



Journal of the CPA Practitioner

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UPDATE...FROM THE NCCPAP PRESIDENT



ANDREW L. HULT, CPA

This update addresses the following:

- Recognition of Stan Tepper for his decades of exceptional service. Stan has been accorded the Gold Award, NCCPAP's highest honor.
- Committees' achievements on the legislative front and in many other areas.
- Taking stock at the end of my year in office.
- Renewal of an invitation.

- *"Silent gratitude isn't much use to anyone."*—Anonymous.
There's truth in that quote, so I was delighted to learn that the Gold Committee selected Stan Tepper to be the recipient of NCCPAP's Gold Award. Stan has embodied NCCPAP's mission of practitioners helping practitioners through many years. He is best known to us, probably, as author of his monthly column, "Members' Corner," in the Nassau/Suffolk Chapter's newsletter for over twenty years. He also has taken on some of the most challenging and difficult association assignments. He has chaired the Insurance Committee at chapter and national levels, striving through the years to obtain a cost-effective health insurance program for members. He also has chaired national's Nominating Committee. The latter is one of our association's most important, and thankless, responsibilities. Stan, congratulations from everyone. We honor you and thank you.
- Our dedicated committees made exceptional progress during the past year
 - At the beginning of my term, I celebrated the Issues Committee's success, participating with the New York State Board of Accountancy in reshaping the definition of CPA Competency in New York State. Without the Issues Committee's intervention, many who practice in New York would have found themselves precluded from doing attest work in the future.
 - Now, at the end of my term, I can celebrate the accomplishments of other committees as well. The Tax Committee, which for years has met with the Senate Small Business Committee as well as many, many congressmen, saw another of its proposed tax code changes adopted. The deduction of self-employed health insurance, when calculating self-employment income for SE tax, has long been a nCCPAP recommendation. It was enacted into law as part of the Small Business Jobs Act, which President Obama signed on September 27, 2010.
 - The Education Committee has held seminars on topics ranging from tax law changes to the upcoming expansion of 1099 reporting requirements (jointly with the MAP [Management of Accounting Practice] Committee.
 - Special thanks to Bob Goldfarb and Steve Greenberg for their generosity with their time and knowledge. Not only have their seminars kept us abreast of breaking legislation, they also have generated funds crucial to our future

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UPDATE...FROM THE NCCPAP PRESIDENT (continued from page 1)

growth. We have invested some in new mailing lists, wisely, we hope.

- Under Frimette Kass' leadership, and guided by its editorial board, the Journal of the CPA Practitioner has grown in stature. It now is recognized by the Library of Congress.

- Although this is a national journal, I have to mention the Long Island Tax Professionals Symposium. Run by the Nassau/Suffolk Chapter, in conjunction with the Internal Revenue Service, the New York Society of Enrolled Agents, bar associations, the New York State Society of CPAs, the Financial Planning Association, and others, this event has attained national recognition as a unique learning experience. This year it has expanded the curriculum to include accounting and auditing. In addition, Friday, November 19th has become a technology day. (The curriculum is tax, but sponsors and vendors provide advanced technological products and services.) Special thanks go to Bob Goldfarb (again), Karen Giunta, Harold Ogulnick, and Steven Sternlieb as well as to the other one hundred volunteers who make the Symposium possible.

• **Taking Stock:**

As you may recall, NCCPAP started this year with two objectives. First, all of the committee members and directors and officers set on a course to serve you to the best of their ability. (These special volunteers are listed at left in this journal. Please reach out and thank them, as I do.) Second, I needed to find a way to build membership.

I feel that, with the help of many wonderful people, we accomplished our first objective. However, I also feel that we haven't met our second. The downtrend in membership has halted, and that is a very positive first step. But we must take even greater strides.

• **Invitation:**

As in the past, I invite your insights, problems, and recommendations. My telephone number is 516-565-1702. My e-mail address is alhult@alhcompany.com.

Alternatively, you can contact one of the very special committee members, directors and/or officers. To quote Sydney Smith, "The greatest of all mistakes is to do nothing because you can do only a little." As practitioners who help practitioners, we're trying not to make that mistake. Don't be a stranger.

Andrew L. Hult, CPA

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Understanding the Preparer Tax Identification Number (PTIN)

by Alexander K. Buchholz, CPA, MBA

Albert Einstein said, “The hardest thing in the world to understand is the income tax.” One can only imagine what he would say about the Preparer Tax Identification Number (PTIN). This latest development issued by the Internal Revenue Service (IRS) is a step towards improving the competence and qualifications of the paid tax preparer. This article examines some features of the PTIN and offer guidance to those needing to register. The online system of registration has been made available as of September 28, 2010. For those wishing to manually file form W-12, IRS Paid Preparer Tax Identification Number (PTIN) Application, be aware that it will take four to six weeks to process (at www.IRS.gov). With tax season three months away, planning and registering for a PTIN should be done sooner rather than later, since tax season is very strenuous. Registering early will also allow for any delays or complications that may arise from the new process. A PTIN is required for those preparing tax returns after December 31, 2010.

