

# MAIN STREET PRACTITIONER

The Magazine for Tax and Accounting Professionals

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**Steve Hanson**

How to FIRE a CLIENT

**Tapping into a Raging  
Payroll Revenue Stream**



IRS Final Regulations Regarding  
Expensing/Capitalization Rules  
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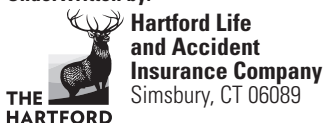
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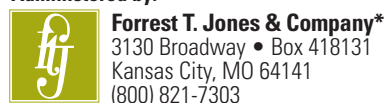
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## TAPPING INTO A RAGING PAYROLL REVENUE STREAM



## INTERVIEW WITH NSA PRESIDENT STEVE HANSON



## HOW TO FIRE A CLIENT



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**NSA Award Winners**  
Announced at the 68th Annual Meeting

See the full list of winners  
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## PRESIDENT'S MESSAGE

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*By Steven Hanson, CPA, EA*



September 2013

I would like to thank the members of the National Society of Accountants for putting your faith and trust in me as the newly elected President of this society. It is truly an honor to serve you this coming year. I look forward to the challenges ahead and solicit your comments and criticism so that we, the Board, may continue to provide you with the support you need in your everyday practice life. We have a great organization, dedicated to providing you, its members, with resources to help your tax and accounting practice grow and prosper, but we also need your support, your thoughts, and your ideas.

Having just returned from NSA's 68th annual convention, it is such a pleasure to see the number of concerned and dedicated member volunteers there representing our Board, our Committees, our State Affiliates, and our members. These people work hard to further the mission of our society. I would personally like to thank each and every one of you for your hard work and dedication to NSA.

NSA has long been the organization for the small accounting and tax practitioner. Over the years, we have provided and still provide many services, programs, and resources to our members. Some of the most noteworthy include the work done by our Right to Practice committee in staying abreast of licensing regulations, webinars, and other education resources; our tax talk community; and support for our State Affiliates.

Going forward, I hope to expand upon the resources available to the small "Main Street" accountant. We have provided numerous resources for the tax practice, but we need to expand our resources in the accounting area. We will continue to protect your right to practice, the mainstay of our organization. We will continue to be the national voice of the small accounting and tax firm.

To achieve these goals takes a lot of work, and it takes team work. You have elected a great group of officers and Board of Governors. Together, we have assembled a great team of committees. We are committed to working together as a team to make a difference and to help our fellow professionals tackle the ever present challenges of the accounting and tax profession. I ask you to join our team by supporting our programs, increasing our membership, giving us your feedback, and using your membership to its fullest.

Again, I thank you for the opportunity to lead the National Society of Accountants. I look forward to a great year.

A handwritten signature in black ink, appearing to read "Steven Hanson". The signature is fluid and cursive, with a long horizontal line extending to the right.

Steven Hanson, CPA, EA  
NSA President 2013-2014





# HOT TOPICS AND TIPS FROM OUR TAX DESK

*By Deborah Aiken, JD, CPA*

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### ELECTING DISASTER LOSS IN PRIOR YEAR FOR HURRICANE SANDY

The IRS has delayed the election date for taking the loss in the prior year until October 15, 2013. Generally, the election must be filed no later than the due date of the return, without regard to any filing extensions, for the year in which the disaster loss occurred. Otherwise, the disaster loss is deductible in the year in which the loss occurs. A taxpayer elects to claim a disaster loss in a preceding tax year on a return, an amended return, or a refund claim that clearly shows the election. The taxpayer must specify the intention to make the election on a signed statement that provides the disaster date and property location.

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### INHERITED IRA DISTRIBUTIONS UNDER THE FIVE-YEAR RULE

Under the five-year rule, the beneficiary may take distributions at any time during the five-year period or they can be deferred entirely until the end of the period. If the five-year rule applies, the beneficiary must take the entire account balance no later than December 31 of the calendar year which contains the fifth anniversary of the date of the decedent's death.

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### LOSSES ON ANNUITIES

Taxpayers may deduct losses on annuity contracts when the contract has a refund feature, and when allowed, the losses are ordinary losses. If the contract has no refund feature, the loss realized when the total annuity payments are less than the cost is not deductible.

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### WORTHLESS STOCK DEDUCTION AND CORPORATE LOSSES

If a C corporation has ceased doing business but the corporation remains open to retain the losses, beware of the shareholder taking a worthless stock deduction. Under section 382(g)(4)(D), if a 50% or greater shareholder takes the worthless stock deduction, it creates an ownership change, which coupled with abandoning the historic business will wipe out the NOLs.

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### ENERGY CREDIT PROPERTY AND SECTION 179

Energy property is excluded property for using section 179. IRS Publication 946 provides a list of excluded property.

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### QUALIFIED JOINT VENTURE

A husband and wife living in any state can elect to be a qualified joint venture. Only a husband and wife in a community property can elect to be a qualified joint venture if they have their business in an LLC.

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### MORTGAGED-BACKED SECURITIES

The interest payments on mortgage-backed securities are taxable and the principal is non-taxable. However, if the securities were purchased at a discount then a portion of the principal also would be taxable due to the discount. The discount is reported like the discount on bonds.



# TAPPING INTO A RAGING PAYROLL REVENUE STREAM

By R. Sean Manning, CPA

**P**ayroll isn't what it used to be. For years, accounting professionals labeled payroll as the hassle-ridden stepchild of services, considering it to be highly complex and lacking in profit potential. How things have changed! While payroll may have been a headache service to some degree in the past, today's advanced cloud technologies support payroll processing that is efficient and simple—and best of all highly profitable! In fact, payroll services represent one of the most important growth opportunities in the tax and accounting profession; that is, if the right model is adopted.

While web-based technologies make offering payroll much more efficient, technology alone is not the answer to building a successful payroll business. Firm owners must adopt a sound business model—one that considers all aspects of supporting payroll—including developing a streamlined technology solution set, building the proper staff and client base, marketing and branding, and pricing. When all of these areas are considered, only then can firms expect to make payroll a successful service offering.

## The Opportunity at Hand

The profession continues to change rapidly, and the payroll space is evolving as well—emerging as one of the most lucrative opportunities. This is due to a variety of factors. Consider each:

- **Fewer Barriers to Entry**—Cloud applications have leveled the playing field, drastically reducing the cost of entry and allowing smaller firms to provide the same level of service as large firms. Professional-grade payroll software is available at a fraction of the cost it used to be, meaning that firms can get up and running without a big up-front investment and can often be profitable in the first year.

- **Established Client Base**—Accounting firms have a major advantage in attracting new payroll clients because they already have an established client base. Existing clients represent a rich 'prospect' pool because there is already an established, trusted relationship developed.

- **A Growing Segment**—In a profession where many services are falling in price and becoming increasingly commoditized, payroll is a rare bright spot for small to mid-sized

accounting firms. In fact, projected payroll service revenues for 2013 are over 200% greater than payroll service revenues reported in 2009.

- **'Sticky' Service that Supports Stronger Client Relationships**—Payroll is considered a 'sticky' service. Many clients view payroll as complex and cumbersome, so once they've established a relationship with a firm, they are far less likely to leave than the average tax or accounting client. Also, because the payroll process is highly collaborative, client relationships naturally grow stronger over time.

The opportunity is there. Payroll promises a dedicated revenue stream and another way to bring clients closer and reinforce loyalty.

