



Journal of the CPA Practitioner

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UPDATE...FROM THE NCCPAP PRESIDENT



ANDREW L. HULT, CPA

In this President’s Message, I have summarized some of the accomplishments and decisions that came out of NCCPAP’s recent quarterly meeting in Washington D.C. I have also presented several items of significance to all of our members.

Later in this issue, there is a discussion by Neil Fishman and Neil Sullivan of the outcomes from our very successful meetings with congressmen and their legislative assistants, and with representatives of the IRS.

Firmed-Up Plans For August, and Changed October Dates

Philadelphia, Pennsylvania – The next quarterly meeting is scheduled for August 3, 4, and 5 at the Sofitel in Philadelphia. This will be a terrific opportunity for us to meet associates from NCCPAP’s new Delaware Valley group. In addition, there’s important continuing professional education—a full day has been scheduled by the Education Committee, chaired by Paula Sheppard. Frank Gallo, Chair of the Peer Review Committee, will outline an approach to greater efficiency in small audits and reviews. The MAP Committee, chaired by Ken Hauptman, will focus on practice problems and their resolution. The Issues Committee, chaired by Bob Goldfarb, will address current issues in the profession. The Tax Committee, chaired by Neil Fishman, will update us on current developments in taxation. Also, the Education Committee is striving to arrange for IRS representatives to be available all day long for one-on-one meetings with practitioners for problems resolution.

Woodcliff Lake, New Jersey – The meeting dates have been changed to October 26, 27 and 28. Please mark your calendars. There will be a welcome to the new officers and Board members.

New NCCPAP National Website

By the time you receive this newsletter, a new website for NCCPAP National should be up and running. It is being proofread and edited as I write this. The Website Committee, chaired by Don Ingram, has been meeting weekly right through tax season to bring this project to fruition. Committee members include Lana Kupferschmid, Ed Caine, Carol Markman, David Rothfeld, and our website development consultant, Deb Buckley. I think that this group has done a wonderful job, and I can’t wait to share their work with you. Be sure to take a look at it.

At Our Washington Meeting, NCCPAP Was Consulted on FBAR

In connection with NCCPAP’s Congressional Agenda, Carol Markman, Sandy Zinman, and Ed Caine met with Eric Oman, from Senator Michael Enzi’s office; Tony Coughlan, from the Senate Finance Committee; and Greg Dean, from the Senate Committee on Health, Education, Labor and Pensions. At the meeting, Eric brought up a question. He mentioned that as a part of the Senate bill on changes in due dates, there was a provision for changes in due dates for FBAR reporting, from a drop-dead date of June 30, to a date of April 15, with provision

(continued on page 2)

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for an extension date. He asked for a response.

Carol, Sandy and Ed brought the question back to the Tax Committee's "after-the-hill" meeting, where a discussion took place and a response was sketched out. The next day, a motion was passed at the Board directing that a letter be sent offering our comments. These will include an observation that the change appears worthwhile. Form 4868 should have a checkbox to extend the FBAR filing due date as well as the 1040. In addition, taxpayers in foreign countries should get automatic extensions for FBAR reporting, as they do for their 1040s. Also, there is a need for a separate form for FBAR, if a taxpayer chooses to currently file a 1040 but delay the FBAR filing. Also, the IRS should enable FBAR reports to be e-filed simultaneously with a 1040, but separately from it for compliance with title 31 of the bank secrecy act.

I mention this to give those who have not gone to Washington a sense of how NCCPAP can and does work to keep things practical and manageable for the tax practitioner community.

Progress in Massachusetts and Pennsylvania

Ronn Tockman reported that use of the new mailing lists, enabling us to reach out to nonmembers, was successful. Ed Caine reported that the Delaware Valley group has scheduled meetings through the summer and is co-hosting an all-day IRS conference on May 18th. He reported that the conference is maxed out with 250 attendees, virtually all of whom are unfamiliar, at this point, with NCCPAP and its mission of practitioners helping practitioners.

That's it for now. Please call or write with your insights and any suggestions. My telephone number is (516) 565-1702. My e-mail address is alhult@alhcompany.com.