Why the Creation of a PTIN System?

Although the most common association with a Certified Public Accountant (CPA) is the preparation of tax returns, there has always been a large number of paid tax preparers who do not possess CPA certification and have no intention to pursue it. This prompted the IRS to take certain actions to ensure that the competency, educational background, and on-going educational requirements are maintained at a level of professionalism that can provide a reasonable level of comfort. In his remarks to the New York State Bar Association on January 26, 2010, IRS Commissioner Doug Shulman commented:

“With the complexity of the tax code, more and more Americans now turn to a preparer to help them file their taxes... And making them an integral link to our service and compliance strategies will help us do our job... The goals of the strategy are to improve home service to taxpayers, increase compliance, and enhance the integrity of the overall tax system. I think this creates leverage for us, and is a smart use of our resources.”

This statement is very true in that a majority of people filing tax returns in the United States use the services of a paid preparer. Therefore, this “fine-tuning” of the system is being done in order to provide the individual getting their taxes prepared with the comfort that their return is with a competent and trained preparer.

Steps to Becoming a Registered Tax Return Preparer

The steps to becoming a registered tax return preparer, and thereby obtaining a PTIN, are as follows:

Registration: All paid tax return preparers who prepare all or substantially all of a tax return are required to register, regardless of whether they may already have an existing PTIN. This does include those paid tax return preparers who are attorneys, CPA’s,

and enrolled agents.

Competency Exam: More information is expected to be published by the IRS in Spring 2011. However, the information available thus far is that paid tax return preparers, excluding attorneys, CPA’s and enrolled agents, will have to take and pass a competency exam in order to officially become a registered tax return preparer. Therefore, consider this first registration to be only temporary unless you meet one of the exceptions above. The first registrants will have until December 31, 2013 to pass the competency exam. Those applying for PTINs after the exam has been made available will need to pass the exam prior to becoming a registered tax return preparer.

Continuing Education: The IRS has stated that 15 education credits per annum will be required, consisting of 3 hours of federal tax law update, 2 hours of ethics, and 10 hours of other federal tax law. The beginning date for this has not been determined as of the date of this article. The continuing education requirement will also not apply to attorneys, CPA’s, or enrolled agents, as they already have continuing education requirements for the maintenance of their licenses.

Planning Considerations

Give the above, there are a number of items to be taken into consideration. One of the biggest changes involving PTIN registration is that it now extends the definition to those individuals who are being paid to prepare all or substantially all of a tax return. For many of you reading this article, this must be strongly considered as it can impact the staff working in your firms. Depending upon the level that your staff may be entering data as well as interacting with a client on a federal return, they may now be considered to have prepared substantially all of the return. They then must apply for an individual PTIN, even if someone else is signing the return. Additionally, if the staff person does not possess a CPA license, he or she will be subjected to the competency exam as well as the continuing education requirements of the IRS. Since many of them are unaware of these new regulations, it is important that they be educated and also that their roles be carefully examined to determine whether they fall into the position of having prepared or substantially prepared the tax return. Based on that determination, they should begin the registration process as soon as time permits.

Conclusion

Overall, the PTIN registration is an excellent starting point towards bridging the gap that exists between the individual client having his or her returns prepared and the paid tax return preparer who may not be an attorney, CPA, or enrolled agent. This new system will enable the individual client to see if the person being paid to prepare their tax returns does indeed have the proper qualifications and training. The IRS intends to make public this registered database of PTINs so individuals can see if their paid preparer is classified as an attorney, CPA, enrolled

(continued on page 4)

Understanding the TPIN (continued from page 4)

agent, or this new category of “registered tax return preparer.” Overall, the planning and registration should be done now and any problems should be addressed to the IRS to allow for an easy transition into the 2011 tax season.

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Helping Your Clients through the Medicare Maze

by *Frimette Kass-Shraibman, CPA, PhD*

As America grays, more of our clients (as well as ourselves) are becoming eligible for Medicare benefits. Medicare is a very complex system of health insurance benefits that are generally available to Americans age 65 and older. Because of the complexities, many eligible Americans have lapses in coverage or get caught paying increased premiums. Here are some of the common problems and how to avoid them.

Medicare Programs

There are three basic programs under Medicare. Medicare Part A generally covers hospital costs. Anyone who has worked for 40 qualifying quarters is eligible for Medicare Part A with no premium beyond the payroll withholding. Those with 30-39 quarters will have to pay a monthly premium of \$254 for coverage. Those with less than 30 quarters coverage will have to pay \$461. (1)

Medicare Part B generally covers visits to healthcare providers. Generally, insureds pay a monthly premium for coverage. When to enroll and the amount of premium can vary and has complexities which will be discussed later.