## Build the Right Model

Offering payroll can be pain-free and profitable if the service is founded upon a sound model. Firm leaders must consider all aspects of running a lucrative payroll business. The following are the core elements of a successful payroll business model:

### 1. Adopting Advanced Technologies

The days of making a hefty up-front software investment are over. Cloud solutions are far less expensive. Even better, because solutions are in the cloud, firms can build a completely digital payroll process and collaborate with clients in real time. When building the right technology system, firms must consider:

- **Web-based Payroll Software**—to support seamless import of client data into the firm. This supports an end-to-end paperless payroll process.

- **Client Portals**—to support real-time entry of payroll data on the client's end and online delivery of documents on the firm's end. Portals will also improve the accuracy of data (by eliminating manual re-entry) and ultimately increase margins.

- **Flexibility**—to support both PC and iOS environments and enable clients to access data and documents any time, anywhere, and from the device of their choice (e.g., smartphones and tablets).

## 2. Building Proper Staff

Staffing can be one of the most challenging aspects of starting a new payroll service. However, if you get the right people on the bus, in the right seats, you will better position yourself for success. Consider the necessary staffing roles:

- **Bookkeeping Staff**—Experienced bookkeepers are good candidates to effectively handle payroll work, at least in the initial phases of launch. As the business grows, consider transferring work to dedicated payroll specialists.

- **Payroll Specialists**—It's good practice to assign each client to a specific payroll specialist who will serve as the primary point of contact. Staff should have a good knowledge of payroll and payroll taxes, but should also be client-oriented, as they will work with clients on a regular basis throughout the life of each payroll period.

- **Managers**—As the practice grows, consider assigning managers to oversee the entire department. These folks should be more than payroll 'technicians.' They should also have the capability to run a department and motivate staff.

## 3. Identifying the Right Client Type

It's critical to identify the ideal type of client that you want to serve. From there, build your services to meet the needs of your client base. Consider such aspects as size: Small—fewer than 50 employees; medium—50-250 employees, or large—250 + employees. With about 80-90% of clients falling into the "Small" category, this is likely a good group to capture.

## 4. Marketing and Branding

When building a business, any business, never overlook the importance of marketing and branding. It is best to brand payroll as a completely separate service. This allows you to broaden the scope of sales opportunities by not being tied to tax and accounting. Many businesses view payroll as a separate service from tax and accounting and will often seek vendors that specialize in only payroll. Also, give ample

attention to marketing. Build an arsenal of professional-grade marketing materials and dedicate resources to build the sales pipeline.

## 5. Implementing the Right Pricing Model

In terms of pricing, there are two sound models that firms can adopt: bundled and unbundled. Bundled pricing tends to be very attractive to clients in that they know exactly what they will pay on a monthly basis. However, unbundled pricing has also been shown to increase revenue by as much as 20-50% compared to bundled pricing. Payroll offers a variety of billable services beyond check writing that can be very valuable revenue sources when unbundled. Whichever model is implemented, it's important to do price reviews on a regular basis, and to raise prices when appropriate.

## Final Thoughts

Payroll is no longer the hassle-ridden stepchild of firm services. Payroll represents a highly lucrative opportunity that delivers long-term sustainability if implemented properly. Payroll not only offers a sound revenue stream but is also a collaborative-based service that strengthens the client-accountant relationship. With the right model in place, building a payroll business can be an enjoyable, profitable journey.

For a detailed look at building a payroll business and expanded descriptions of each model element, please download the white paper *Payroll Services: A New Way to Grow* ([https://www.payrollvault.com/whitepaper?ff\\_page=2](https://www.payrollvault.com/whitepaper?ff_page=2)).



R. Sean Manning, CPA

Owner, Manning & Company, a full-service CPA firm, and Payroll Vault, a full-service payroll firm. Sean has dedicated the past several years to building and perfecting a sustainable, profitable payroll services model. He is a nationally recognized speaker on the topic of payroll services and building a successful business model. Sean can be reached at [sean@manningco.com](mailto:sean@manningco.com)



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*Presented by Kathy Hettick, EA, ABA, ATP, RTRP and Gene Bell, EA, ATA, CFP, RTRP*

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*Presented by Scott H. Cytron, ABC*

## **Schedule E in the Real World**

October 22      2:00 PM EDT (11:00 AM PDT)

In this session, you will be presented with scenarios, resources, and court cases that you need to understand so you can file the New Schedule E in the real world of your practice.

NASBA CPE: 1 Hour/Taxes

IRS CE: 1 Hour/Federal Tax Law

*Presented by Kathy Hettick, EA, ABA, ATP, RTRP and Gene Bell, EA, ATA, CFP, RTRP*

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# IRS Issues Final Regulations Regarding Expensing/Capitalization Rules for Tangible Property



by John Ams, EVP  
National Society of Accountants

The IRS on Friday, September 13, released long-awaited final regulations (the “regulations”) concerning the application of Sections 162 and 263 to tangible property. These rules specify whether costs to acquire, fix, maintain, or replace real or personal property must (or may be) expensed or capitalized. Importantly, the regulations provide safe harbors in certain circumstances. In short, as stated in the preamble to the regulations, “The final regulations will affect all taxpayers that acquire, produce, or improve tangible property.” The regulations are effective for taxable years beginning on or after January 1, 2014.

Tax professionals should note that, concurrent with the publication of the regulations, the IRS and the Treasury Department are removing the 2011 temporary regulations under sections 162, 165, 167, 263(a), 263A, 1016, and §1.168(i)-7.

The regulations are wide ranging and both clarify and expand the standards in the current regulations under sections 162(a) and 263(a). They also provide rules under section 167 regarding accounting for and retirement of depreciable property and final regulations under section 168 regarding accounting for property under the Modified Accelerated Cost Recovery System (MACRS) other than general asset accounts.

Importantly, the regulations provide a number of safe harbors for taxpayers. We strongly encourage practitioners to familiarize themselves with these safe harbors to determine the circumstances under which they are applicable, especially since a taxpayer must generally make an election to use them.

We have reviewed the regulations and want to highlight several areas. As always, please read the actual wording of the regulations to determine whether and how they may be applicable to you or your client.

First, the regulations are organized as follows:

- §1.162-3 provides rules for materials and supplies;
- §1.162-4 addresses repairs and maintenance;
- §1.263(a)-1 provides general rules for capital expenditures;
- §1.263(a)-2 provides rules for amounts paid for the acquisition or production of tangible property; and
- §1.263(a)-3 provides rules for amounts paid for the improvement of tangible property.

## De Minimis Safe Harbor under §§1.263(a)-1(f) and 1.162-3(f)

The 2011 temporary regulations generally required a taxpayer to capitalize the acquisition costs of real or personal property. However, a taxpayer could deduct such acquisition costs if the taxpayer had an “applicable financial statement,” had written accounting procedures for expensing amounts paid for such property under specified dollar amounts, and treated such amounts as expenses on its applicable financial statement. However, a taxpayer’s deductions under this safe harbor were limited to the greater of (1) 0.1 percent of the taxpayer’s gross receipts for the taxable year as determined for Federal income tax purposes, or (2) 2 percent of the taxpayer’s total depreciation and amortization expense for the taxable year as determined on the taxpayer’s applicable financial statement. The temporary regulations defined “applicable financial statement” essentially as an audited financial statement.

NSA strenuously objected to the requirement that a business taxpayer must have an audited financial statement to qualify for the de minimis safe harbor, because it discriminates against small businesses.

In response to our concerns, the IRS has modified the de minimis rule, providing one rule for taxpayers that do have audited financial statements and a modified rule for taxpayers that do not. Both safe harbors are determined at the invoice or item level and are based on the policies that the taxpayer utilizes for its financial accounting books and records. The percentage limitations in the 2011 regulations have been eliminated.

