

## BUSINESSES &amp; INDIVIDUALS

## POSSIBILITIES



## Recession Response

### How is Your Business Preparing for an Upturn?

#### OVERVIEW

Earlier this year, we shared some thoughts and ideas for business owners as the nation grappled with a severe economic downturn. The focus of that article was on the fundamentals we felt were critical for businesses as we all faced the "Perfect Storm." This article discusses opportunities in anticipation of an economic upturn.

Although we believe business fundamentals are still critical for many organizations, we have begun to focus strategic direction on capitalizing on the opportunities available during a recession.

We know this may be difficult for organizations who are still in "survival mode." However, it is important to look past the uncertainties and prepare for the future. We know what lies ahead will not be business as usual, as there will be significantly less financial leverage in the system and we may never return to our pre-crisis economic state.



What is certain are the opportunities that exist in a recession. At Eide Bailly, we are taking a proactive approach by working with our clients to position their organizations to emerge as winners in the marketplace. At the same time, we are keeping an eye on the possible challenges that still lie ahead. Namely:

- The expectations of rising interest rates and taxes
- The effects of a continued rise in unemployment in the short-term
- The pressure on declining business valuations and multiples, and
- The impact of unprecedented budget deficits, both at the state and federal levels.

Most business leaders have refined their operations over the past eight months. Many organizations, however, are finding they cannot "cut" their way out of this economic environment. Therefore, it's important to focus on growth. Looking forward, ask yourself, how will you grow your organization in the *current* marketplace? The following are some of the key strategic areas of focus:

- Sales supervisors are a key to success; better results come from better supervisors, not better sales people.
- Sales people must become value-creators. Talking brochures no longer work; sales people need to be good listeners and problem-solvers.
- Re-evaluate your competitive advantage. The marketplace is shifting, and what sustained you for a long time may not help you emerge as a winner.
- Business leaders are back on the front lines with sales. They are deal-makers (versus order-takers), problem solvers and quick decision-makers.

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CPAs & BUSINESS ADVISORS

## ■ Roth IRA

# Conversion Opportunities Unfold for 2010

### OVERVIEW

The next year could be a pivotal one for retirement planning, as it will be the first year in which taxpayers will be able to convert funds in regular IRAs (as well as qualified plan funds) to Roth IRAs regardless of income level. This article reviews changes for 2010.



*A new tax law provision regarding Roth IRA conversions becomes available in tax years after 2009. Americans will be able to qualify and consider a Roth IRA conversion regardless of their income level, as the modified AGI limit on conversions is eliminated.*

The Taxpayer Relief Act of 1997 added Code section 408A which created a new type of Individual Retirement Account, known as Roth IRAs. The basic premise of the Roth IRA is that there is no tax deduction for contributions going in, and no income tax due on money coming out, as long as qualified conditions are met, which include:

- The Roth IRA has been in existence for five years, and
- Distribution occurs after the account holder attains age 59 ½, or after death or disability of the individual, or for a first time home-buyer (\$10,000 limit).

However, many high-income Americans have been denied the ability to establish or fund a Roth IRA due to several long-standing rules. Current law prevents married couples with Adjusted Gross Income (AGI) above \$176,000 from contributing to a Roth IRA. In addition, only taxpayers whose modified AGI of \$100,000 or less may convert amounts in a traditional IRA to a Roth IRA.

A new tax law provision regarding Roth IRA conversions becomes available in tax years after 2009. Americans will be able to qualify and consider a Roth IRA conversion regardless of their income level, as the modified AGI limit on conversions is eliminated. An additional wrinkle involves Roth IRA conversions made in 2010; the taxpayer can choose to be taxed on the entire conversion in 2010, or may defer the taxability of the conversion equally between 2011 and 2012. The decision to tax a conversion will require careful considerations; as we watch tax legislation unfold, that will likely impact changes to individual income tax rates.

Although it is obvious that a Roth IRA is a solid choice for a taxpayer who expects to be in a higher tax bracket in their retirement years, the greatest benefit of a Roth IRA may be in transferring wealth to heirs. A Roth IRA is not subject to Required Minimum Distributions

at age 70 ½, which can become an appealing vehicle to accumulate assets on a tax-free basis for the owner's lifetime and surviving spouse. In turn, the income tax-free nature of the Roth can be preserved for one more beneficiary generation's lifetime (i.e., child or grandchild), as the only distribution requirement for them is to take distributions based upon their life expectancy. This can stretch the Roth's tax-free duration for decades.