Medicare Part D applies to coverage for prescription drugs. The coverage is provided by private insurance carriers in conjunction with the government. Plans, coverages, and premiums vary.

Medicare Advantage refers to Health Maintenance Organization (HMO) plans and Preferred Provider (PPO) plans through private insurance carriers. The insured pays any regular Medicare premiums. In return, the insurance company covers a variety of health care costs with no or lower deductibles and co-pays. Some carriers offer enhanced plans that call for an additional premium.

Medigap insurance, also known as Medicare Supplement Insurance, refers to private insurance that covers certain costs not covered by basic Medicare. Coverage is through private insurance carriers. There are 12 standardized Medigap policies to choose from (Medigap [supplemental insurance] policies. 2008). Anyone over 65, within six months of enrolling in Medicare Part B, is eligible for Medigap coverage (Barry, 2008). There are other types of Medigap coverage. These plans vary by state and carrier.

When to Apply

A person receiving social security before age 65 is automatically enrolled in Medicare. For most insureds, enrollment in Medicare Part A is automatic. For Part B coverage, one should enroll during the initial enrollment period (IEP), which is three months before turning age 65. After that one may enroll during the general enrollment period, which is January 1 through March 1 of each year. Coverage, however, will not begin until July 1 of that year. When enrolling during the IEP, coverage begins on the first day of the birth month of the insured.

Certain persons receiving disability benefits or patients with end stage renal failure may be eligible for Medicare before turning 65.

U.S. citizens living abroad have to return to the United States to apply for Medicare. However, a beneficiary who is already enrolled does not lose coverage if they travel or relocate abroad. However, they will only be covered in the United States.

What is the Premium?

Here's where things start getting really complicated. There are traps that may cost your clients substantial money in increased premiums.

If someone who is eligible for Medicare Part B fails to enroll during the IEP, they have to wait until the next general enrollment period to enroll and will not be covered until July 1 of that year. In addition to the waiting period, these people will pay an additional 10% in premiums for each twelve-month period that they were not enrolled (6). Besides the lack of coverage, the increase in premiums can be rather steep. Since many people postpone applying for social security benefits past age 65, they may not realize they have to still apply for Medicare Part B. If they don't apply they could end up in this costly situation. Financial professionals should be reminding their clients to apply for Medicare during the IEP.

These penalties may not apply under certain circumstances. If an insured turns 65 and is still covered by a group health insurance policy because of their or their spouse's employment or union membership, then they may enroll during a special enrollment period without penalty. The special enrollment period is while they are still covered or within eight months of when group coverage or employment ends, whichever is first. If you enroll in Medicare Part B while still employed or covered, your Part B coverage starts on the first day of the month you enroll. If you enroll any other time during the special enrollment period, Part B coverage begins the first of the following month. Insureds should be aware that there may be a gap in insurance coverage.

There are special rules if the group policy is from an employer with 20 or fewer employees. In this case Medicare B is the primary insurance carrier. Therefore, persons reaching age 65 who have this type of group coverage should apply for Medicare during the IEP. Beginning in 2007, some insureds are paying higher premiums based on income levels(1). They may pay up to 80% of the cost of Medicare (3). Insured who were enrolled in Medicare part B before 2010, and whose individual income is below \$85,000 (\$170,000 for married taxpayers with a joint tax return) will pay \$96.40 per month in 2010. 2010 enrollees and those with higher income levels will pay more. Insureds may pay up to 80% of the cost of the insurance. The income level is determined using modified adjusted gross income (MAGI) from the tax return filed in the year before the insurance year. For example: to determine premiums during 2010, the Social Security Administration (SSA) looks at the MAGI (AGI plus non-taxable interest) from the 2008 tax return, which should have been filed in 2009.

SSA sends a 'Letter of Determination' to each insured if their premium will be higher than the minimum. If the insured believes that the determination is incorrect because of an error or

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Helping Your Clients Through the Medicare Maze (continued from page 5)

a change in income level, marital status or other reason, they may appeal the determination by filing form SSA-561-U2 with the Social Security Administration (5). If the insured believes s/he has overpaid Medicare premium, s/he may file form SSA-632-BK. These forms should be accompanied by any supporting documents and evidence that might be pertinent.

Summary

Medicare was designed to provide health care for the elderly. It appears that just applying for Medicare and paying the premiums is not as simple as one might think. CPAs that are involved in eldercare practice should be aware of all the intricacies and advise their clients accordingly.

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The Discount Rate Dilemma of - IAS 19?

by Jack Lachman, CPA

Globalization, an outgrowth of the technological advancements of the past few decades, has created a number of issues that need to be addressed. Many businesses are no longer confined to their immediate vicinities. Similarly, markets cater to an increasingly diverse and global community. These trends have benefited our economies. However, they have also raised a number of concerns.