The modified de minimis rule in the regulations provides that:

1. A taxpayer with an applicable financial statement may rely on the de minimis safe harbor under §1.263(a)-1(f) of the regulations if the amount paid for property does not exceed \$5,000 per invoice, or per item as substantiated by the invoice.
2. A taxpayer that does not have an applicable financial statement may deduct amounts paid for property costing less than \$500 or amounts paid for property with an economic useful life of 12 months or less.

According to the IRS, the de minimis safe harbor for taxpayers without an applicable financial statement provides a reduced per invoice (or item) threshold because there is less assurance that the accounting procedures clearly reflect income. In addition, the preamble to the regulations states that the de minimis safe harbor is not intended to prevent a taxpayer from reaching an agreement with its IRS examining agents that, as an administrative matter, based on risk analysis or materiality, the IRS examining agents will not review certain items.

Taxpayers must elect to apply the de minimis rule annually by including a statement on the taxpayer's timely filed original Federal tax return for the year elected. However, if elected, the de minimis safe harbor must be applied to all amounts paid in the taxable year for tangible property that meet the requirements of the de minimis safe harbor, including amounts paid for materials and supplies that meet the requirements. In addition, once an election to use the de minimis safe harbor for the taxable year has been made, the final regulations provide that a taxpayer may not revoke the election for that year.

Tax professionals should note that, in order for the de minimis rule to be available to any taxpayer, the regulations require that:

1. The taxpayer has at the beginning of the taxable year accounting procedures treating as an expense for non-

tax purposes--

(a) Amounts paid for property costing less than the specified dollar amount;

-or-

(b) Amounts paid for property with an economic useful life (as defined in §1.162-3 (c)(3)) of 12 months or less;

2. The taxpayer treats the amount paid for the property as an expense on its books and records in accordance with these accounting procedures.

Finally, taxpayers that do not elect the de minimis safe harbor provided in the final regulations for the taxable year must treat their amounts paid for materials and supplies in accordance with the rules provided in §1.162-3, discussed in part below.

### Materials and Supplies

The regulations generally follow the rules enunciated in the 2011 temporary regulations with respect to the definition of property that will be considered materials and supplies. However, the regulations now provide a safe harbor allowing any property with an acquisition cost of \$200 or less to be considered materials and supplies and to be deductible. In addition, any property treated as materials or supplies under prior published guidance will continue to be considered materials or supplies under the regulations.

### Repairs and Maintenance

The regulations retain the rule from the 2011 temporary regulations, which provided that amounts paid for repairs and maintenance to tangible property are deductible if the amounts paid are not required to be capitalized under §1.263(a)-3. In addition, the regulations generally retain the rules of the 2011 temporary regulations for determining the unit of property and for determining whether there is an improvement to a unit of property.

#### 1. Special rule for improvements by small taxpayers

The regulations include a safe harbor election for building property held by taxpayers with gross receipts of \$10,000,000 or less ("a qualifying small taxpayer"). The final regulations



permit a qualifying small taxpayer to elect to not apply the improvement rules to an eligible building property if the total amount paid during the taxable year for repairs, maintenance, improvements, and similar activities performed on the eligible building does not exceed the lesser of \$10,000 or 2 percent of the unadjusted basis of the building.

The safe harbor for building property held small taxpayers may be elected annually on a building-by-building basis by including a statement on the taxpayer's timely filed original Federal tax return, including extensions, for the year the costs are incurred for the building. Amounts paid by the taxpayer to which the taxpayer properly applies and elects the safe harbor are not treated as improvements to the building under §1.263(a)-3 and may be deducted under §1.162-1 or §1.212-1, as applicable, in the taxable year that the amounts are paid or incurred, provided the amounts otherwise qualify for deduction under those sections.

## **2. Routine maintenance safe harbor**

The 2011 temporary regulations included a safe harbor under which routine maintenance costs for personal property were currently deductible. However, no such safe harbor was provided for building. The regulations now include a safe harbor for routine maintenance of buildings.

Under this routine maintenance safe harbor, an amount is deemed not to improve a unit of property, and is, therefore, deductible, if it is for the recurring activities that a taxpayer (or a lessor) expects to perform as a result of the taxpayer's (or the lessee's) use of the unit of property to keep the unit of property in its ordinarily efficient operating condition. An activity is considered routine with respect to a building only if, at the time the building is placed in service, the taxpayer reasonably expects to perform the activities more than once during any ten year period.

## **3. Election to Capitalize Improvement Costs**

The final regulations permit a taxpayer to elect to treat amounts paid during the taxable year for repair and maintenance to tangible property as amounts paid to improve that property and as an asset subject to the allowance for depreciation, provided that:

- a. the taxpayer incurs the amounts in carrying on a trade or business, and
- b. the taxpayer treats the amounts as capital expenditures on its books and records used for regularly computing income.

Under the final regulations, a taxpayer that elects this treatment must apply the election to all amounts paid for repair and maintenance to tangible property that it treats as capital expenditures on its books and records in that taxable year. A taxpayer making the election must begin to depreciate the cost of such improvements when the improvements are placed in service by the taxpayer under the applicable provisions of the Code and regulations. The election is made by attaching a statement to the taxpayer's timely filed original Federal tax return (including extensions) for the taxable year in which the improvement is placed in service. Once made, the election may not be revoked.

A taxpayer that capitalizes repair and maintenance costs under the election is still eligible to apply the de minimis safe harbor, the safe harbor for small taxpayers, and the routine maintenance safe harbor to repair and maintenance costs that are not treated as capital expenditures on its books and records.

## **Effective Dates**

The regulations generally apply to tax years beginning on or after January 1, 2014. However, taxpayers may choose to apply the regulations to tax years beginning on or after January 1, 2012.

For taxpayers choosing this early application, certain provisions of the final regulations only apply to amounts paid or incurred in taxable years beginning on or after January 1, 2012. For example, for these taxpayers, the de minimis safe harbor election only applies to amounts paid or incurred for tangible property after January 1, 2012, for taxable years beginning on or after January 1, 2012.

For taxpayers choosing to apply the final regulations to taxable years beginning on or after January 1, 2012, or where applicable, to amounts paid or incurred in taxable years beginning on or after January 1, 2012, the final regulations provide transition relief for taxpayers that did not make the certain elections (for example, the election to apply the de minimis safe harbor or the election to apply the safe harbor for small taxpayers) on their timely filed original Federal tax return for their 2012 or 2013 taxable year (the applicable taxable year). Specifically, for taxable years beginning on or after January 1, 2012, and ending on or before the date the regulations were published in the Federal Register, a taxpayer is permitted to make these elections by filing an amended Federal tax return (including any applicable statements) for the applicable taxable year on or before 180 days from the due date including extensions of the taxpayer's Federal tax return for the applicable taxable year, notwithstanding that the taxpayer may not have extended the due date.



## Q&A from **Veracity**

# How can I protect myself and my clients from a potential data breach?

**Veracity Payment Solutions (formerly MTG)**

**Q** I have heard a lot in the news lately about data breaches at businesses just like mine. How can I help protect myself and my customers?

**A** While most businesses go to great lengths to protect inventory, some are lax when it comes to securing credit card processing equipment. Security breaches are indeed becoming more and more common, with the trendy targets being small and mid-sized businesses. Verizon's 2013 Data Breach Investigations Report analyzed 47,000 data security incidents over the course of one year. Many involved retail stores and restaurants. In more than 65% of these cases, the breach took months or years to be discovered.

It is vital that merchants remain proactive when it comes to guarding customers' data. Protecting point-of-sale (POS) equipment should be at the top of the list. Whether your terminal is traditional, virtual, or through a gateway, it must be secure. Because these devices record each transaction, send transaction data to your payment processor for authorization and completion, and track customer preferences, they are extremely desirable and valuable sources of information for hackers.