Andrew Hult

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Lease Accounting: The GAAP¹, the IFRS and the New

by *Julia (Jierong) Zhang*

Companies will continue to utilize off-balance-sheet financing to reduce stated leverage despite the risk of investors' discovery having negative impact on share performance. Some of the common methods utilized for these arrangements are non-consolidated subsidiaries and special purpose entities (SPE). A less ubiquitous method involves the crafting of a lease as an operating lease instead of a capital lease. Due to the "bright-line" criteria specified under U.S. GAAP, companies can construct the lease terms to avoid capitalization and record the transaction as operating, thereby avoiding a balance sheet obligation. Under IFRS1, the classification of leases is principle based, which involves judgment. Thus, many leases that are recognized as operating leases would be classified as capital leases under IFRS. This article examines the similarities, differences and the practical impact of the lessees' lease accounting under GAAP and IFRS.

Both U.S. GAAP and IFRS differentiate between capital/financing lease and operating lease, depending on the nature of the lease terms. The current accounting standard for capital/financing lease is when the lessee records an asset and a liability generally equal to the present value of the rental payment; while operating lease, the lessee does not record any future commitments and it only recognizes rent expense accrues day by day as using the property. Under a capital/financing lease, the lessee recognizes the lease as an asset, records depreciation expense and shows it as an obligation. Under an operating lease, the lessee is only required to record a rental expense in the income statement and has no obligation to recognize future payments or commitments. The accounting method is the same under U.S. GAAP and IFRS, however, identifying the type of lease is different.

According to U.S. GAAP Accounting Standards Codification (ASC) 840 "Leases," there are several criteria that separate a capital lease from an operating lease: (1) the lease transfers ownership of the property to the lessee by the end of the lease term; (2) bargain purchase option; (3) greater than 75% of useful life; (4) present value of the minimum lease payment equals or exceeds 90% of the fair value of the leased property.

These are clear-cut definitions to separate the capital/financing lease from the operating lease under ASC 840. Many companies that lease property, plant and equipment (PP&E) can construct contract terms to avoid recognizing the assets as well as the liability. It is much harder to do so under IFRS since the definition is principle based with judgment involvement. The general guideline under International Accounting Standard (IAS) 17 is "a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee."

For example, Company X leases a vehicle from Company Y with annual payments of \$5,800 for three years; the vehicle costs Company Y \$20,000 and the expected useful life is five years, without transfer of ownership or bargain purchase option (assume 5% interest rate, present value of three year

rental payment). The lessee also has the option to continue the vehicle rental for \$2,500 for another two years (note, not bargain purchase option). The calculation for the lease is:

$$\text{Present value} = \$5,800 \times 2.85941 \text{ (present value of an annuity due of 1 for 3 periods at 5\%)} = \$16,585$$

Under U.S. GAAP, this is clearly an operating lease since Company X's contract terms do not meet the capital lease criteria, and thus the lessee only needs to record the rental payment under operating expense in the income statement, without any impact on the balance sheet. However, this is considered a finance lease under IFRS since it "transfers substantially all the risks and rewards incidental to ownership to the lessee." Company X will need to record the asset as well as the payment obligation under the IAS 17 accounting standard.

Since the definition for finance lease is broader in IFRS, many operating leases currently classified as operating leases in U.S. GAAP would have to be reclassified. Due to the increase in assets and obligations on the balance sheet for the lessee, many key financial ratios would be affected. Take Company X from the previous example. According to capital lease rules, \$16,585 is recorded for PP&E and liability. Company X also has asset of \$100,000 and liability of \$70,000 before the operating lease, so it will increase these amounts to \$116,585 and \$86,585, respectively. Thus, the debt to asset ratio is 70% before the operating lease will increase to approximately 74%. The accounting standard that forces the recording of this arrangement as a capital lease provides a more conservative standard. The ambiguity lies in the judgment involvement when applying IAS 17. There are no clear rules to delineate when substantially all of the risks and rewards are transferring ownership to the lessee. This uncertainty opens the door to misjudgment due to either error or intentional action.

The convergence of GAAP and IFRS would potentially help to solve such dilemmas. The exposure draft currently being circulated is that the lessees have to record all the assets and liabilities by eliminating operating leases, representing a major change from current practice (exception for lease of less than one year). Investment professionals will surely hope the new standards will help to make the financial market more transparent to promote confidence and integrity for future capital allocation.