In response to the globalization of markets, the Accounting Standards Board (IASB) has been working on setting reporting standards that allow for a coherent assessment of fiscal standing. This task is not a simple one. Any such standard needs to deal with a variety of situations and possibilities that are present in a global economy. A system that may be suitable for a particular region may not be appropriate for another.

In this article we examine IAS 19, which is the standard for reporting Defined Benefit Pension Plans. In particular, we examine the standard's prescription for the choice of a discount rate that should be used in such a context. As we will discover, this issue is not a simple one. Furthermore, it is complicated by the many different regional markets and situations. A number of possible discount rates are examined. Finally, the implications for various markets are described.

Discounting Liabilities

As is the case with assets, liabilities also arise from future (outgoing) cash flows. Pension obligations and other worker benefits that a company is obliged to pay at a future point in time are often matched to services that have already been rendered. Such liabilities often need to be recognized many years prior to their actual payment. The relatively high duration of such liabilities renders their value highly dependent on the discounting rate used. The appropriate discounting rate to be used for a liability and by extension, the current value of a liability, has been at the center of a fierce debate over the last few years.

There are a number of possibilities regarding the discount rate which should be used when reporting the current value of a liability:

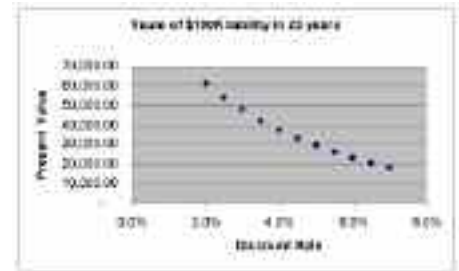
- It is often the case that companies accrue assets which will be used when the time comes to finance the liabilities (Funding). For this reason, there are those who advocate using a discount rate which is the same as the rate that is returned by the assets backing a given liability. The reasons mentioned are:
 - This is the rate often used when trading liabilities.
 - When market interest rates change, the value of duration matched assets and liabilities will change by the same amount. This creates a consistent valuation scheme and reduces volatility.
- There are those who advocate using the risk free rate. There are a number of reasons given for this:
 - Unlike an asset which involves risk in earning money, a liability is a promise to pay money. The company can not take risk with such a promise since this risk will affect the receivers of the promise.
 - Since in many instances pensions are guaranteed (such as

with state pensions) and involve no risk, the risk free rate should be used for discounting¹.

- The risk free rate is simple to observe and apply.
- There are those who advocate using a rate which fits the characteristics of the liability independently of the characteristics of the assets backing the liability. This opinion views a liability as having its own risk signature. A given liability may be non-transferable and non liquid, while the assets backing the liability may be extremely liquid².
- There are those who advocate using a prescribed rate. The rational given is that this will create consistent reporting².

The magnitude of the differences among these varying approaches can be illustrated using a simple example:

Consider the present value of a pension payment of \$100,000 to a worker who will retire in 25 years. As is clearly seen in this graph, the difference in reported liability is greatly affected by the choice of discount rate. The same liability may be reported differently by different companies based on the rates used by each of the companies.



In order to achieve fair and consistent reporting an appropriate methodology for selecting a discount rate needs to be developed.

Rates Used for IAS 19 (Employee Benefits)

The rate used for discounting Employee Benefits within the IAS 19 framework is based on the return on high quality corporate bonds. The reason given is that this rate reflects the time value of money “without considering the expected return on the plan assets and to avoid reflecting the entity’s own credit rating.”²

Paragraph 78 of IAS 19 requires the use of yields of high grade corporate bonds only when there is a “deep market” in such bonds. When performing valuations in jurisdictions where there is no “deep market,” yields on government bonds should be used instead.

According to *Investopedia*, a deep market is a market where a large number of bonds can be sold or bought without affecting the price³. Many regions in the world such as Africa⁴ and India⁵ do not have markets which could be considered deep with regard to high grade corporate bonds.

The result of this is that while many companies can use corporate bond rates to discount the values of their worker benefits, other companies need to use a discounting based on government bonds. In general, corporate bonds are riskier than government bonds, thus necessitating a higher rate of return. Therefore, companies using government bond rates are in effect lowering their discount rate and, by extension, enlarging their reported liabilities.

In addition, it should be noted that recent economic trends have widened the gap between high grade corporate bonds and government bonds⁶. This has created an inconsistency in reporting, where companies located in jurisdictions without a deep market report a much larger liability.

Furthermore, it should be noted that there are large variations in rates among the various government bonds of differing regions. Many third-world government bond rates are extremely high as compared to other government bond rates.

The recent economic condition in Greece is an example of a situation where government bond rates can dramatically change in a short time⁷.

Possible Amendments to IAS 19

In 2009, the IASB came out with an Exposure Draft⁸ amending paragraph 78 of IAS 19. The proposed amendment in effect removed the requirement of having a “deep market” and allowed all valuations to be based on high grade corporate bonds.

