask, "Should I (a) give him/her an outright gift or (b) make a loan (with the expectation of repayment)?"

Queries like this have become increasingly common among individuals who want to secure the best tax advantages possible in light of the changing income and estate tax rules. But, in spite of the uncertainty, the accounting professional continues to be relied on to provide the best tax advice possible on the playing field that we are on.

First, a look at the outright gift—Let's say one of your client's adult children (Junior) is in a tight spot and comes to Dad for a cash advance. Dad, of course, is well aware that small cash gifts generally don't have to be reported to IRS. However, like some taxpayers, he might not be aware that a gift tax return is required whenever an individual is given more than $13,000 in a single year. For some, this could have an impact on their overall estate plan.

But, hold on, many taxpayers are starting to ask, "Why would anyone bother reporting a gift when their estate will clearly not be taxed under the friendly new tax rules?" This question, surprisingly, continues to be asked by seasoned financial professionals who feel that nearly everyone will be free from federal estate taxes under the new law. It is true, when the President signed the new law on December 17, 2010, the government designed to provide every individual with a $5,000,000 lifetime exemption for estate and gift transfers. However, no one said that you don't have to file a gift return when gift transfers exceed $13,000 in any one year.

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Here's the key. Many of our clients need to be reminded that the generous $5,000,000 lifetime exemption is only on the books until 12/31/12.[1] And, in light of the sputtering economy, they should be aware of the dreaded "claw back" rule that many experts fear will prevail after that. This could mean that ALL of the reportable gifts that you make during your lifetime will be "clawed back" into your estate after 2012—regardless of how much exemption Congress will allow at that time. Hence, Dad should not assume that IRS will not be monitoring the gifts that he makes to anyone in the months ahead, even though he doesn't have any tax liability right now.

What about the loan option? As Dad's tax adviser you will need to take a look at his overall financial picture before decid-

ing if it would be advantageous for him to treat a planned cash advance as a loan rather than an outright gift. For one thing, a properly documented loan will set the record straight with Junior about the loan terms and the expectation of repayment.

Tax professionals are well aware that the IRS can be sensitive about the legitimacy of loans—especially when they are between family members. The loan document should make it clear that the lender is making an arm's-length loan (not a gift) and it is truly expected that the loan will be repaid. The payment terms should be spelled out clearly along with any interest that is to be charged. And, if at all possible, collateral should be obtained for the note.

What about interest charges on the loan? All too often, good-intentioned lenders will try to keep things simple by making loans interest-free, especially within the family. This may not be a good idea. IRS is well aware that, with true bona-fide loans, a reasonable interest rate is usually charged and paid by the borrower. In fact, many of our clients are shocked to learn that an "interest free" loan that is more than $10,000 could cause the IRS to step in and fill in the blanks. And, as practitioners well know, the interest will be "imputed" for the lender and borrower based on rates set under AFR rules (the applicable federal rates). The end result: Your client/lender could wind up paying income tax on fictitious interest that was never received.

Code Sec. 7872(d)(1) essentially allows you to disregard the rules for imputing interest when loans are under $100,000. However, keep in mind that this special exception might not apply if a borrower (such as Junior) happens to have investment income over $1,000. And, there could be one more glitch. For gift tax purposes, there are separate rules to follow. The foregone interest, based on the AFR rates, will be treated as a taxable gift. That means more tax reporting might be required.

What happens when a loan goes into default? Understandably, many of our clients will resent all the paperwork that is needed just to make a simple loan. Well, guess what? If that loan becomes uncollectible, they will be wishing that they had a file full of records to prove the legitimacy of their loan. That is, of course, after you inform them of their eligibility for the attractive (bad-debt) tax deduction that is allowed under Code Sec. 166(a)(1). However, they still might ask, "Is it really worth all the paperwork?"

Hold on, here's some good news. Practitioners need to keep in mind that a landmark tax court decision made it clear that a valid debt could indeed exist without all the legal formalities - even when related parties were involved. *(2)* When a taxpayer loaned his daughter more than $36,000 to start up her own business, he didn't follow all the recommended legal steps - like executing a note, setting payment terms, securing collateral, etc. However, by inference, he was able to show that an agreement did indeed exist with his daughter and that she would attempt to repay the loan when her business became successful.