There are a variety of other scenarios where a Roth IRA can be advantageous. Taxpayers with large estates can reduce their estate tax exposure by incurring the income tax consequence from a conversion; paying the income tax from a conversion is akin to adding extra value to your retirement plan account. Investment accumulations in a tax-free Roth environment can exceed the accumulation value of an IRA with time, even after incurring the income tax from the conversion.

Although the law change provides significant opportunity, one must emphasize the importance of doing sound financial planning in thinking through the possibilities. Many providers have software tools that can make planning calculations for these retirement plan considerations or conversions, and provide a sound resource for your planning needs. ■



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## Accounting Update

SFAS 165 was issued by the Financial Accounting Standards Board (FASB) in May 2009, and superseded the prior subsequent events standard. SFAS 165 is effective for financial statements for periods ending after June 15, 2009. This standard has two new requirements.

First, management must search for and record subsequent events that affect the basic financial statements. These recorded events are called “recognized” subsequent events. Recognized subsequent events are defined as transactions occurring after the year-end balance sheet date that reflect conditions existing at year-end. An example is a litigious event during the reporting year that results in post year-end litigation and settlement. Another example would be a major construction defect in a building whose impaired condition is discovered after year-end. In both of these examples, the condition resulting in post-year transactions existed at year-end.

Management must also search for subsequent events that do not reflect conditions existing at year-end. These stand alone subsequent events are called “non-recognized” subsequent events. An example would be litigation regarding an event, such as an accident, both of which occurred after year-end. Another example would be losses on receivables due to a customer’s bankruptcy after year-end caused by a post year-end uninsured natural calamity. Neither event reflected a condition existing at year-end. Such non-recognized subsequent events are not recorded in the financial statements. Note that, if material, non-recognized events may require disclosure in the footnotes.

The second requirement of SFAS 165 is that management must disclose in the footnotes the date through which its search for subsequent events was performed. And, for audited financial statements, the auditor must also complete a parallel search for subsequent events through the same date. Management can also expect that a new paragraph regarding its search will be included in the management representation letter.

The second major accounting change was the new Codification of accounting rules. This Codification replaces all prior accounting

standards such as mentioned earlier. The purpose of this massive project by FASB was to consolidate the accounting rules. Additionally, the original standards material has been rewritten to eliminate duplication and conflicts that may have appeared in the original pronouncements. The result is an editorialized version of the original accounting pronouncements. A further result of Codification is that only the Codification contains authoritative Generally Accepted Accounting Principles (GAAP), and that all other sources of GAAP, such as any unique industry accounting, are non-authoritative. An example of non-authoritative accounting would be accounting rules for mining activities. However, there is no other guidance for mining and, in this situation, non-authoritative GAAP may be used, as long as it is not prohibited by the Codification.

The Codification can be accessed on the FASB website ([www.fasb.org](http://www.fasb.org)); however, registration is required. The Website has a basic (free) and a professional (fee-based) service option. Outside vendors also sell Codification services which emulate the FASB professional service.

From a practical standpoint, the primary immediate affect of the Codification on companies and non-profit organizations is to change the accounting identification nomenclature in the footnotes. So, instead of referring to Statement of Financial Accounting Standard No. 157, Fair Value Measurements, the footnote would refer to Codification Topic 820, *Fair Value Measurements and Disclosures*. The Codification has two implementation dates. The first is the accounting literature succession date, which was July 1, 2009. The second date regards the change of standards reference nomenclature in footnotes. That date is for financial statements for all periods ending after September 15, 2009. ■

### OVERVIEW

Two accounting changes of note occurred this past summer. Both will affect businesses and non-profits that issue financial statements using generally accepted accounting principles. The changes regard the issuance of Statement of Financial Accounting Standard No. 165 (SFAS 165), Subsequent events and the implementation of the *Accounting Standards Codification* (the Codification).



*From a practical standpoint, the primary immediate affect of the Codification on companies and non-profit organizations is to change the accounting identification nomenclature in the footnotes.*



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## Tax Planning Before Year-End

### OVERVIEW

Individuals, and their closely held businesses, will in most all cases operate using a calendar year-end for reporting taxes. Each year, a number of articles will be written to advise tax filers on what to do for “Year-end Tax Planning.” But why wait until year-end? The best tax planning is done before year-end when you have time to think about your plan, not just react to your tax situation.