The replies to the draft were varied and included requests to set the discount rate at a number of different possible levels as discussed above.

Following is a summary of a number of comments received by the IASB regarding this Exposure Draft (comments can be viewed on the IASB web site www.iasb.org/Home.htm):

- A funded plan should use a discount rate which equals the expected yield on plan assets. For an unfunded plan the discount rate should equal the rate at which the entity can borrow money.
- **Society of Accountants of Malawi** – Where there is no deep market (as in Malawi), government bonds should be used as a starting point for a yield rate. This should be stated in the reporting.
- **Telecom Italia** – Agrees with the proposal to eliminate the use of government bonds when there is no deep market.
- **Israeli Association of Actuaries** – The expected rate of return on plan assets must be higher than or equal to the discount rate used for liabilities.
- **Financial Reporting Standards Board of the New Zealand Chartered Accountants** – The discounting rate should be principles based. This means that the rate should be chosen based on the company and liability.
- **Representatives of the Australian Accounting Profession** – Discount rates should be based on an estimation of market yields on high quality bonds. Where this is not possible government bonds should be use.
- **Canadian Accounting Standards Board** – Agreement with the proposal to eliminate the need for “deep market” and use high quality bonds across the board.
- **Grant Thornton (London)** – Agreement with proposal to eliminate the use of government bonds in favor of consistency.
- **Department of Treasury and Finance (Tasmania) (HoTARAC)** – Disagrees with the proposed amendment. HoTARAC is of the opinion that this will not lead to consistency in reporting since the rates will become judgmental. Australia does not have a deep market. Government bonds are straightforward.

All in all, 100 comments were received. As a result of these comments the IASB decided⁹ not to amend the current guidelines at this point in time. As was noted by the IASB, the responses to the proposed amendments were correlated with the market conditions in the location of the respondents. Respondents in highly developed markets were in favor of instituting a consistent discount rate and eliminating the use of government bonds for this purpose. Respondents in areas of the globe with less developed economies were opposed to the proposed plans. In their opinion consistency would be reduced since the use of an appropriate corporate bond rate would be very judgmental and subjective.

In Conclusion

At this point, the IAS 19 discounting rate is a prescribed rate. This rate seems to be at the center of a debate which is fundamental to the understanding of the issues regarding liability discounting in general.

It is clear that there is no single solution that is perfect for all situations. However, it is hoped that a better understanding of the issues will lead to an acceptable and agreeable solution.

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In My Opinion...

Response to the 150-Hour Requirement

by Edward Kliegman, CPA

Steven Bram posed a question, “Is the 150 credit-hour requirement...worth it?” in his article in the August-September 2010 issue of the *Journal of CPA Practitioners*. The following is my response.

In 1998 the AICPA approved the 150-hour requirement for AICPA membership. Then, as now, there was a shortage of potential employees in most accounting firms. The larger firms were particularly hit hard. Frauds, or as the AICPA prefers to call it, business failures, were gaining in popularity. The Institute began a campaign on behalf of the “profession” to convince college students to consider becoming accountants (CPAs). The competition was great. MBAs were earning more money—they were the glamour people of the era while CPAs still were looked at as the “green eyeshade folks,” fuddy-duddies of a bygone era.

To counteract these impressions, and as part of the effort to obtain “the best and the brightest” recruits for the accounting profession, the “150-hour” proposal was launched and promoted. The Institute did a marvelous job promoting and marketing the program. To date, 48 out of 54 states and jurisdictions have adopted the requirement of 150-hour rule, making it mandatory for being licensed as a CPA.

It may be a bit late to start a new discussion of the 150-hour requirement for licensing CPAs. Colleges and universities have developed curriculum, jurisdictions have passed legislation and, to some extent, however grudgingly, parents and students have accepted the 150-hour rule.

The questions are raised:

- What is the impact of the 150-hour requirement upon the recruitment of undergraduates as accounting majors?
- Has the 150-hour requirement improved audit quality?
- What is the cost and benefit of the 150-hour requirement?

I have no scientific surveys to submit to prove my points, but I have spoken to many high school graduates and college freshmen about becoming CPAs as well as practitioners of all sizes of CPA firms.

The 150-hour requirement is a great deterrent to most prospects.

With the cost of tuition at colleges and universities at or near \$50,000 per annum, students and parents are having great difficulty finding a cost benefit. It may be a shortsighted view, but it is a fact of life. Unless a student has an ingrained desire to be a CPA, he or she will think twice about spending another year and \$50,000 to complete the 150-hour requirement. He or she can get a job with an accounting firm, large or small, without the expense of \$50,000 and/or the extra year in college. The Big Four and smaller-size CPA firms would be delighted to hire qualified, above-average accounting students with a four-year degree.