In addition to the basic features you look for when considering which system to use—versatility, reliability, and scope—there are security measures you should take to ensure the safety of the data you are processing with it.

They include:

- When you purchase a POS system, set your own administrative passwords immediately and change them frequently—at least every 30 days.
- Be selective about who has access to passwords. Only allow access to employees who must have it.
- POS systems that browse the internet are more susceptible to breaches. Take extra precautions, making sure they are equipped with the latest encryption methodologies.
- Never use a device that is not Payment Card Industry Data Security Standard (PCI-DSS) compliant, and be sure to stay compliant by renewing annually.
- If your business has multiple locations, ensure the passwords are different at each one. A single set of credentials would allow fraudsters easy access to all equipment, regardless of location.

Advancements in POS systems have had a big impact on businesses of all sizes. Some generate reports and analyze everything from itemized profitability to salesperson performance. POS can be a single device that scans cards, or it may include a number of integrated units—a card scanner, barcode scanner, and cash drawer, for instance. Internet-based systems can be viewed remotely through a secure portal, so they can be used by businesses with multiple locations. But in each instance, security is the common necessity. Be sure to make it a priority at your business.

Questions? Call Veracity (MTG) at 888.599.2209

# Main Street Tax News

By Andrew G. Poulos, EA

## Business §162 or Hobby §183: Determining the Difference

**H**ave you ever taken a close look at your clients' ventures to determine if they are operating a for-profit business or if the business is merely a hobby?

Clients will always tell you it's a for-profit business; however, the IRS doesn't take a taxpayer's statement of intent as the sole factor. There must be other factors to rely on besides a taxpayer's verbal statement. Often, a taxpayer earning more than \$100,000 at his or her job will develop a "hobby" and claim they operate a business so they may attempt to deduct their losses and reduce other taxable income.

The business vs. hobby issue has been problematic for the IRS. Now, more than ever, the Service is beginning to scrutinize tax returns with losses, especially those with multi-year losses.

On Sept. 27, 2007, the U.S. Treasury Inspector General for Tax Administration (TIGTA) issued a report stating that significant challenges exist in determining whether taxpayers with Schedule C losses are engaged in tax abuse. The review looked at high-income, self-employed taxpayers who had income of \$100,000 or more, and who filed a Schedule C with losses on their tax return. The report stated that many of the Schedule C businesses were not for profit, resulting in \$2.8 billion in taxes avoided in 2005. Of the tax returns prepared in this area, 73 percent were prepared by tax professionals.

Does this mean that tax professionals are taking their clients' statements at face value and not conducting sufficient due diligence to consider other factors that may provide a better determination of a client's venture?

A taxpayer operating a for-profit business under IRC §162 should be able to prove that a bona fide business exists. It is presumed that a taxpayer is operating a for-profit business if there is a profit in 3 years out of a 5-year period. If the taxpayer is operating a horse business, there should be a profit in 2 years out of 7 years.

However, there is not a single factor that determines if a venture is a bona fide business or a hobby. Some businesses take more time than others to become profitable, and in the current economic climate, many businesses still struggle to turn a profit. As a result, not turning a profit is not the sole determining factor.

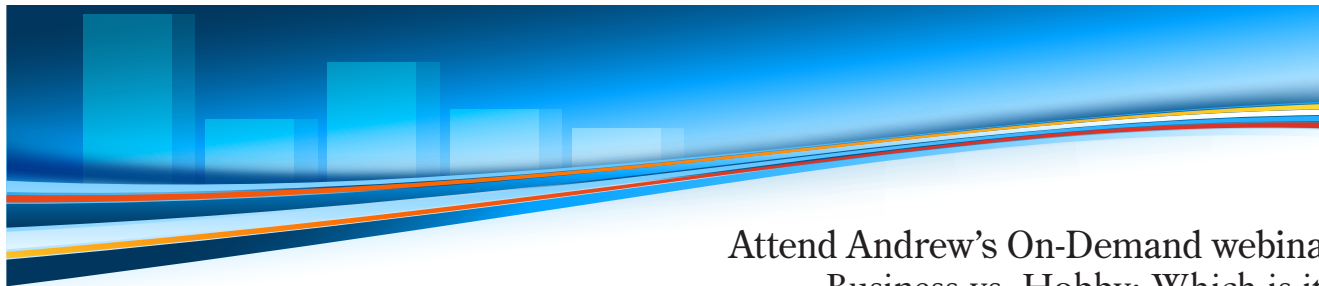
The IRS and tax courts use the nine factors below to determine if a taxpayer is operating a for-profit business or if the business is a hobby being used to deduct expenses for tax avoidance purposes.

1. The manner that a taxpayer carries on an activity.
2. The expertise of a taxpayer or advisor(s) involved in the business activity.
3. The time and effort a taxpayer allocates to the activity.
4. Whether the taxpayer has had success with similar or dissimilar activities in the past.
5. The history of income/loss for the activity.
6. If there are occasional profits and, if so, how much they are.
7. The financial status of the taxpayer, and whether the taxpayer relies on this business activity or has other sources of income.
8. If there is an expectation of asset appreciation for any assets involved in the business activity.
9. Whether there are elements of personal pleasure or recreation.

No one factor of the nine will be a determining factor. Consider all factors in making a proper determination. Each taxpayer is unique and shouldn't be compared to another taxpayer. For example, not every taxpayer will allocate the same amount of time, and not every taxpayer will have the same background, education or financial resources to allocate to their venture.

If a taxpayer's activity has ongoing losses and doesn't turn a profit in 3 out of 5 years, the IRS may conduct an audit and determine that the activity is a hobby. The accountant should





## Attend Andrew's On-Demand webinar Business vs. Hobby: Which is it?

look to see if the losses are due to circumstances out of the control of the taxpayer, if they are due to start-up expenses, or if the losses are because the activity is a hobby. If a loss occurs in multiple years, you should look to see if the taxpayer has made any changes to the operations to improve profitability, or if the taxpayer continues to operate the same way year after year.

In addition, other considerations should be given to the type of activity and whether it is one that happens to take more time than normal to turn a profit, particularly in a recession economy. Furthermore, in evaluating the activity, questions should be asked of the taxpayer, such as whether the taxpayer acquired a loan to start-up the business or for operating capital. Would anyone operating an activity as a hobby get into debt and personally guarantee a loan just to create a loss? There are so many factors to consider and use for a favorable argument of the taxpayer's activity.

As mentioned earlier, the report released by TIGTA states that a large number of taxpayers file a Schedule C with losses on their tax return to offset other income. If the determination is made that an activity is not for profit, the losses will not be deductible and offsetting other income will not be allowed. The hobby loss rules limit deductions to the extent of income from the activity. Hobby loss limits under IRC §183 apply to Individuals, estates, S corporations, partner-

ships and trusts. The loss limits do not apply to C corporations.

If a taxpayer is placed under audit for this matter and the IRS determines that the activity is a hobby, the taxpayer can make an election under IRC §183(e) to postpone the determination by filing Form 5213. The election will postpone the determination of the hobby presumption until the close of the fourth taxable year or the sixth taxable year, for horse activities. If the election is made, the taxpayer may continue to file tax returns in the interim on the assumption that the activity is for profit. An election made by a partnership or an S corporation is binding upon all partners or shareholders associated with the entity.

As taxes continue to increase in the coming years, taxpayers will try to reduce their taxable income by filing a Schedule C with losses. As a tax professional, you should conduct due diligence for taxpayers who file a Schedule C on their tax return, making sure they are operating a for-profit business and not a hobby. Always be cautious and aware of the ramifications of making an incorrect determination.