In short, the taxpayer prevailed over the IRS because his intentions were proved with business-like actions and by making informal notations—such as marking "loan" on checks and deposit slips, etc. Most important, he and his daughter were recognized as creditable witnesses with a prior debtor-creditor relationship.

Planning Tip: Although your client might be able to use alternate means to prove his intention to make a valid loan, he could save himself much cost and aggravation by having a few properly drafted loan documents on hand.

(1) Under the existing law, it is reminded that there are provisions for inflation adjustments. IRS has just announced (under Rev. Proc. 2011-52) that the $5,000,000 lifetime exemption is scheduled to increase from $5,000,000 to $5,120,000 starting next year on 1/1/12.

(2) Loy E. Bowman, et ux. V. Commissioner, TC Memo 1995-259 – Code Sec(s) 166

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Keeping Client Data Safe in an Increasingly Mobile World

By Michael Webb, Chief Technology Officer, SmartVault

Mobile has become a way of life, and with the proliferation of advanced devices, it's easier than ever to work on the go. SaaS-based (Software as a Service) applications, in combination with mobile technologies enable you to deliver client documents while sitting at the airport, process a client's payroll from home, and fulfill requests for sensitive data in real-time, at any time. And while severing the tether to desktop applications and local servers marks substantial progress for firms, it has also made the accounting profession more vulnerable to data theft because sensitive information is quite literally being carried around and accessed from multiple locations.

Mobile status is no longer defined solely by the use of laptops. Today's busy professionals are accessing and storing data from multiple devices, including tablets, smartphones, and flash drives. Also consider the number of public WiFi networks tapped into on regular basis (hotels, airports, coffee houses, etc.). All of this means added risk where data is concerned. Devices get stolen and networks get hacked—compromising sensitive client information and opening accounting professionals up to a world of potential penalties, embarrassment, and loss of business.

Because we live in a mobile world, taking precaution where data safety is concerned is a necessity. The time has come for heightened security measures.

The question is: Do you have a plan in place?

Protecting Data—And Your Reputation

There are few professions with more regulations and compliance mandates than tax and accounting—and for good reason. Accounting professionals work with confidential financial data on a daily basis—both inside the office and out, and now from an array of mobile devices. As such, it's the firm's responsibility to ensure the safety of their clients' data whether sitting in the office, on a plane, or at a local eatery. The time has come to protect mobile devices with the same fervor and commitment as our office computers.

To accomplish this, a structured plan is required—one that will help firms take proper and speedy action should client data become compromised due to theft or loss of a mobile device. To help you develop such a plan, the following recommendations will give you a good start:

- **Take Inventory**—First and foremost, it's critical to know what devices you are using and *why* you are using them. Ask a few standard questions: Are you simply storing files? Are you accessing and processing raw data? Is the device used for review of documents only or are you sharing them via email? Having a basic understanding of how you use each device will help you better understand the level of security that is required. As you take inventory, it's good to follow one general rule: Don't store sensitive data on any mobile device if you don't have to. You will also want to take inventory of the applications that reside on each device. This will further clarify what data is being accessed and potentially stored.

• **Develop a Mobile Policy**—You likely have policy in place in relation to hiring staff or delivering client services—each adopted to protect and ensure the success of your firm. Creating a policy in relation to how you (and staff) use mobile devices is just as important to your success. A sound mobile policy is typically comprised of two main components: 1) guidelines for data storage on devices and 2) procedure for lost or stolen devices.

DON'T STORE SENSITIVE DATA ON ANY MOBILE DEVICE IF YOU DON'T HAVE TO.

First, ensure that as little client data is stored on mobile devices as possible, then develop strict guidelines around data storage—and enforce them. This will help you maintain control of what data (and how much) resides on mobile devices. Second, put a plan of action in place in the event that a device is lost or stolen. This includes any device—laptops, tablets, smartphones, or flash drives. Many states have enacted laws that require you to notify those affected by data breach due to theft or loss of a device. Your plan may include guidelines for disabling/changing passwords, closing connections, and a procedure for notifying clients of confidential information breach. By adhering to strict policy, you position yourself to respond to the issue with speed and effectiveness.

• **Audit Mobile Access**—Auditing devices is another way to protect your data. Look at what applications you are using and the passwords and data that are stored on the device. Regular audits will keep you current on what devices hold what information so you can react quickly in the event of theft.