Jierong Zhang started her career at PricewaterhouseCoopers (PwC) after graduation from Brooklyn College. At PwC she primarily audited Fortune 500 companies, performing and supervising financial statement audits and Sarbanes-Oxley audits.

Professor Zhang is currently an assistant professor at New York City College of Technology.

1. GAAP – Generally Accepted Accounting Principles, a widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

2. IFRS – International Financial Reporting Standards, a set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board.

FBAR “Quiet Filing” Constitutes “Willful Failure to File”

Neil A.J. Sullivan, CPA, TEP

Despite “quiet filing” of an amended Form 1040, U.S. DOJ charged Michael F. Schiavo with Willfully Violating Foreign Bank Account Reporting Requirements to Report Foreign Bank Account according to a filing in U.S. District Court – District of Massachusetts. This is a violation of Title 31, United States Code, Sections 5314 and 5322(a). The foreign account question on Schiavo’s Schedule B (Form 1040) was marked NO.

United States citizens, resident aliens, and legal permanent residents of the United States have an obligation to report to the IRS on Schedule B of a U.S. Individual Income Tax Return, Form 1040, whether that individual had a financial interest in, or signature authority over, a financial account in a foreign country in a particular year by checking “Yes” or “No” in the appropriate box and identifying the country where the account was maintained. United States citizens and residents have an obligation to report all income earned from foreign bank accounts on the tax return.

Schiavo maintained an account at HSBC Bank Bermuda from 2003 to 2008 in which the balance ranged from approximately \$65,000 to \$150,000. He did not report the income from the account on original Form 1040.

It is alleged that Michael F. Schiavo, on or about June 30, 2007, did knowingly and willfully violate the requirements prescribed by the United States Secretary of the Treasury, as codified at Title 31, Code of Federal Regulations, § 1 03.24(a), to report a financial interest in a bank, securities and other financial account in a foreign country in calendar year 2006; to wit, the defendant failed to file an FBAR disclosing his financial interest in an account at the HSBC Bank Bermuda, which had a value of greater than \$10,000 during calendar year 2006.

Neil A.J. Sullivan, CPA, TEP, of International Tax Compliance Strategy, Scarsdale, N.Y., provides local and international Estate, Trust, Gift and Income tax planning and tax return preparation services for U.S. citizens, expatriates, aliens (non-US citizens), and businesses.

Mr. Sullivan consults on structuring local and international transactions to ensure proper compliance with tax statutes.

Mr. Sullivan serves as chair of the AICPA Foreign Bank and Financial Accounts Reporting (FBAR) Task Force, and as co-chair of the International Tax Committee of the ABA Section of International Law. He also serves on the Expatriation Tax Task Force of the AICPA Trust, Estate and Gift Tax Technical Resource Panel. In addition, he served on the AICPA Strategic Planning Task Force, the Tax Legislation and Policy Committee and the AICPA International Tax Technical Resource Panel.

Neil was twice awarded the ABA Section of International Law Best Non-CLE Committee Award (2008-2009) and (2009-2010) for programs on FBAR and Voluntary

Disclosure Program. He is a Past-President (1998-2001) of the Westchester/Rockland Chapter of NCCPAP and served National as Secretary, and Technology Committee chairperson.

Mr. Sullivan has lectured for: American Bar Association, American Institute of Certified Public Accountants, International Fiscal Association, Internal Revenue Service, NCCPAP, New York State Society of CPA’s, Foundation Accounting Education, New York University, Procopio International Tax Institute and the Society of Trust and Estate Practitioners.

His articles are published in Journal of Accountancy, Journal of the CPA Practitioner and The Tax Adviser; and he has been quoted by CCH, Standard Federal Tax Reports. He edited U.S. Tax Aspects of Doing Business Abroad 5th edition, chapter 16, Citizens and Residents Abroad.

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Understanding Form 926 and Form 8865 Disclosures

by Vincent Liu and Frimette Kass-Shraibman, CPA, PhD

In recent years, the U.S. Congress and the Internal Revenue Service (IRS) have implemented various laws and procedures regarding cash transactions and transactions overseas by U.S. entities. They have done this for two primary reasons:

1. To combat terrorism by making funding of terrorist activities more transparent to the authorities.
2. To combat tax evasion.