And then there is the question, “What’s the big deal about being a CPA?” The Big Four don’t use “Certified Public Accountants” on their letterheads. Only if a person has the desire

to enter into public practice, as a practitioner, is the title CPA a necessity. And even as an independent practitioner with talent and personality, without the CPA title, one can do very well as a business consultant or planner. There are many businesses and professions within the accounting and auditing arena that are available to graduates with a four-year business degree. If desired, an MBA degree can be obtained while working and earning money.

So, in my judgment, the 150-hour requirement is a great deterrent to the recruitment of undergraduates as accounting majors.

Has the 150-hour requirement improved audit quality?

I would suggest that the 150-hour requirement has done very little, if anything, to improve audit quality.

The Big Four firms and virtually all accounting and auditing firms have developed programs for their audits. These programs are designed both generally and specifically for audit clients. The information is available to clients and staff describing their processes necessary to insure audit quality. Employees are instructed to follow the procedures.

While it is true that new hires in the larger firms are paid well and may be driven to work their heads off at their appointed tasks, with proper supervision, direction and control they can be taught to become excellent audit staff people. New hires are instructed to follow the programs. Experienced colleagues, supervisors, managers and eventually partners are supposed to be available to instruct, supervise and assist neophytes with their progress.

In smaller firms, new staff is more closely supervised and taught the “tools of the trade.” They usually work on varied aspects of the audit and their work product is examined in detail. The smaller practice unit has to exert great care, since a faulty audit report or defalcation could result in being forced out of business (unlike their brethren at the large firms who can settle a matter with a few million dollars without admission of guilt).

What a four-year college graduate learns in one year of experience in the field far exceeds that which is garnered with the additional one year of theory at school.

Audit quality has not and will not be improved by the 150-hour requirement.

Audit quality will only be improved when the ethics of the leadership of the largest firms improve, when the ethics are passed through the ranks of all employees of the firm, when ethics become the way of life of the firm, when proper time is allocated to each engagement, when adequate supervision is given to all levels of employees, and when the bottom line is not the end-all and be-all of the firms’ existence.

In ancient days, ethics were taught and stressed as part of the accounting curriculum, and was continued as part of the “on the job training.” Somewhere along the line, leaders of the profession became jealous of the fabulous amounts of money that stockbrokers, insurance salespeople, consultants and

financial planners were making and looked for ways to increase their bottom line. Shortcuts and shoddy supervision, the lack of continuity of audit team personnel from year to year, the combination of high workloads, low experience, and high turnover are not conducive to audit quality.

What is the cost and benefit of the 150-hour requirement?

I believe that the cost of the 150-hour requirement is high and the benefits are low to the potential CPA candidate. It would be more beneficial to the accounting student if the additional year were devoted to an internship program, which would enable him or her to obtain actual professional experience, gathering practical knowledge, learning to deal with business people and earning money.

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In My Opinion...

Should We Look For Fraud During an Audit?

by Edward Kliegman, CPA

Kim Nilsen's interview with Joseph T. Wells in the June 2010 *Journal of Accountancy* started me singing the old tune, "Seems to me I've heard that song before...it's from an old familiar score."

I like the new terminology...."asset misappropriation." Fraud is too strong and causes the public to react unfavorably to what used to be the accounting profession. "Asset misappropriation" has a cleaner smell than fraud.

The "Fraud Protection Spreadsheet" is an exercise in futility. I can't imagine any business (especially a small operation) giving anti-fraud training to its employees. It might be more effective to hang a large sign at the firm's entrance: "THOU SHALL NOT STEAL." That would make an impression.

The response to the question, "How can the accounting profession improve its response to fraud?" elicited the standard answer..."get more anti-fraud education at the undergraduate level" and use some common sense. The cost of the audit is mentioned, almost as an aside. Ethics is not even a consideration.

There is little question that seeking out fraud and detecting it usually adds to the cost of an audit. But other means can play a part in discovery. Looking at the numbers in a financial statement might give a CPA an indication of a problem (such as a gross profit that is out of line with industry standards or prior company history). A walk through the factory of a manufacturer might indicate areas where product can be disappearing. Getting to know employees, where and how they live, the cars they drive and how they dress can lead to some interesting discoveries.

But all this takes time and the bottom line is, What will it add to the cost of the audit? Most small businesses are not audited. CPAs, especially those in smaller practices, are very sensitive to fee structure and are often afraid to increase fees or suggest areas that will add to the cost of their services. Internal controls are instituted, but often disregarded by the client (who is too busy running the business to pay attention to those details).

And there is one other fact that is usually not discussed openly. When a fraud is discovered (except in the case of a mega-bucks scandal that has hit the media), top management will do its level best to cover it up. The Board, lesser management, stockholders and employees are not made aware of the situation.

Finally, the matter of ethics...the old-fashioned ideas that honesty is the best policy and "do unto others" are gone from the marketplace. Greed, look out for "Number One," and get away with whatever you can pervades the current attitude in many areas of business and life today. As long as human beings exist, some will commit fraud. It is impossible to eliminate fraud altogether, no matter what application or internal controls are in place. Therefore, no matter what one may consider the main purpose of an audit, detection and prevention of fraud must be an important part of the work of a CPA auditor, because the public needs us to do it.

