

Advantage

September, 2005 Issue 4

CHARITABLE CONTRIBUTIONS OFFER NUMEROUS TAX BENEFITS

Accrual basis corporations can deduct accrued charitable contributions on their current year return as long as it is within two and one-half months of their year-end. As part of your year-end tax planning, you may want to consider accruing any planned contributions. Now is the perfect time to consider donating to the relief efforts of Hurricane Katrina!

Authorization from your Board of Directors is required to meet the criteria for the accrued charitable contribution deduction. Authorization is required prior to the current tax year and the donation has to be made within the first two and one-half months of the tax year following. A copy of the contribution authorization should be attached to your return along with a confirmed declaration, signed by your President or Principal Officer stating that the resolution was adopted during the tax year.

Your deduction will be limited to 10 percent of your taxable income for any charitable contributions made by your corporation. You are allowed five years to carry it forward, if your charitable contribution is limited. Any unused charitable contribution carryovers will be lost after that time. Every effort should be made to absorb any charitable contribution carryovers prior to making new contributions, if your corporation has any carryovers that are about to end.

Please feel free to contact our office if you have any questions regarding charitable contributions when you begin your year-end tax planning.

IRS CONDUCTS PAYROLL AUDITS ON GOVERNMENTS, BUT ALL BUSINESSES SHOULD TAKE NOTE

By Marcia L. Marien, CPA

The IRS has begun randomly selecting government employers to audit payroll and 1099 records for compliance with laws and regulations. These seem to vary in intensity between audits. This might be based on the level of the IRS auditor that is assigned. Here are some of the biggest areas covered:

- Are you filing Form 1099s for independent contractors? They will charge a \$50 fine for each Form 1099 that is not filed.
- Do you have tax identification numbers for each independent contractor that should have received a Form 1099 (regardless of whether a Form 1099 is filed or not)? The IRS will charge YOU the 28% back up withholding that you should have withheld from an independent contractor that does not give you their tax identification number! (Get W-9 forms from each independent contractor!)
- Are you properly categorizing workers as employees instead of independent contractors when the circumstances

require it? The IRS will charge YOU for both halves of the Social Security and Medicare that you should have withheld PLUS the income tax withholding that should have been withheld.

Although these rules and penalties are spelled out in the IRS Codes, this is the first time we have seen the random taxpayer compliance audits being conducted of governmental employers! If you have questions on how this affects you, please call the office.

TOWNS FACE NEW HURDLES IN BUDGETING: THE MINIMUM BUDGET REQUIREMENT

Last year at least two towns in this area that we audit passed their annual budget only after they decreased the spending on education to an amount lower than the prior year. The budgeted education spending went down from one year to the next. The State of Connecticut will no longer let Towns decrease their education spending. Public Act 05-245 which passed this year requires the education budget to be equal to at least the budget from the year before plus any increase in the Education Cost Sharing (ECS) grant.

Current Education Budget + Increase in ECS grant < or = Next Year's Education Budget

This Minimum Budget Requirement (MBR) is in addition to the previous Minimum Education Requirement (MER). Towns must still comply with the MER

Marien + Company

CPAs

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

requirements as well. Some Towns have ordinances capping the amount a budget can increase each year based on growth in the grand list. This would be a good time to analyze the impact of this new legislation.

Some Towns are concerned about the timing of the budgets. Generally, the Town passes a budget before the State budget is finalized. What happens if, after the Town budget is passed, the State increases its ECS grant unexpectedly, similar to what happened this year? The Town's education budget needs to equal last year's budget plus the final ECS grant increase. If the increase in the final ECS grant is more than the increase in the education budget, an increase must be made to the education budget.

What if the Town does not meet the Minimum Budget Requirement? The state will assess a penalty equal to two times the increase in the ECS grant!

WHAT WE SHOULD LEARN FROM HURRICANE KATRINA

In one day, it is estimated that hundreds of thousands of people in Louisiana, Alabama and Mississippi lost their home, all of their possessions and their livelihood. The SBA estimates that most of the small businesses affected will never open again. How do we recover from a disaster? The best way is to prevent it from happening. Here are some disaster planning tips:

- **Prevention** – what can you do today? Try to think of each different scenario: Fire: replace batteries in smoke detectors; Flood: elevate necessary papers and equipment, etc. Check systems to make sure they are functioning properly.
- **Inventory** – prepare a household inventory. Today, with digital photography, this will be much less expensive. Buy a 3-ring binder and sheet protector sleeves. Take a picture of each object in the room, file it in the sheet protector and tuck the receipts or other documentation behind it. Keep the inventory in a separate safe location or safe deposit box.

- **Computers** – with all the records that we have on computers, protecting them becomes a priority. Protect the hardware with surge protectors or uninterruptible power supplies. Software should be protected by backups. Store all original software, paperwork and original discs off site as well. Before an emergency, do a practice run to make sure the back up is working appropriately.