In recent years, the IRS has increased their efforts to have taxpayers comply with Foreign Bank Account Reporting rules. They have also successfully pressured UBS to disclose the names of U.S. entities. Currently, they are also pressuring HSBC to make similar disclosures.

There is also required reporting for entities that transfer assets to overseas entities or invest in foreign businesses. Forms 926 and 8865 are used to comply with these reporting requirements. Here are a few facts to help you determine if your clients may be subject to filing these forms.

Form 926

What is Form 926 and who must file?

Form 926 is used to report certain transfers of tangible or intangible property to a foreign corporation required by Internal Revenue Code (IRC) Section 6038B. Generally, a U.S. citizen or resident, a domestic corporation, or a domestic estate or trust must complete and file Form 926 to report certain transfers of property to a foreign corporation that are described in IRC Section 6038B(a)(1)(A), 367(d), or 367(e). See Section 6038B, and Regulations Sections 1.6038B-1 and 1.6038B-1T for more information.

Special rules apply for:

- **Transfers by a partnership.** If the transferor is a partnership (domestic or foreign), the domestic partners of the partnership, not the partnership itself, are required to comply with Section 6038B and file Form 926. Each domestic partner is treated as a transferor of its proportionate share of the property.
- **Transfers by a husband and wife.** A husband and wife may file Form 926 jointly, but only if they file a joint income tax return.
- **Transfers of cash.** A U.S. person that transfers cash to a foreign corporation must report the transfer on Form 926 if:
 - (a) Immediately after the transfer, the person holds directly or indirectly at least 10% of the total voting power or the total value of the foreign corporation, or
 - (b) The amount of cash transferred by the person to the foreign corporation during the 12-month period ending on the date of the transfer exceeds \$100,000. See IRC Section 1.6038B-1(b)(3).

What is the consequence of not filing?

The penalty for failure to file can be 10% of the fair market

value of the property at the time of the exchange/transfer if the taxpayer fails to comply with the filing requirement. The penalty is limited to \$100,000 unless the failure to comply was due to intentional disregard and the penalty would not apply if the failure was due to reasonable cause.

How is the Form 926 filed?

Form 926 (and the additional information required under IRC Regulations Section 1.6038B-1(c) and Temporary Regulations Sections 1.6038B-1T(c)(1) through (5) and 1.6038B-1T(d)) must be filed with the U.S. transferor's income tax return for the tax year that includes the date of the transfer.

What impact can the Form 926 requirements have on organizations?

The disclosure is very common for private equity/venture capital partnerships that invest in various ventures or other partnerships. Through the investment into various partnerships, one of the flow-through level entities may have had a transfer. As such, this information needs to be disclosed at each of the pass-through levels that are above the entity.

These disclosures not only apply to for-profit entities but, in some cases, tax-exempt entities such as Not for Profits or Pension Plans as well. Through their respective investments, tax-exempt entities may need to disclose this information by filing form 990-T (in addition to their annual 990 or 5500). Failure to do so can result in significant penalties.

Form 8865

What is Form 8865?

Individuals or other entities that invest in a foreign partnership use Form 8865 to notify the IRS of their investment. The exact requirements that would cause an individual or entity to file is on page 2 of the instructions for Form 8865. Some of the criteria include the percentage of ownership in the partnership, control of the partnership and the value of assets transferred into the partnership, and intra year acquisitions and dispositions. There are different schedules that need to be filed with the Form 8865. The triggering criteria for filing will also trigger the need for particular schedules to be added to the return.

What is the consequence of not filing?

Penalties for failing to file or filing an incorrect Form 8865 range from \$1,000–\$50,000.

How is the Form 8865 filed?

Form 8865 is filed with the entities' usual income tax return.

What impact can the Form 8865 requirements have on organizations?

Most for-profit organizations have well-equipped (or hired) tax departments to handle such filings. Some tax-exempt entities, such as small pension trusts and small not-for-profit entities, may not have proper professional advisement. Therefore, they

(continued on page 6)

Understanding Form 926 and Form 8865 Disclosures (continued from page 5)

may fail to file and find themselves subject to significant penalties as stated above. The exact penalties can be found on page 4 of the instructions for Form 8865.