**Andrew Poulos, EA, ABA, ATP**  
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Author of QuickBooks Ultimate Lesson Guide© DVD  
Columnist of "Main Street Tax News"-National Society of Accountants  
Author for Intuit's ProLine Central Newsletter & Website  
Producer & Host of The Savvy Money Show® - Weekly Radio Financial Talk Show  
Exclusive Tax Software Reviewer for [www.reviews.com](http://www.reviews.com)

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Main Street Tax News  
is brought to you by:



# An interview with NSA President Steven Hanson



NSA installed a new president in August, at the 68th Annual Meeting. **Steve Hanson** was a successful college football player who now applies the concept of teamwork to his job as a CPA and EA at Piehl, Hanson, Beckman, PA in Minnesota.

## STEVE HANSON

**A**mong other activities, Hanson believes in the importance of community service, a concept that has come full circle in his own life. Read on to learn about Hanson's goals for NSA in the coming year, what he's gotten out of his NSA membership, and how they manage to "walk on water" in his neck of the woods.

**You played football in college. How did that experience help you in business, and how do you think it will help you in your role as president of the NSA? Similarly, can you talk about the importance of the team and how you may have incorporated that philosophy into your business and/or life?**

Teamwork has always been very important within

our firm. Everyone on our team has their role, which makes us a successful firm. That same philosophy should apply within NSA. We have our officers, board of governors, state directors, committee members, and staff who all have a role, but who also must work together with everyone else. If we can all continue to work together we can have a very successful year. One of the keys to teamwork is communication. All of our team members need to be conscious of that.

**What are some of your goals for the coming year as President of NSA?**

Some obvious goals for NSA are to increase our membership and provide additional services to our members. But to get there we need to increase NSA's exposure. We need to let all accountants know about NSA.

We need to let the general public know about NSA. NSA for years has been the support for the “Main Street accountant”; we need to promote that resource for our niche of accountants.

**What are your favorite aspects or benefits of being a member of NSA?**

I owe a lot to NSA and especially to my state affiliate. I obtained my first job in accounting because of my state affiliate and have been active in the associations ever since. Over the years, NSA has provided study materials, education, tax updates, insurance, and lots of things used in our practice—but most of all the opportunity to learn from others.

**You have served as treasurer for NSA in the past. Are there lessons learned in that position which you think you can apply to being president, and if so, what are they?**

Past president Donny Woods once said NSA secretary/treasurer is the best position in all of NSA, and I agree with him. There is a lot of work to it, but as secretary/treasurer you know everything that is going on within NSA. All of the reports, the correspondence, and the financial information go through, so you have knowledge of everything that is going on. Until you’ve served in that position, you don’t really have a feel for everything NSA does. I think that knowledge will be a great training ground for my year as president.

**Tell us about your practice. Does it have areas of focus? Do any stories stand out about your clients?**

This year we are celebrating the 20th year of our current partnership at Piehl, Hanson, Beckman, PA. Over the years we have grown from three partners to the current number of five and have approximately 20 total staff. We have two offices—one in Hutchinson, Minnesota, and the other in Cokato, Minnesota, about 20 miles apart, located 60 miles west of Minneapolis. We provide accounting and income tax services to a wide range of clients primarily in our surrounding area. Our

clientele covers a wide range of small businesses including manufacturing, service industries, agriculture, and individuals’ 1040s.

We have a great staff of dedicated people who take pride in our work and pride in providing the best service we can to our clients.

NSA has provided study materials, education, tax updates, insurance, and lots of things used in our practice—but most of all the opportunity to learn from others.

**How did you get into the field of accounting? Did you have a career before this or did you get into it right out of college? While in college, did you study for any other type of career, or what were some of your favorite classes?**

I got into accounting somewhat by default. Like many students, I went to college not knowing what I wanted to be when I grew up, so for lack of anything better, I majored in business. As a business major, one has to take Accounting 101. While in class (the first accounting class I had ever taken in my life), I discovered that for some reason the debit and credit concept came easily to me. In fact, I remember guys on my dorm floor coming to me for help on their Accounting 101 homework. That led to the next accounting class, which led to the next, and so on until here I am 30 years later still in public accounting. By the way, not all classes were easy.

I did go into public accounting right out of college. In fact, one of my partners, Chad Piehl, whom many of you know as a national speaker on income tax and accounting, hired me out of college. We are still working together today.





Your firm's website talks about the importance of community service. Can you talk about that? What community service have you or your firm done that have been most meaningful to you?

We live and work in smaller communities in central Minnesota. As individuals and as a firm, we feel that

it is important to be involved with your community and get back to that community. We encourage all of our staff to participate as much as they can through service to their church, school, or community activities. To that end, members of our firm have been or still are active on their church boards, chambers of commerce, Jaycees, hospital boards, and many, many others.

Perhaps the most rewarding for me has been my tenure as a board member of the Cokato charitable trust. This nonprofit group owns and operates our local senior housing and services organizations. Over the years, we have grown from a single nursing home complex to providing in-home nursing services, dementia and Alzheimer's care, assisted living, and other senior housing alternatives.

The satisfaction of the work for me has been that I have seen firsthand the good that we have provided. My mother just recently passed away after a long losing battle with Alzheimer's disease. Though she was never in these particular units, she was in a similar facility, which allowed me to see the good that volunteering does within our communities and our lives.

I like to think that just maybe, because of us and our work on this Board, someone or some family has had a better life.

Do you use the NSA's online discussion forums very much, and what do you think is most helpful about them?

I have to admit that I have used the online discussion forums very little. But I think the chat lines have been very useful to a large number of our members, and I am excited that we are providing a real benefit to them. The reason I personally have not used them much is that with the size of our firm, it is much easier for me to just go to the office next door or down the hall to get answers or opinions on the issues I might have. If I did not have that ability, I am sure that I would be a regular online.

Have you attended any of NSA's conferences or other events? What do you think are the most important take-aways from them?

Over the years, I have attended most of the events and conferences that NSA has put on. Not every year or every one, but enough to know what they are about. To me, the single most important take-away from these events is the knowledge gained from fellow attendees. Certainly the structured education is valuable, but it is what you learn by asking the questions that counts.

I remember my first leadership networking conference way back; it must have been 25 years ago now. What an eye-opener. First of all, just to share the knowledge of how to run an organization, how to work with people, the assurances that you are doing things right, or the knowledge to go home and change what you can. Second, the people that you meet. I still have people I met at that first conference that I consider very good friends from all over the country.



*Steve with his wife, Diane*

**What do you see as the biggest challenges in the fields of accounting and/or tax professionals in the coming year?**

I see our profession continuing to change. It seems like each day there are new regulations, new laws, new licensing

issues, and new challenges that affect us. There was or is the RTRP, IFRS, the health care reform act, accounting standards overload, and of course annual income tax updates.

Our challenge at NSA is to continue to be a voice for our member, the small accounting and tax firm. We need to be the leader in our industry at making our voice heard by those setting the policies.

**Tell us about your family. What do you like to do in your free time?**

My wife Diane and I just celebrated our 32nd wedding anniversary. We are blessed with two adult children who both live in the western suburbs of Minneapolis.

Eric is a civil engineer. He and his wife Bridget, a teacher, just gave birth to our first grandchild, Caleb, this spring. As many of you know, it is wonderful being a grandparent.

Our daughter, Kate, works in the financial department of a major corporation in Minneapolis. She is an accounting major who managed to get her 150 hours of credits to sit for the CPA exam in four years of college.

**You are based in Minnesota. What are some of your favorite things about living there?**

I was born and raised in Minnesota, so I don't really know any different. Perhaps if I weren't in the accounting and tax business, I would complain about our winters, but like everyone else I work all winter, so I really don't care how cold it gets. (By the way, we walk on water here in Minnesota; it's called ice fishing).