Tax planning, year-end or otherwise, should begin with a calculation of what you estimate your tax liability will be for the current year, without any planning items considered. This calculation will provide information that you can plan from, a base line, to determine what benefit your planning efforts will create. Once you have your base line tax information established, then you are ready to consider the various planning opportunities that you will design or find. Remember, the purpose of tax planning is to generate cash-flow through the deferral of tax payments, but business and personal economics should always be considered when doing your tax planning. Thus, your tax planning may produce great results, but if the plan requires undo business risk or excessive personal debt leverage, then it may be a wiser course of action to just pay the tax.

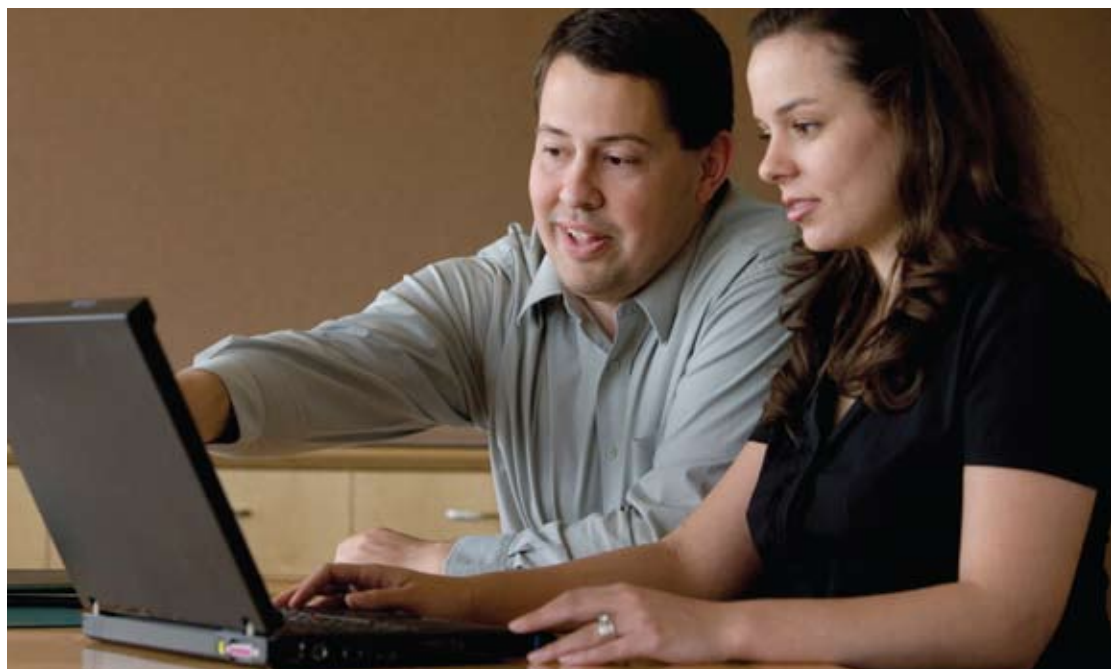
As you begin thinking about tax planning ideas, you will discover that tax planning is generated from two different sources—“non-cash” and “cash” opportunities.

*Non-cash tax planning generates the most benefit because, as the name implies, no current cash is required to obtain the benefit. In addition, non-cash planning takes into account cash previously spent. Consider the following examples:*

- Consider non-cash charitable contributions, such as clothing, appliances, furniture, etc. You will need information to support your valuation. Check out [www.taxact.com/reference/2009/tt-charitable-Contributions.asp](http://www.taxact.com/reference/2009/tt-charitable-Contributions.asp) to assist with the rules for supporting your deductions.
- Utilize a capital loss carry-forward. This loss represents dollars spent in a prior year, which, standing alone, can only be utilized to a maximum \$3,000 current deduction in a joint return or a return for a single filer, and is limited to \$1,500 to each married person filing separately. But, if you have or can develop a capital gain equal to the capital loss carry-forward, the capital gain and the resulting cash is effectively not taxed.
- Home office deductions come from cash payments you make even if you don’t get the deduction. Therefore, taking the deduction doesn’t really cost any more cash out of pocket. The deduction is not available for everyone and does take some effort to document, but once established, produces surprising benefits.