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high school senior or your local high school guidance department. The copy of the Scholarship Application below includes the eligibility requirements.

—Lana Kupferschmid, Scholarship Chair



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- You must submit the most recent copy of your high school *transcript*. (Please block out all Social Security numbers.)
- Before mailing application package to us, make sure you have included *all* documents.

Your guidance counselor should mail the application, essay and transcript package to:

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National Conference of CPA Practitioners
22 Jericho Turnpike, Suite 110, Mineola, NY 11501

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Section C. School Verification

This section must be verified and signed by school guidance counselor.

Overall Grade Point Average: _____ based on _____

SAT Scores (if available): Math _____ Verbal _____ Written _____

ACT Scores (if available): _____

To the best of my knowledge, the grades listed above accurately reflect the applicant's academic standing.

SIGNATURE OF GUIDANCE COUNSELOR

GUIDANCE COUNSELOR'S NAME (please print)

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GUIDANCE COUNSELOR'S E-MAIL ADDRESS

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Growth Through Acquisition

by Anthony J. Citrolo, CPA/CVA

Is It Appropriate For Your Clients? Some Benefits & Risks...

Acquisitions provide business owners the opportunity to grow their business faster, achieve their goals sooner and avoid the often painstaking slowness of organic growth. With some preparation and good decision making, the business owner can realize a level of growth and success not otherwise available. Other benefits include acquiring talent to assist the organization, the ability to move into a territory which has a distinct need for the owner's services, synergy between company's products, an increase in profits and a rise, often dramatic, in the value of the company.

Some acquisitions involve rolling up or absorbing competitors, while others bring a product or service which has legs to the existing customer base. Conversely, the acquired company has customers who have a need for the buyer's products. If done with proper diligence, the acquisition should be a win-win situation. One main consideration is the enhanced value of the combined companies which results from the addition of both gross revenues and net income. A larger net income generally results in significantly higher overall company valuation.

But this doesn't happen without risk. Many of the risks can take down both companies in a very short time. Risks include the merging of two typically different cultures, a dramatic increase in necessary debt service, allocating capital for additional training and integration of the two companies' systems. Oftentimes the main concern is one of focus. In the midst of a merger, the exiting owner's priority needs to be his core business. It is often challenging to continue operations in a primary business while seeking an acquisition. Another unknown factor is the time it will take for the anticipated benefits from the two company synergies to be realized. Sometimes they are never realized and many times not maximized.

Preparation is considered the key before any contemplated acquisition. It is not uncommon to look at and review several or dozens of potential deals before pulling the trigger. Most owners who are unfamiliar with acquisitions need to experience and evaluate multiple opportunities. Conversations are necessary with professionals in your industry; your trusted advisors, other business owners and anyone who can help identify the qualities which would be ideal for maximum benefit to be realized. Here is an example. Company Z is a manufacturing company in Nassau County, NY, manufacturing products for the airline industry and the medical industry, and had many government contracts for parts needed in military vehicles. The company has been manufacturing for 30 years with the same ownership at the same location. They have 12 quality machinists, trained in this highly skilled manufacturing process. The acquirer was Mr. L, whose company is also a manufacturing company. He had recently sold a piece of property, had excess cash and thought he could grow his business through an acquisition. He had space in his facility to accommodate an addition. Mr. L purchased Company Z, pay-

ing a premium for the business. Mr. L had been looking for almost 18 months and easily recognized this to be a "great fit" for his company. He realized after careful consideration and evaluation that the talent in Company Z would enable him to accept work previously declined. In addition, his machinery was more modern and had output that was twice the speed of Company Z's 30-year-old machines, permitting more output, but required some staff training. The result was that Mr. L filled his excess capacity, improved the profitability of the acquired company, employed a higher quality staff and had Company Z's owner working with him strengthening existing relationships with both customers and employees. Company Z sold at a premium. As you can see, it is about synergy, preparation, research and evaluating what type of acquisition would result in the maximum benefit to the business.

There are consequences for transactions which might have not gone as planned. Often they depend on the contractual obligations of the parties. Many deals today have an "earnings target" built in with adjustment in the form of increased or reduced compensation if the target is either exceeded or not attained. There are some cases where the combined entity just doesn't operate cohesively, due to a decline in employee morale or management disharmony. Special attention needs to be given to key employees, whether in emotional or financial terms with tangible rewards available for outstanding performance. These employee issues need to be addressed prior to any LOI or agreement is in place. Management that needs to be retained should have a stay agreement and a bonus structure available to assure complete cooperation and compliance.