We are in the land of 10,000 Lakes, so some of our favorite things to do involve lake activities—boating, swimming, etc. I enjoy golfing, but the scores never seem to be as good as I think they should be.

**Are you reading a book now, or what is the last book you read, and why did you choose it?**

*Tuesdays with Morrie* by Mitch Albom. The book has been around a while but the message is timeless. The author's weekly visits with his dying friend put life into perspective.



Julia Wilkinson  
Freelance Writer  
Alexandria, VA

## NSA 2013-2014 Executive Board



*President*  
**Steven J. Hanson, CPA, EA**  
Cokato, MN



*First Vice President*  
**Marilyn M. Niwao, JD, CPA, ATA**  
Wailuku, HI



*Second Vice President*  
**Kathy Hettick, EA, ABA, ATP, RTRP**  
Enumclaw, WA



*Secretary/Treasurer*  
**Brian Thompson, CPA**  
Little Rock, AR



*Past President*  
**Harlan D. Rose, EA, ABA**  
Marshfield, WI



*Executive Vice President*  
**John G. Ams, CAE**  
Alexandria, VA

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## NSA ELECTS 2013-2014 OFFICERS AND DIRECTORS

[www.nsacct.org](http://www.nsacct.org)

NSA officers, District Governors, and State Directors were elected and installed at the 68th Annual Meeting in Indianapolis, Indiana.

The officers for 2013-2014 are:

- President – Steven J. Hanson, CPA, Cokato, MN
- First Vice President – Marilyn Niwao, JD, CPA, ATA
- Second Vice President – Kathy Hettick, EA, ABA, ATP, RTRP
- Brian L. Thompson, CPA, Little Rock, AR was re-elected as Secretary-Treasurer.

Districts II, IV, VI, VIII, and X were elected to the NSA Board of Governors for two-year terms ending in 2015. Elected to terms as governors were:

- Milton “Sandy” Martin, Jr., ATP, ARA, RTRP (District I), Exeter, NH
- William R. Silzer, ABA, ATP (District III), Sterling, VA (Second Term)
- Jim Weickgenant, EA, ATA, (District V), Baraboo, WI
- Joel Grandon, LPA, EA, (District VII), Marion, IA
- Bernadette Koppy, EA, ABA, ATA, (District IX), Fairbanks, AK

State Directors stood for election and re-election in Districts II, IV, VI, VIII, and X.

Elected to first terms as State Directors were:

- Andrew Piernock, Jr., ATP (PA – District II)
- Kwame Michel, ATP, RTRP (GA – District IV)
- Roger H. Jacobs, CPA, EA, ATA, ABA (FL – District IV)
- Dannette Daigle, EA, ARA (LA – District VIII)
- Marchelle Foshee, CPA (AR – District VIII)
- Jamie Nolen-McElyea, ABA, ATP (OK – District VIII)
- Lloyd H. Thelemann, CSA (TX – District XIII)

Re-elected for second and additional terms as State Directors were:

- Sharron M. Cirillo, LPA, ABA, ATP (DE – District II)
- James Alfred Johnson (NY – District II)
- Joseph J. Mesquita, PA, ATA, ATP (NJ – District II)
- Warren Hilson, LPA (AL – District VI)
- Curtis Banks Lee, Jr., ATA, ATP (NC – District IV)
- Pamela C. Stamps, CPA (MS – District VI)
- Debra J. Cope, CPA, ATA, ATP (TN – District VI)
- Mae Yee, CPA (NM – District VIII)
- Joanne Elsen, CPA (AZ – District X)
- Morris Miyabara, EA, ATA (CA – District X)



## NSA HONORS AWARD WINNERS AT 68TH ANNUAL MEETING

[www.nsacct.org](http://www.nsacct.org)

*The best and brightest in the accounting profession were honored at the recent National Society of Accountants 68th Annual Meeting in Indianapolis, IN. A number of individuals and NSA Affiliated State Organizations (ASOs) were presented with major awards.*

### ACCOUNTANT OF THE YEAR



David Rancourt, EA, ATA, ABA, ARA, CSA, CEP is awarded Accountant of the Year for 2013

The Accountant of the Year was presented to Dave Rancourt, EA, ATA, ABA, ARA, CSA, CEP of Sarasota, FL, for outstanding achievement and service to NSA, the accounting and tax profession, the state society, and the community.

Rancourt has been an active member of NSA for nearly 25 years, currently serving as Vice Chair of the Federal Taxation Committee 2012-13 and recently appointed to the ACAT Board. Rancourt is a past Florida State Director.

### DISTINGUISHED SERVICE AWARD

This award was presented to Paul J. Cannataro, CPA, CFP, MST of Drexel Hill, PA, in recognition of his significant and exemplary contributions for the betterment of NSA and its membership, as well as to the accounting profession. The award recognizes continuous service, loyalty, and dedication to NSA. Cannataro is chair of the Federal Taxation Committee, where he has provided services with RTRP legal issues, IRS Closing of Practitioner E-Services, Fiscal Cliff challenges, and Circular 230 revisions, as well as attending numerous IRS meetings on Capitol Hill.



Paul J. Cannataro receives the Distinguished Service Award

### AFFILIATED STATE ORGANIZATION (ASO) OF THE YEAR

This special award goes to co-winners—the California Society of Accounting & Tax Professionals (CSATP) and the California Society of Tax Consultants (CSTC). CSATP and CSTC recently merged to meet the needs of their California members. The ASO of the Year award honors the overall achievements of CSATP and CSTC and their work in promoting and implementing NSA programs, including membership recruitment, member services, seminar and education sponsorship, legislative activity, and financial stability.



Jackie Hunt and Linda Morlang accept the award for ASO of the Year

### KEITH BILLINGS MEMORIAL AWARD

This award was presented to two outstanding ASO publications. The Montana Society of Public Accountants Newsletter, published by the Montana Society of Public Accountants (fewer than 300 members), and The Oregon Association of Independent Accountants, published by the Oregon Association of Independent Accountants (more than 300 members). Publications are judged according to the importance of topics, coverage of activities, timeliness of articles, format, and overall appearance.

### BEST SERIES OF ARTICLES AWARD

This award was presented to Eric Ewald, Executive Director of the Minnesota Association of Public Accountants, in recognition of his significant and exemplary series of articles in the NSA's newsletter, which helps keep membership informed about what is happening locally and nationally.

### MYRON D. SCHREIBMAN AWARD

This award went to the Missouri Society of Accountants for their stellar public relations program, which kept their members informed while expanding the voice and reach of NSA locally and nationally. Most noted were reprints from various sources, including a Forbes magazine article with the headline "Phil Michelson Wins Historic British Open and Incurs 61% Tax Rate" and an internet report, "Smishing: A Serious Identity Theft Scheme."

### BEST ASO WEBSITE

This award, which recognizes outstanding Affiliated State Organization websites, was presented to ASOs in two categories. For Division I (300 members or less), the award went to the New Mexico Society of Public Accountants. Its website provides information about their upcoming education opportunities, in addition to a link to financial calculators with 20 to 25 different calculation choices.

For Division II (more than 300 members), the award went to the Independent Accountants Association of Illinois. This website is very user friendly and provides not only information about upcoming education opportunities, scholarship applications, and newsletters, but also information on the NSA annual convention.

Congratulations to all of the 2012-2013 NSA award winners!