*The best tax planning is done before year-end when you have time to think about your plan, not just react to your tax situation.*



- Charitable mileage deductions. If you do volunteer service for a charity that requires driving, keep a log of your miles driven. Each mile is worth a 14¢ charitable deduction. It may not seem like much until it starts adding up.
- Capture a capital loss. This year, due to the economic downturn, there is a high probability that you will have a capital loss available for use, if the loss is realized. A capital loss of \$3,000 can be deducted on a joint return or a single filer return. The capital loss deduction is limited to \$1,500 to each married person filing separately. As a caution, if you sell at a loss, and repurchase within 30 days, a security that is the same as was sold, you will create a “wash sale” transaction and the loss will not be deductible.
- Inherited property. Use the proper tax basis for any inherited property to reduce the chance of paying too much tax. This may involve the sale of an inherited stock or property, or depreciation for a continuing operation.
- Loss on closely held corporation stock. If you have stock in a closely held corporation that has gone under, before you automatically take a capital loss, see if Internal Revenue Code Sec 1244 will convert the capital loss to ordinary loss.
- Obsolete inventory. Review inventory for any obsolete inventory, dispose of the inventory and take a deduction.
- Purchase equipment. If your business will need new equipment within a year, plan on purchasing it in 2009 to take advantage of the 50 percent bonus depreciation and Section 179 expensing opportunities.
- Deductible investments. Purchase an investment that has beneficial current year deductions. For example, there are oil and gas partnership investments that produce an 85¢ available deduction for each \$1.00 invested, and will start generating cash back within a year. This item is not for everyone; it requires an acceptance of certain business risks.
- Pay state tax early. If you do your planning and find that you will still owe tax when you file your return, consider paying the balance due prior to year-end to accelerate the deduction benefit by a full year.
- Check for state economic development credits. Many states are beginning to understand the benefit of increasing job creation opportunities by allowing special investors to enhance their investment in a private venture by receiving additional credits from state programs that reduce income tax. Check to see if your state has any of these opportunities.
- Use the American Recovery and Reinvestment Act of 2009. Many opportunities are available, such as the new homebuyer credit and increased benefits in educational credits. There is even a new credit available for the purchase of a qualifying plug-in electric vehicle.

Tax planning using current cash payments is the easiest to accomplish. Just make the payment of an allowable expenditure, as in the following examples:

- Energy credits. If you are in need of, or are planning home improvements, consider the energy credits in the timing of your decision. Energy credits are available for a number of home improvements, including heat pumps, windows and exterior doors, etc.

The non-cash and cash planning examples provided are meant to stimulate your personal tax planning process. Each situation is unique; we encourage you to work with a qualified professional. ■



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## ALERT!

We are aware of at least two different e-mails that are being received by our clients, said to be from the Internal Revenue Service. The subject line for these e-mails appears as: a) Notice of Underreported Income and b) FW: IRS Notification-Tax Refund.

The Internal Revenue Service does not use e-mail to initiate communication with taxpayers. Therefore, if you receive any e-mails that appear to be from the Internal Revenue Service, please follow these rules:

1. Do not reply to the e-mail.
2. Do not open any attachments.
3. Do not open any links.

Visit our website at [www.eidebailly.com](http://www.eidebailly.com) for additional information on IRS scam e-mails and bogus IRS website e-mails. We also have information on our website on how to report the scam or bogus e-mails to the Internal Revenue Service.

## ■ New and Improved

# Tax Credit for Education—2009 and 2010

### OVERVIEW

The American Opportunity Tax Credit, passed in last winter's stimulus package, is a new tax credit to help students and parents pay for college and other certificate programs. This article reviews common questions about the new tax credit.

September is that time of year when we see thousands of students heading back to college. As parents, back to school time reminds us of the harsh reality of paying for college. Many of us may be familiar with certain tax breaks that can help parents and students. You may have heard of the "Hope" credit or the "Lifetime Learning" credit. Now there's a new credit that will help soften the blow of paying for college or other certificate programs.

### What is the new credit?

The massive bill passed this last winter was part of the "Stimulus" package and included changes to the Hope credit, which was usually the more generous of the two income tax credits allowed for higher education expenses. The old Hope credit has now been replaced by the new American Opportunity Tax Credit. The Lifetime Learning credit is also still available, but will be used much less often.