- **Vital Records** – make sure you have copies of vital records stored off site or a protected location on site. This should include copies of insurance policies, health records, deeds, birth certificates, appraisals, wills, passports, social security cards and financial records for individuals. For businesses, this would include insurance policies, employee records, appraisals, patents, banking and financial records.

- **Insurance** – check your insurance coverage to make sure it is adequate. Is it at full replacement value in today's dollars? Have periodic appraisals to make sure the current value is documented. Compare the insurance to the inventory to make sure it will be adequate. For individuals, will this cover another place to live? For businesses, do you have business interruption insurance to cover the time you cannot work?

- **Finances** – keep at least one credit card clear in case you need to use it in an emergency. Work to have three months of income in an emergency account. Keep some cash in a safe location so you can get to it quickly if you must evacuate and ATM machines are not working.

- **Discussions** – Talk with others in your household or office about what would be done in the case of an emergency. How would you contact each other? Where would you meet if you could not contact each other? What is the emergency evacuation plan at the kids' school? What is the evacuation plan for each employer? Work through different scenarios in advance.

Now is the time to organize yourself and start making a check list. Once you are organized, make sure that you keep it up to date. Wouldn't it be great to be prepared and never have to use it!?!

POSITIVE PAY HELPS REDUCE CHECK FRAUD

By Margaret Dougherty, Certified QuickBooks Advisor

According to the American Bankers Association, paper based check fraud costs financial institutions more than \$500 million annually. In 1999, \$2.2 billion worth of check fraud was attempted against financial institutions with \$679 million in actual losses occurring. The major components of check fraud are forged signatures and counterfeit checks.

A way to prevent a majority of this is to use a feature that your bank may have available to you called Positive Pay. Until I attended a fraud conference, I had never heard of Positive Pay. Positive Pay helps your company reduce the possibility of check fraud by matching information provided by your company to the information on the checks that are presented to the bank for payment.

To use this feature you simply transmit an electronic file to the bank, listing all of the checks that have been written. The bank then matches the checks that get presented to them to the list that you have given them. If there is a discrepancy, the bank will contact you before processing the check.

Some banks have the ability to offer real time Positive Pay Systems, where the tellers have access to check issue files and refuse any questionable items before payment is made. This capability dramatically decreases susceptibility to check fraud.

This feature will not prevent all of the possible check fraud that could be committed, but it should reduce the possibility of checks that have been altered or counterfeited against your account from actually being paid.

If you are interested, you should contact your bank and see if Positive Pay is an option that they offer.

**NEW
MILEAGE RATE**

Effective September 1, 2005, the Internal Revenue Service has increased the standard mileage rate for business use to 48.5 cents a mile.

Marien + Company LLC

CERTIFIED PUBLIC ACCOUNTANTS + ADVISORS

IMPORTANT DOCUMENTS YOU SHOULD NOT THROW AWAY!

By Paula M. Fernald, Certified QuickBooks Advisor

Basis of property information: Every capital asset and investment that we acquire whether it is purchased, given as a gift or inherited has an associated tax basis. It is important to keep track of this information to determine the appropriate treatment and amount of taxable gains and losses.

Facilities Records: Good facilities records related to your business will provide basis information and aid in the maintenance of fixed asset and depreciation schedules. Items that should be held in record are; insurance appraisals, acquisition and construction costs, as well as plans and specifications.

Tax Return Support: The burden of proof for amounts represented on an income tax return ultimately falls on the individual regardless of whether the return was prepared by a professional. Adequate documentation, retention of income and expense support is a measure that may protect and benefit the taxpayer in the future. Supporting documentation may be used to defend the taxpayer against IRS litigation or benefit the taxpayer if errors were made that resulted in additional tax expense in prior filings.

Business financial records and employee information: Whether you are a sole proprietorship or corporation, certain information related to your business should be retained for a specific time. Examples of key information are business structure documentation, financial reports, accounting information, employee payroll and personnel files. The retention of these documents are not only required but helpful in litigation and insurance matters.

Wherever you see a successful business, someone once made a courageous decision. -Peter Drucker

RECORD RETENTION: HOW LONG SHOULD I KEEP CERTAIN RECORDS?

By Tanya M. Chmelecki, MST

The following is a list of suggested retention periods:

TAX SUPPORT

IRS Limitations in the Assessment of Additional Tax:

Owe additional tax due to error: **3 years**

Failure to report income: **6 years**

(This applies if you do not report income that you should have and it is more than 25% of gross income shown on your return.)

The IRS has no limitations in the assessment of additional tax if the taxpayer fails to file a return or files a return with fraudulent information.

Taxpayer Limitations on Filing for Additional Claims or Credits:

Claim for credit or refund after you have already filed. 3 years after due date or 2 years after tax was paid.

File a claim for a loss of worthless securities: **7 years**

PAYROLL RECORDS

Payroll Records (General): **3 years**

These records include general employee information: Employee name, address, social security number, hours worked, wage rate, overtime, etc.

Personnel File Records: **6 years after Separation**

Employment application, pre-employment tests, job descriptions, performance appraisals, position and rate changes, transfers, training and documentation of disciplinary actions taken.