### GET INVOLVED: SIGN UP AT THE NSA VOLUNTEER HUB

*Volunteer Hub*



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

Go to the HUB



### SHORT TERM PROJECTS

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

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

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

### WHAT IS HAPPENING ON MEMBERCONNECT?

<http://connect.nsacct.org>

*CONNECT, COLLABORATE, COMMUNICATE*



#### *Tax Talk*

Get in on the discussion! NSA members are helping one another every day to answer questions and receive guidance on tax and accounting issues. The discussion archives, with over 31,000 messages, offer a wealth of information you can search through. Here are a few of the most recent topics:

- IRS rules on same-sex marriage
- Estate tax
- Reporting agent - EFTPS Batch Provider Software
- S Corp. name change
- SMLLC and EIN
- Offer in compromise experiences
- Affordable health care advising
- Advice for a non CPA tax preparer

*Go to Tax Talk now!*



#### *Resource Library*

The Resource Library houses hundreds of letters, forms, articles, and links to help you in your practice. Search by topic or keyword for the resources you need.

There are over 380 client letters in the Client Letter Library. Topics range from 2013 Planning to new healthcare tax implications.

Separate libraries house sample tools and forms, such as engagement letters and articles on practice management, tax, and accounting topics, as well as new technology information. Visit the Resource Library to enhance your practice management needs.

*Go to the Resource Library now!*



#### *Member Discount Programs*

**How much can you save with NSA?**

NSA offers members discounts on many of the products and services you use in your practice every day. Take advantage of our national buying power with companies like CCH, Mozy, Swizznet, TaxBook, Quickfinder, Sharefile, UPS, Veracity Payment Solutions, Forest T. Jones, and more.

The Discount Programs webpage provides information on each company with links to their promotional websites. Take a look to see how much you could be saving!

*Go visit the Discount Programs now!*

## MARK YOUR CALENDARS TODAY FOR THE 2013 LEADERSHIP NETWORKING CONFERENCE!

October 17 - 18 Charlotte, NC

The 2013 LNC/LTC/LSC Conference, **Be A Survivor**, will be held on October 17 and 18 in Charlotte, NC, at the Charlotte Plaza Uptown Hotel.

The conference will have a slightly different schedule of events this year. The first day will feature panels on various

topics to facilitate interaction and conversation among participants.

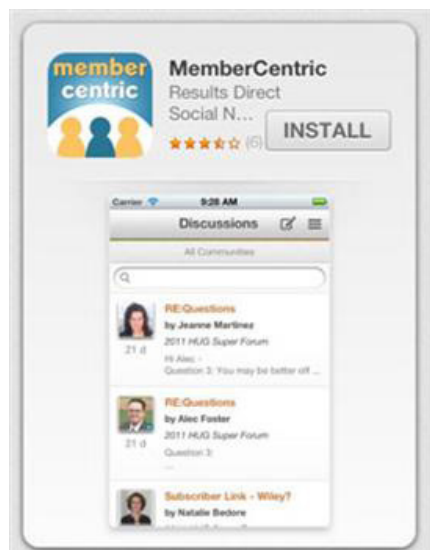
The second day will return to traditional sessions. Topics will include: Membership, Social Media, Communications, Volunteers, Leadership, and Legislation.

For more information, [click here](#).

Contact Michelle at [mpanek@nsacct.org](mailto:mpanek@nsacct.org) with questions.

## MOBILENSA: DOWNLOAD THE NSA MOBILE APP TODAY!

MobileNSA



If you haven't already, be sure to add the updated NSA membership app, MobileNSA, to your smartphone. 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. If you already use the app, be sure to download the latest version at <http://www.nsacct.org/members-only/mobilensa>

**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!

To download the app, go to: <http://www.nsacct.org/members-only/mobilensa>

## HIGHLIGHTS FROM THE NSA 68TH ANNUAL MEETING & EXPO

NSA held its 68th Annual Meeting at the Hyatt in downtown Indianapolis, Indiana on August 21 - 24. Some of the activities in this year's annual meeting included continuing education sessions, a hallway of exhibitors showcasing their latest products and services, business sessions to discuss important decisions affecting the future of NSA, the first-ever Meet the Candidates forum in which members could submit questions which were presented live to the candidates at the business session, electronic on-site voting for the 2nd VP and District IX Governor elections, a festive dessert reception held by Steve Hanson and his family, a scholarship walk, an awards breakfast, a live auction benefiting the Scholarship Foundation, and an evening of dining and dancing at the installation banquet to welcome in the 2013-2014 board members.



Members enjoy a delicious dessert reception hosted by the Hanson family

It was an action packed three-day event in the bustling and fun downtown area of Indianapolis. NSA members balanced business with pleasure, taking advantage of the close proximity to the Indianapolis Motor Speedway and Lucas Oil Stadium where the Colts play football, as well as the many wonderful shops and eateries all within walking distance of the hotel.

Visit the NSA Tumblr website to view the many photos taken by NSA's photographer extraordinaire, Nancy Ams. To view the photos, go to: <http://nsacct2013.tumblr.com/>.



NSA members and family members attend the Installation Banquet

### NCAA Hall of Fame Dinner



Attendees of the Annual Meeting were treated to an outing at the NCAA Hall of Champions. The evening started with a buffet dinner. Diners were then free to roam and enjoy the two levels filled with interactive exhibits.



Josh Windham and Perry Smith with his wife, Ruby, visiting at the NCAA Hall of Champions



Jamie Nolan-McElyea and Kelly Wright enjoying the festivities



President Rose shoots some hoop at the NCAA Hall of champions event

### Electronic Voting

Online voting continued this year with elections for a three-way race for 2nd Vice President and the District IX Governor. NSA members in attendance were able to vote electronically by placing their votes on computers or iPads via a web-based online voting system that helps to manage elections easily and securely. A run-off in the 2nd VP election sent members back to the polls to finalize the selection.



Tellers Chair Joan LeValley assists members as they wait to cast their votes



# NSA BLOG

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NSA continues its series, bringing the latest articles, checklists, and other helpful tools and information to you via the NSA Blog. You are able to read new posts directly on the NSA website and/or you can subscribe to receive new posts as they happen, in your inbox. We will feature blogs in MemberLink and on NSA social media as well.

The NSA Blog includes information submitted by NSA staff, guest authors, and NSA ConnectED webinar instructors who will be contributing short articles on a weekly to bi-weekly basis focused on practice management tips, checklists, member interviews, and more great information. Below are a few recent posts.



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## First-Time Penalty Abatement

[How you can use this often-overlooked IRS waiver to help your clients](#)

by Julene Joy | Sep 05, 2013

In 2011, the IRS assessed 38.6 million penalties to taxpayers, totaling almost \$11 billion. According to the IRS, the purpose of penalties is to deter noncompliance, not to raise revenues. Certain penalties can be waived or abated if your client has a past history of compliant behavior. In effect, the IRS rewards taxpayers with a history of compliant behavior with a one-time penalty amnesty. For individuals, this relief applies to two of the most common penalties: failure to file (delinquency) and failure to pay. For businesses, this relief also applies to the failure to deposit penalty for payroll taxes.

[read more](#)

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## Succession Planning: Both Sides Now

by Mark H. Fowler | Aug 28, 2013

The need for succession and transition planning for tax and accounting practitioners and their firms has been growing each year for the last ten years or so. Part of this drive is, of course, the result of an aging practitioner base. Another influence is the changing dynamics of clients—particularly their need for more sophisticated assistance in business and tax planning, and with issues related to their own succession. Finally, as heads of firms start to examine their succession, they're realizing that the demographics and interests of the talent coming up the career ladder will determine what the landscape of the firm will be once they're no longer on the scene.