### How does this new credit work?

A tax credit reduces the actual tax you pay, dollar-for-dollar. It is generally far better than a deduction, which simply reduces the income upon which tax is computed.

The new credit is equal to 100 percent of the first \$2,000 of qualifying expenses and 25 percent of the next \$2,000. So, if your qualifying expenses are \$4,000 or greater, the credit will be \$2,500. That means \$2,500 would be subtracted from your actual tax bill. In effect, the government is reimbursing you for part of the cost of college or technical school. The maximum old Hope credit would have been \$1,800, so the new credit reimburses you for \$700 more than the old credit. Even better, the American Opportunity Tax Credit is now available for four years, while the old Hope credit was only available for two years of a student's expenses.

### What expenses qualify for this credit?

The old Hope credit was pretty narrow. Qualifying expenses only included tuition and academic fees. The new credit lets you include course materials, or books, when figuring the credit. Per the IRS website, a computer may qualify if it is "needed for enrollment or attendance" at the school.

### What happens if I don't have at least \$2,500 in income tax to offset with the credit?

Under the old rules, you would be out of luck. You wouldn't benefit from the tax credit. In 2009 and 2010, 40 percent of the credit will be refundable, meaning you will absolutely benefit from at least 40 percent of the credit. If you didn't have any tax to offset, and your credit was \$2,500, you would get a refund from the IRS for 40 percent of the credit, or \$1,000.

### Are there limitations regarding who gets the credit?

Yes, like many tax rules, there are phase-outs that preclude higher income people from getting a particular benefit. In the case of this new credit, single people lose the credit entirely when their income exceeds \$90,000, and married couples lose the credit when their income exceeds \$180,000. ■



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# Getting More Business Value from Information Technology

In these economic times, it is critical for all business functions to do more with less. However, recent reviews of Information Technology functions have been less than favorable. Some of those reviews include:

- A recent study by Forrester found that 20 percent of technology spending is wasted.
- The Gartner Group identified that 40 percent of all IT initiatives fail.
- An IBM survey found that CIOs believe 40 percent of IT spending brings no return.
- Forrester revealed that less than half of executives have confidence in IT as a contributor to business success.

There are numerous reasons why confidence in a company's IT has diminished:

- Many organizations do not have an Information Technology plan that is actively followed. The IT strategy is often disconnected from the overall business strategy.
- IT organizations spend far too much time performing maintenance activities and far too little time on new business initiatives. On average, more than 80 percent of IT time is spent on maintaining existing systems. High performing organizations spend 60 percent of IT time on maintenance activities.
- Many IT organizations lack personnel with a clear understanding of business operational issues and processes. In addition, IT personnel may not be comfortable in asserting themselves as "thought leaders" and providing solutions to business problems.

There are no simple solutions to any of the problems we have identified. However, companies are realizing extraordinary results by applying a strict discipline that focuses IT activities on business value. This includes:

- Conducting a "Value Analysis" on the company's IT organization to assess spending and the business value that is generated from that cost.
- Developing a clear definition of value—increasing revenue, reducing expenses, managing risk.
- Establishing IT priorities that are aligned with the overall business strategy.
- Requiring clear measures that demonstrate how IT-related spending contributes to improved business performance.
- Implementing initiatives focused on reducing IT time spent on maintenance activities.
- Recognizing that this is not just an IT issue, but a company issue. Business leaders from across the organization must take ownership of IT initiatives to ensure the expected benefits are delivered.

By focusing on these items, your Information Technology function can become a source of true business value and a significant competitive advantage. ■



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## OVERVIEW

In these economic times, it is critical for all business functions to do more with less. This article reviews what some companies are doing to realize a greater business value from IT activities.



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— continued from page 1

- Use your team to re-evaluate your growth strategy, which may include transitioning existing products into current or new markets or creating new products for current and new markets.
- For peak performance, hire your people for their core values, but look to coach and mentor them to strengthen their personal and technical skills.
- Identify your “rising stars” and challenge them to reenergize your project teams and drive change in your organization. Use tools to identify the real issues with your teams and improve upon those areas.

Perhaps this economic crisis will turn around with less negative impact than many expect. If you apply the “perfect storm” fundamentals to your business and go after opportunities in a disciplined, strategic way, the worst that may happen is that you emerge as a stronger leader in your industry. ■



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