Employee Related Tax Records: **4 years**

W-4 forms, FUTA records, FICA and other withholdings total amount and date of compensation payment.

Accident Report, Injury Claims and Related Workers Compensation Information: **11 years**

Employee Medical Records and Employee Exposure Records: **30 years**

Employers whose employees are exposed to toxic substances or other harmful agents are required to maintain specific documentation related to such

exposure. Documentation includes written consent of employee, analysis of effects of exposure and related employee medical records.

Private Pension Plan Information: **Permanent**

FINANCE RECORDS

Audit Reports and Financial Statement Support: **7 years**

Support for such amounts includes bank statements, deposits slips, reconciliations, and cancelled checks. Other suggested documentation consists of accounts payable, accounts receivable, and inventory detail, as well as income expense documentation.

Accounting Records: **Permanent**

Tax returns, general ledgers, chart of accounts, articles of incorporation, bylaws, stock registers and meeting minutes.

WHAT IS MY TAX OBLIGATION FOR RECEIVING A GIFT?

Thomas O. Marien, CPA, MBA, CVA

One of the most frequent questions I receive concerns the income tax consequences of receiving a gift. It is always an easy one to answer – none! Gifts are always tax-free to the recipient.

There are, however, some other tax considerations associated with receiving a gift. One is the “tax basis” of property received. Tax basis is the cost that is used to determine if there is a taxable gain or loss should the gift recipient sell the asset. For gifts other than cash the tax basis is a concern. The recipient's tax basis is the donor's adjusted basis or the fair market value of the asset at the time of the gift; whichever is lower. The donor's adjusted tax basis is equal to the donor's cost to purchase the asset plus any gift tax the donor pays for making the gift.

There is a tax reporting on a U.S. Citizen when receiving a foreign gift. A foreign gift is any amount received from a person other than a U.S. Citizen which you treat as a gift or bequest. If you receive more than a certain threshold amount you must furnish information to the IRS.

The threshold amount varies with the type of donor. If the gift is from a person who is not a resident of the U.S. or the estate of a foreign person, the threshold for reporting is \$112,000. Gifts of this amount or less do not

need to be reported. The threshold is much lower (\$12,000) if the gift is from a foreign corporation or foreign trust.

To report a foreign gift the recipient must file a Form 3520. This form must be filed as an attachment to your income tax return. As always there are penalties for not filing.

However, there are gift tax consequences for the person making the gift.

ADDITIONS TO THE STAFF

We are pleased to announce some friendly new faces to the staff of Marien + Company.

Oktaý Gurz – We welcome Oktaý (pronounced “Oak Tie”) to the firm. Oktaý comes to us from one of the “Big 4” Firms, Deloitte and Touche, where he was a senior accountant in their accounting and auditing division. Besides his undergraduate degree from the Middle East Technical University in Ankara, Turkey, Oktaý has a Master’s Degree in Business Administration and is working toward a second Master’s Degree in Accounting and Taxation at the University of Hartford.

Nanette “Alex” Bancroft – Alex comes

to us from Eastern Connecticut State University where she received her Bachelor’s Degree in Accounting and continues to work towards her Master’s Degree. Alex was honored this year with the Connecticut Society of CPAs 2005 Merit Award for being at the top of her class in accounting. Great Job Alex!

Greg Schuyler – Greg Schuyler (pronounced “Sky ler”) is a surprise addition to the Firm. We were not planning on hiring another staff accountant, but we were so impressed with Greg that we could not let him go. Greg is a graduate of Saint Leo University in Florida with a degree in accounting. Greg graduated with an A average! Before coming to Marien + Company, Greg had just completed an accounting internship with Maritrans Incorporated, a major marine carrier of oil in Florida, where he experienced many different aspects of working in private accounting.

WELCOME BACK

We are extremely excited and thankful to be welcoming back **DeeDee Smith**. As many of you know, DeeDee has not been with us much in this last year as she battled Lung Cancer. Like Dana Reeves, DeeDee has never smoked. She was very

fortunate to have discovered this awful disease in its early stages. DeeDee is officially a survivor now that she has passed her one year anniversary of being diagnosed. Please keep her in your prayers.

A CHANGE OF NAME

Our administrative assistant, **Emily Gerber**, was married on June 11th to **Jason Bjornberg**. She is now officially known as **Emily Bjornberg**. Best wishes to both Emily and Jason.

AN EXCITING HONOR

Marcia Marien, CPA and Managing Partner has been appointed to be the chairman of the Connecticut Society of CPA’s Government Accounting and Auditing Committee. This committee works to improve the auditing and ethical standards of governmental examinations. Committee members represent the Society in related matters with other organizations and agencies; write articles and technical updates for dissemination of the membership; and conduct the annual Governmental Accounting and Auditing Conference.

Norwich, CT 06360

124 New London Turnpike

www.MarienCPAs.com

Fax 860-886-0280

Phone 860-886-1750

Marien + Company CPAs

PRRST STD
US POSTAGE PAID
YANTIC CT
PERMIT NO 10