Summary and Ramifications for Clients

The IRS continues to track the transfer of U.S. assets to foreign countries. If your clients are involved with investments in foreign partnerships or corporations, they must become compliant with these filings. You can find more information at www.irs.gov.

Vincent Liu is a graduating senior from Brooklyn College of the City University of New York. Upon graduation, he will be working at a public accounting firm.

Frimette Kass-Shraibman is an Associate Professor of Accountancy at Brooklyn College of the City University of New York. She is also a managing director at Broad Street Financial Services Ltd and a member of the New York City Chapter of NCCPAP as well as a member of the National Board of Directors.

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Old and New Hard Drives Hold Secrets and PII

by Armando D'Accordo and Greg Miller

While you're busy making sure your business data is safe by encrypting your wireless network, sending e-mails over a secure connection, using a business-class firewall and storing your backups in a highly secure remote location, what are the chances that you're still putting your information at risk?

It turns out that nearly every digital copier made since 2002 stores copies of every image it copies on an internal flash or hard drive. These hard drives don't have an endless amount of memory, so over time, they'll overwrite old files with new ones. But still, the fact remains that if you've recently copied confidential company documents, images of those documents are living inside your copier. That means they're available to anybody who buys your used copier through a warehouse or reseller that hasn't bothered to wipe your drive.

So what can you do about this problem? Be aware that, before you retire or resell your copier, it's your responsibility to remove confidential information from its hard drive or risk the consequences—which could be anything from having your data sold to identity thieves to finding your company in breach of major privacy regulations, such as HIPAA, FTC, or New York state personal information privacy law.

If you are in violation of New York State law there is required reporting of the information exposure to the state Attorney General as well as notifying all the persons identified in the information. These violations may also result in some pretty serious fines.

In April, CBS News ran a major big story on digital copiers. They said, "All the major manufacturers told us they offer security or encryption packages on their products."

While data protection is your responsibility, manufacturers are trying to do their part to help (even if they aren't always screaming it from the rooftops). The amount you'll have to pay for security and encryption add-ons varies by manufacturer, of

course, and there are also third-party security providers who sell software that will wipe your copier's drive for you.

The bottom line: It will cost you some money to make sure you're not giving away data along with your old copier. But when you consider the alternative—allowing digital scans of paycheck stubs, employee Social Security numbers, bank routing numbers, and the kind of information that digital thieves could resell for top dollar—it's worth it.

And while we are discussing hard drives, let's not forget your old desktops and servers. There are many businesses that recycle old PC equipment. While these programs reduce waste and pollution, they also pose the risk of data theft from information that is still on the hard drive. The solution is similar to the copier problem, and maybe even easier to solve.

Before you turn over a PC or server to a lease company, IT person, or recycling program, you must remove the data on the drive using proper Department of Defense (DoD) rated data removal software, or physically destroy the drive. DoD software is available for purchase, or you can ask your IT person to handle this before the hard drives leave your location. Some shredding firms now offer hard drive shredding services on a per-drive basis. When they arrive to pick up your paper they simply take the hard drives and run them through shredders that can handle metal.

Before your copiers or old computers leave your site, be sure that all client or other confidential information has been properly removed. You may need to consult an IT professional for assistance.

Armando D'Accordo & Greg Miller are CMIT consultants. They frequently write for this journal on IT issues for accountants. You can locate them or other CMIT consultants at [t www.cmitsolutions.com](http://t.www.cmitsolutions.com).

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Like most national organizations, NCCPAP reaches out to members through e-mail. It is the best way for us to keep you up to date with our work in tax regulations, member accomplishments, upcoming events and everything NCCPAP does on behalf of the practicing CPA.

Our membership e-mail list is not 100% complete. Please send your name, firm name and e-mail address to the National office at execdir@NCCPAP.org. Do it now — before you forget, and before you miss out on another important piece of news from NCCPAP!

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In My Opinion...

America's Debt Wish

Perverse Unintended Consequences— How the Tax Code is Damaging the US Economy

by Harry Z. Davis, PhD and Abraham N. Fried, PhD

Summary: We claim that the current economic crisis is caused by the double taxation on dividends, which has encouraged firms to overload on debt.