[read more](#)

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## Tax Forum Speaker Blogs

**Read the recaps and comments from the NSA Speakers from each IRS Tax Forum**

[IRS Tax Forum National Harbor](#): August 30

[2013 IRS Tax Forums: Atlanta](#): August 23

[Hello From the Big Easy: New Orleans Tax Forum](#): August 15

[IRS Tax Forum: Dallas Wrap Up](#): August 1

[Greetings from the Orlando Tax Forum](#): July 12

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## Cancellation of Debt – When is it Taxable Income?

by Claire Berlin | Aug 23, 2013

The Mortgage Forgiveness Debt Relief Act of 2007 allowed for exclusion of income realized from debt reduction that occurred from a taxpayer's principal residence. This was set to expire on December 31, 2012. The fiscal cliff bill enacted in January 2013 extended some of the mortgage debt relief provisions for homeowners. Every taxpayer has a different situation, and the facts and circumstances will determine if their cancellation of debt is a taxable or non-taxable event. [read more](#)

## NSA SPEAKER TEAM HOSTS CONNECTED WEBINARS



NSA SPEAKER

Kathy Hettick, EA, ABA, ATP, RTRP  
Enumclaw, WA



NSA SPEAKER

Gene Bell, EA, ATP, CFP, RTRP  
Bellingham, WA

*Didn't make it to the IRS Tax Forums? You can still catch the popular sessions held by NSA Speakers Kathy Hettick and Gene Bell at these NSA ConnectED Webinars.*

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### Preparer Penalties—Are You at Risk? Protecting Your Practice and Your Client

[Register Now](#)

As the weight of taxpayer compliance continues to focus on the tax practitioner, we are more and more exposed to preparer penalties. In our budget crisis, preparer penalties are being used to fund many different areas of government as it has become a new revenue source! In this session, we will give you an overview of preparer penalties as well as tools and tips to stay in compliance.

This is a “must attend” for every paid preparer who wants to build and protect their practice.

**On-Demand**

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### Schedule D in the Real World

[Register Now](#)

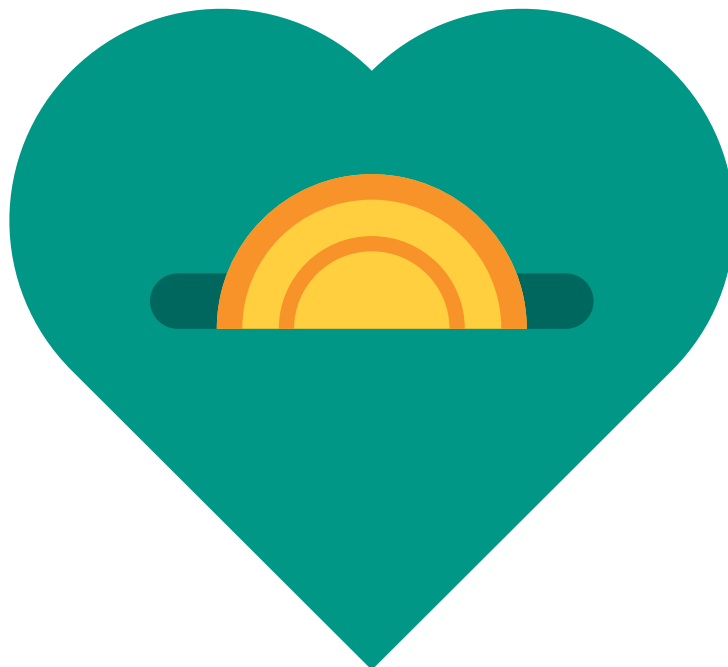
The Schedule D got a major face lift this year and a companion Form as well. The Hot Issues are: Basis? What's with the Form 8949? Covered vs. Not Covered - How do I read that Form 1099-B? Getting it right when the Form 1099-B is wrong. When do I need to file the Schedule D? Do I have to “list” every transaction and trade or can I submit a summary? What about the “Adjustment Codes”?

In this session we will present scenarios, resources, and the questions you need to ask so you can be confident when you file the New Schedule D and Form 8949 in the real world of your practice.

**October 1, 2013**

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

[View Webinar Listing](#)



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**WE ♥ LOGISTICS™**



# How to Fire a Client

By Hugh Duffy

YOU ARE FIRED

**N**o matter the size of the firm, there are going to be some tough decisions to make along the way—and one of the most difficult is firing a client. We no longer live in an environment in which the only repercussions might be the initial awkward conversation when the firing occurs. Today, we have positive and negative social media. In our always-on world where a negative blog or Twitter posting can go viral in a matter of moments, accounting professionals will want to ensure they do not suffer potential negative consequences. Why fire a client?

There are many reasons to sever the accountant/client relationship. Take a look at these reasons and think about whether this has happened in your practice.

1. **The client takes up too much time.** This is the number one reason we fire clients. Ever heard of the 80/20 rule in which you spend 80 percent of your time on the bottom 20 percent of your client base? These are the clients who are not adding to your bottom line, so your return on investment is very slim. It's better to get rid of the bottom 20 percent of your clients so you can focus on the remaining clients who will generate more revenue.

2. **The client withholds information.** If you find clients not being honest with a particular situation or withholding valuable information that enables you to do your work in the most ethical, legal manner possible, it's time to part ways. You cannot afford to damage your reputation with a client who has the potential to do harm to himself, and in turn, to your practice.

3. **The client does not want to be helped.** As strange as this sounds, we've all had clients who did not want our profession-

al assistance, no matter how simple or complex the situation. A client who does not want to be helped will never accept your advice and will not respect your intentions. It's time to find clients who will benefit from your professional experience and knowledge.

## How to Fire a Client

Having to say "so long" to anyone isn't pleasant; think about the times you've had to let an employee go. Nevertheless, when it's time to cut the cord, you have to do it in the most professional way possible.

Looking at the three scenarios above, it's easy to see why you would want to fire a client, but one of the main traits we have as human beings is the "likeability" factor. For example, you may have a client who will literally give you the shirt off his back if you ask him for it, but who is a lousy businessman and costs you time and money.

If this happens, you need to separate your personal feelings from your professional beliefs. After all, you may see the client in religious or social situations. Perhaps you belong to the same Rotary or Lion's Club. What are you going to say to the fired client the next time you see each other?

The best way to move on is to have a professional conversation with the client, explaining to him or her why you need to part ways. You must be prepared and provide concrete examples. Just as you document activities when you fire an employee, you need to do the same when you fire a client.

Be reasonable and explain in plain terms what the problem is. While it's most likely not going to be surprising to the client that there is a problem, no one wants to be faced with rejec-



tion, so the initial reaction may be more anger than anything else. If this happens, reassure the client that this is a completely private matter between the two of you and should remain so. You will not talk to anyone about this and you would appreciate it if the client would do the same.

Back to social media: what do you do if the client says something negative on LinkedIn, Twitter, Facebook, or in a blog posting? You may very well have to call an attorney to get involved. However, watch your own temper. It would be unprofessional of you to lash back in retaliation. Take the high road; the best stance is to do nothing. It's better to let the client stumble over his or her words than to react to them.



Hugh Duffy is co-founder and chief marketing officer of [Build Your Firm](#), a practice development and marketing company. He can be reached at 888-999-9800 x151, or at [hugh@buildyourfirm.com](mailto:hugh@buildyourfirm.com).

If it escalates to the point that your colleagues and perhaps even your other clients are aware of the problem, it may be time to communicate via letter or e-mail to explain the situation. Still, don't reveal any information that can be used against you later on. Again, an attorney can guide you through this difficult situation.

There are multitudes of business matters each one of us is faced with, but we often forget the human side of the equation. Firing anyone isn't pleasant, but with planning, communication, and calm demeanor, you're going to emerge positively from the situation.



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