• **Heighten Security on Mobile Devices**—There are several ways to heighten security on your mobile devices. Some of the more obvious solutions are assigning stronger passwords, using the device's auto-lock function, and encrypting documents. The best advice to heighten security, however, is to access data outside the device itself rather than working with stored data. For example, Cloud applications enable you to access data and work in real time without having to store information on the resident device. That means that if the end-point device is lost, the sensitive information stays in the Cloud. Firms with VPN capability can use a mobile device to access the VPN and then access the data from there—using the device as a thin client only.

Another guideline to ensure data security is to avoid using public WiFi networks when at all possible. Additionally, do not set your devices to automatically search for open public networks. This leaves your system open and vulnerable, and your data a "sitting duck." You should only ever access sensitive data remotely over a secure HTTPS connection.

The Reality of Being Highly Mobile

The simple fact is that we live in a fast-paced, mobile world. Advanced technologies allow us to live and work outside of a brick-and-mortar structure and have provided the freedom to work any time and from anywhere—increasing productivity to record levels. At the same time, these innovations have also subjected us to greater risks of a data breach. As a mobile society, we tap in and out of public networks, exchange information via email, and store and access highly sensitive data on a multitude of mobile devices. And while these are necessary practices to stay connected and work, it does require taking precautions to keep data safe and sound.

By following some simple guidelines, like developing a mobile policy and heightening device security, you can continue to enjoy the benefits of an "always on" world, without falling victim to the risk that comes with it.

THE BEST ADVICE TO HEIGHTEN SECURITY, HOWEVER, IS TO ACCESS DATA OUTSIDE THE DEVICE ITSELF RATHER THAN WORKING WITH STORED DATA.

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HOT TOPICS AND TIPS FROM OUR TAX DESK

By Deborah Aiken

AGGRESSIVE AUDITOR?

Section 7521 allows the taxpayer to record interviews with the auditor. The taxpayer has to request permission in advance and provide the equipment. The auditor also can notify the taxpayer in advance and record the interview. The auditor must provide the taxpayer with a transcript of the recording, but the taxpayer pays for the transcript cost.

REQUIRED MINIMUM DISTRIBUTIONS

There is an exception to the RMDs for those over 70 ½ who are in a qualified employer plan and who are still working for that employer. It does not apply to IRAs, or IRA-based employer plans like SEPs.

MEDICARE PREMIUMS AS SELF-EMPLOYED HEALTH INSURANCE DEDUCTION

The IRS says that Medicare premiums taxpayers voluntarily pay to obtain insurance that is similar to qualifying private health insurance can be used to calculate the deduction for self-employed health insurance.

DEBT REPAYMENT TO S CORPORATION SHAREHOLDERS

If creditor-shareholders' basis in in the S corporation debt has been reduced by loss taken in excess of their stock basis, debt repayments will cause the shareholders to have income. The gain will be a capital gain if the debt is held as a capital asset and is a bond, debenture, note, or other written evidence of indebtedness. The gain will be ordinary income if the debt is an open account and there is no written documentation of the debt. For partially repaid debt, the repayment may be allocated between income and return of debt basis.

ESTATE OR BENEFICIARY TAXED?

Income from property that passes directly at the decedent's death to a beneficiary is not taxable to the estate unless the fiduciary assumes ownership or control over the property. The ownership of income generated by the decedent's assets cannot be determined without checking state law.

DEATH AFTER ROTH CONVERSION

Section 408A provides rules for taxpayers who used the two year delay in taxation for 2010 Roth IRA conversions, but who die before the income was included in tax. All remaining taxable income on the conversion is included in the decedent's final return.

PARTNER CANCELLATION OF DEBT INCOME (CODI)

Partners have two things happen when the partnership has cancelled debt. The partners have the CODI passed through to them, which increases their basis. They also have relief from debt which is treated as a cash distribution and that decreases their basis. As a result, the partners may have no basis increase from CODI.

FAILURE TO RESTORE PARTNER'S NEGATIVE CAPITAL ACCOUNT

When a departing partner does not restore a negative capital account as required by the partnership agreement, it generally is treated by an allocation of gross income (income before any deductions taken) to that partner and corresponding losses to the other partners, forcing the negative capital account up and the other partners' capital accounts down.

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