Perverse Unintended Consequences:

How the Tax Code is Damaging the US Economy

America is going through much pain. Companies are declaring bankruptcy, closing stores and, most painful of all, firing workers. The pain of individuals losing their jobs, and often their homes, is a major cost to society. It is also a self-feeding cycle, as these workers buy less, hurting even more companies.

Why did this happen? Can a recurrence be prevented? We claim that a major cause of this pain is a tax provision that has had a major perverse unintended consequence, and which Congress should remedy.

Consider a company that will earn \$100 annually and distribute all its earnings to a financier who will provide the company's capital needs. For simplicity, the transaction can be structured as either a stock purchase or a loan. We use the top corporate tax rate of 35% (since 1950 the rate has fluctuated between 34% and 53%) and assume that the financier is also in the top 35% tax bracket.

Debt Scenario: If the capital is a loan, the firm reports \$100 income before interest, pays \$100 interest and pays neither taxes nor dividends. The financier receives \$100, pays a 35% tax, and is left with \$65.

Investment Scenario: If the capital is an equity investment, the firm reports \$100 income, pays \$35 taxes, resulting in net income of \$65, which it distributes as a dividend. The financier receives \$65, pays a 35% tax, and is left with \$42.25.

The financier receives \$22.75 more in the debt scenario than in the investment scenario, a 54% increase. If the financier is a tax-free entity (for example, a Roth IRA, or a non-profit), the creditor premium is also 54% (the return on debt is \$100, \$35 more than the \$65 return on the investment). Since 1950, this creditor premium has ranged from 52% to 112%. The tax law motivates the firm and the financier to structure capital as a loan, not as an investment.

Now, consider another dimension to the story. For a few years the firm earns only \$50, or loses money. Or the firm earns \$100 annually, but cash flows are less than earnings, causing a liquidity problem. In the investment scenario, the firm suspends its dividend. The financier suffers, but the firm itself is not in trouble. As long as the firm expects a turnaround for the better, it can keep operating for many years. Why? Because an investment does not obligate the firm to make dividend payments, nor to repay the investment.

But in the debt scenario, the firm must make interest pay-

ments of \$100 every year, and may default on its debt. Furthermore, when the debt comes due, the firm may find it impossible to refinance, and may have to close down. The more debt the firm has, the greater the risk that any temporary dip in performance will cause the firm's premature death.

A fundamental difference between debt and equity exacerbates the problem. An investor invests for the long term. The investor has no way of forcing the firm to return any of the investment. The only way an investor can get out is by finding a new investor to buy shares. From the firm's perspective the identity of the shareholder has changed, but its aggregate capital is unchanged.

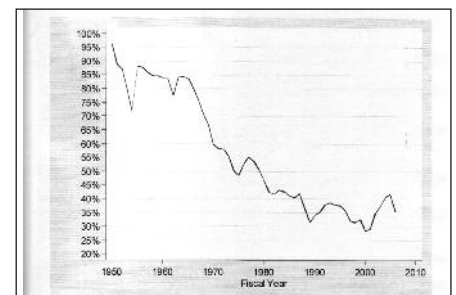
Debt is a very different relationship. If the firm does better than expected, for instance it starts earning \$200 annually, the creditor's return does not go up. Since the creditor's upside is limited, the creditor must reduce the downside. This is reflected in the joke that bankers lend money only to people who don't need the loan. Someone who needs the money has a higher probability of default, so the banker, a fair-weather friend, will not lend. Unfortunately, when a firm is refinancing, it might be having problems with interest and principal payments, and the creditor may not renew the loan, thus driving the firm into bankruptcy.

The beneficiaries of debt financing are investment firms who earn their fees for arranging financing. In equity financing, the investment firm earns only one fee. In debt financing, investment firms earn a fee on every refinance. Although investment firms may benefit from debt financing, the consequences for everyone else are tragic.

To summarize, in theory there is an optimal amount of debt for a firm. But, because interest and dividends are taxed differently, the perverse unintended consequence is that firms load up on as much debt as possible. Unfortunately, the more debt firms have, the more likely that the economy will fall into the trap in which we now find ourselves.

Is this really happening? This graph shows the ratio of the dividends to the sum of dividends and interest payments of the S&P 500 since 1950. In 1950, for every \$1 paid, 96¢ was dividends to investors and

4¢ was interest to creditors. Since 1980, 30¢–45¢ was dividends and 70¢–55¢ was interest. The ratio of dividends to interest has shifted from 24:1 to between 0.8:1 and 0.4:1, a

*(continued on page 10)*

NCCPAP Goes to Washington

Meetings on Capitol Hill and With the IRS

On May 12, 2011, members of the National Conference of CPA Practitioners went to Washington DC to meet with various offices of Members of Congress.

This year, there are eight members of the House of Representative who are also CPAs. They have formed a bi-partisan Congressional CPA Caucus. We were able to meet with several of their offices, and will continue to do so in the future.

Many of the Memembers of Congress and staffers we meet with are very informed on the issues we present. Some of the issues that we presented this year garnered considerable interest, including our proposal on changing due dates of certain tax returns and moving the paid preparer fees to a Page 1 adjustment on Form 1040. As in the past, we heard the phrases “revenue neutral” and “pay as you go.” This does not mean that our ideas are dismissed. Many of our issues do strike a chord of interest in the various offices that we meet with. Still, we also heard the need for “significant tax reform” to get some of these items dealt with.

Nevertheless, it is still important to continue to present these issues as often as possible, as you never know when you will hit the right office at the right time with the right issue.

Also, on May 12th and 13th, several NCCPAP members went to meetings at the Internal Revenue Service. Through our contact at Stakeholder Relations, Peggy Martin, we met with a number of IRS representatives, including Karen Hawkins, head of the Office of Professional Responsibility (OPR).

Overall, the meetings both on Capitol Hill and at the IRS went well and were very productive. I thank everyone who came to Washington this year.

I extend an invitation to you, our members, to come to Washington, D.C. next year and get involved in the process. Many Members of Congress are more receptive to meetings when they know that one of their constituents will be attending.

I would like to thank you, our members, who submitted ideas to present to Congress and the IRS, and encourage everyone that we are always looking for more, new ideas that we can bring to the attention of Congress.

Remember, we are only as strong as your involvement.

Neil H. Fishman
Chairman, NCCPAP Tax Policy Committee

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radical shift. It is clear that firms have responded to the tax incentives and increased their debt. It helps explain our current predicament.

To avoid this problem in the future, firms should be encouraged to optimize the amount of their debt. The simple way to do this is to equalize the tax treatment of interest and dividends. Just like interest is fully tax deductible, dividends should be fully tax deductible. Or alternatively, just like dividends are not tax deductible, interest should not be tax deductible. This eliminates the creditor premium. Under current law, small firms can use a Subchapter S or partnership to eliminate double taxation. If dividends of large firms are not double taxed, firms will convert a lot of their debt to private equity rather than applying for federal handouts to satisfy their debt obligations.

There is another benefit to this solution. Right now firms with extra cash and no attractive investments hesitate to pay dividends because of the tax to shareholders. If dividends are tax deductible, firms will have a large incentive to pay any excess cash as dividends. The recipients of the dividends will invest the funds in favorable opportunities, providing more economic growth.

Treating interest and dividends identically does not limit Congress's power in achieving social or political objectives. Congress can adjust personal tax rates on interest and dividend payments at different income levels. The important point is that dividends and interest be taxed identically. Interestingly enough, the corporate tax on dividends cannot be used to achieve any Congressional objectives because it taxes corporations, not individuals.

In summary, the combination of taxation of dividends and not interest at the corporate level has had a perverse unintended consequence—firms borrow irresponsibly. By equalizing the tax on dividends and interest at the corporate level, Congress will encourage a reduction of corporate debt and an increase in equity. The result will be a much healthier U.S. economy, better able to weather the slings and arrows of a turbulent economic environment.

Harry Z. Davis is a Professor of Accounting in the Stan Ross Department of Accountancy at Baruch College-CUNY. He can be reached at 718-258-1675.

Abraham N. Fried is an Assistant Professor of Accounting at Seton Hall University.



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CHAPTERS' CALENDAR OF EVENTS**JUNE / JULY / AUGUST 2011****NASSAU/SUFFOLK, NEW YORK**

Contact: Chapter Office (516) 997-9500
 Chapter Meetings:
 Registration & Buffet Dinner – 5:30 p.m.; Seminar – 7:00 p.m.

Holiday Inn of Plainview, 215 Sunnyside Blvd., Plainview, N.Y.
 (exit 46 off the L.I.E.)

Thursday, June 2, Special Chapter Meeting – Start time 5 p.m.
WHERE'S THE MONEY?? – 3 CPE credits (A&A)

Thursday, June 23, 8 a.m.–5 p.m.

ACCOUNTING & AUDITING UPDATE (ALL DAY) –
 8 CPE credits (A&A)

Wednesday, June 29, 8 a.m. – 10 a.m.

**HOW TO SURVIVE YOUR CLIENT'S SALES TAX
 AUDIT** – 2 CPE credits (MAP)

On Parade Diner, 7980 Jericho Tpke. Woodbury, N.Y.

Thursday, July 7, Chapter Meeting

NYS TAX UPDATE – 2 CPE credits (Tax)

Wednesday, July 27, 8 a.m. – 10 a.m.

TECHNOLOGY FOR CPAs: Don't Get Left Behind –
 2 CPE credits (MAP)

On Parade Diner, 7980 Jericho Tpke. Woodbury, N.Y.

Thursday, August 11, Chapter Meeting

TAX CRIMES UPDATE – 2 CPE credits (A&A)

Thursday, August 18, 7:30 a.m. – 12 Noon

Ethics – 4 CPE credits (Ethics)

LONG ISLAND EAST, NEW YORK

Contact: Chuck Pegler, CPA (631) 582-9090
 E-mail: Chuck@PeglerCPA.com

Call for information.

NEW YORK CITY, NEW YORK

Contact: Jay Rosenbaum, CPA (212) 594-4610 ext 28
 Please call to confirm all meetings as topics, times, and
 locations are subject to change due to attendance,
 speakers preference, etc.

June, July & August: To be announced.

WESTCHESTER/ROCKLAND, NEW YORK

Contact: Chapter Office (914) 708-9404
 DoubleTree Hotel, 455 South Broadway. Tarrytown, N.Y.

Tuesday, June 14, 7:30 a.m. – 9:15 a.m.

ETHICS – 2 CPE credits

Tuesday, July 12, 3:00 p.m. – 9:00 p.m.

NON-PROFIT – 6 CPE credits

August: To be announced.

NEW JERSEY

Contact: Fred Bachmann, CPA (973) 377-2009

E-mail: bachmanncpa@msn.com

Victor's Maywood Inn, 122-124 West Pleasant Ave, Maywood,
 N.J. Phone (201) 843-8022; E-mail: www.maywoodinn.com
 6–8 p.m. – Dinner and Seminar

Monday, June 6

A & A – 2 CPE credits

Monday, July 11

To be announced – 2 CPE credits

Monday, August 1

To be announced – 2 CPE credits

FLORIDA

Contact: Neil Fishman (561) 369-3228

New Meeting Location: Cypress Creek Country Club,
 9400 Military Trail, Boynton Beach, FL
 8:45 a.m. – 10:45 a.m., Registration at 8:30 a.m.

Thursday, June 2

OFFERS IN COMPROMISE & OTHER OPTIONS –
 2 CPE credits

Thursday, July 7

BANKRUPTCIES – 2 CPE credits

August: To be announced

MASSACHUSETTS

Contact: Ronald Tockman, CPA (781) 341-2400

or Jeffrey Winer, CPA (508) 879-0408

Sheraton Needham Hotel, 100 Cabot Street, Needham, Mass.

Wednesday, June 1, 7:30 a.m. – 9:30 a.m.

ETHICS – 2 CPE credits

July & August: To be announced.

HOUSTON

Call for Information: (888) 488-5400

Join us!**PHILADELPHIA GROUP EVENTS**

Call 888-488-5400 for information.

June 14. **QUICKBOOKS FOR CPAs** – 2 CPE credits (A & A)

July 12. **FRAUD OR NOT FRAUD?** – 2 CPE credits (A & A)

August: To be announced.



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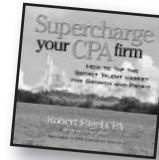
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THESE
DATES!**

2011 LONG ISLAND TAX PROFESSIONALS SYMPOSIUM

**Wednesday, November 16 • Thursday, November 17
Friday, November 18**

Crest Hollow Country Club, Woodbury, NY