It is abundantly clear is that the ability of an organization to grow through acquisition is greater today than ever before. Considering the anticipated business exodus of many "baby boomer" business owners, the opportunity exists and should be available for several years to make an acquisition which fits the needs of the company and provides a solid vehicle to supplement organic growth. The "Growth Through Acquisition" philosophy provides terrific benefits for those who are prepared, patient and diligent.

Anthony J. Citrolo is the president and CEO of New York Business Brokerage, Inc. and a founding member of Reliance Strategies. His office is 535 Broadhollow Rd., Ste B-45, Melville, NY 11747 Ph: 631.390.9650.

For more information on "Growth through Acquisition-Targeted Acquisition Plan" and "Exit Strategy Plans," please attend the seminar at this year's Symposium on Friday November 19, 2010. Visit Booth 28 for more information.

Cloudy With a Chance of Paper

by Armando D'Accordo and Larry Schweitzer

The Cloud is Dead, Long Live the Cloud

Cloud computing is getting lots of press and generating even more questions. Everyone seems to have a strong opinion about it, some for, some against, some not sure. On one end of the spectrum, there are those who see cloud computing as, quite simply, the beginning of the end of computing as we have known it! On the other end, the whole notion is being written off simply as a bunch of “hype,” The answer, as usual, lies somewhere in the middle. Now, please keep in mind that we are neither suggesting cloud computing is for everyone, nor that you should write it off. The intent here is to simply bring some clarity to the situation.

Also know that we have been through this many times before, with fads, short-lived hot items, etc. We have seen compliance lockdowns, encryption frenzies (more on that later), OS2 Warp, thin clients (the end of the desktop as we know it!!) and yes, cloud computing. Some of you may remember the days of terminals connected to mainframe computers and green screens. “Who needs anything more?” people said at the time.

So Exactly What Is Cloud Computing?

Cloud computing means different things to different people. In simple terms, we define cloud computing as follows: Any e-mail, server or other computer service that is provided outside the customer location, on hardware not owned by the customer, and usually provided on a ‘pay-as-you-go’ basis. From Wikipedia: “Cloud computer is Internet-based computing, whereby shared resources, software, and information are provided to computers and other devices on demand, like the electricity grid.”

These are very broad definitions therefore some examples may help, and they may surprise you. For example, Hotmail, Yahoo mail and hosted Sharepoint services would all be considered cloud computing solutions. (Someone has a server handing your mail somewhere, but it’s not in your home or office, and you don’t own the server doing the work, and you pay on an on demand basis.)

The Dark Side Of The Cloud

I have witnessed firsthand the look on clients’ faces when cloud services slow down, or the Internet is not available. Other fears include a lack of control and a lack of trust. (Is my data really safe, is this compliant? etc). If you’re going to consider the cloud for all your services you’ll need to consider getting Internet service from two different providers. Otherwise, when one service is unavailable, you won’t be able to access your data or your applications.

The Positive Side

In some cases cloud solutions are perfectly safe and appropriate for the task at hand. Hosted Exchange, Sharepoint portals and free e-mail are prime examples of this.

The Paper-‘less’? Office

Going paperless is another term that has been bandied about for many years. It is now once again coming into the forefront. However, the reality is, we need paper. If you accept that fact but still want to be more efficient, then the goal should be reduced paper that will increase efficiency, reduce cost and may actually help you obtain FTC Compliance and avoid legal issues. And keep in mind that everyone is going in this direction. As you most likely know by now, even the IRS has announced that they will no longer mail out tax forms. If you want them, you’ll have to download them from the web. You can be sure at some point in the not-so-distant future, all filings will be electronic and you’ll store copies of the returns digitally rather than in paper form. Just think of all the space you’ll gain, and trees you will save. Of course, saving all this data in unlocked PDF files could create another issue: identity theft. No room in this space to cover all of that, but be sure you take the proper precautions. Especially if something leaves your office—which brings us to our last topic: encryption.

A Word About Encryption

A little advice: BE CAREFUL! The best way to protect the data your clients entrust you with is to keep it off your personal hard drive, thumb drive and laptop and not let it leave the office in an un-encrypted office. Yes, this is possible and actually not too difficult or expensive. To save space and time here I will simply state that Sharepoint, LogMeIn and file servers are the three easiest answers. Password-protected files, encrypted e-mail and hard drive encryption software should also be considered in some cases. Please note that encryption tools are not to be taken lightly, and losing the password or encryption key is more than an inconvenience—it usually means the loss of the data on the data.

Solutions for each of these should be planned in conjunction with your technical advisor.

*Armando D’Accordo and Larry Schweitzer are
CMIT owners in Nassau County, NY. If you
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Year-End Planning Ideas for 2010

by Debra A. Kinsler, CPA, Gruver, Zweifel & Scott, LLP

Looking for tax deductions? The recently-enacted **Small Business Jobs Act of 2010** includes many provisions that offer valuable tax breaks and incentives. Some are explained below.

Enhanced Small business Expensing. Commonly known as “**Section 179**,” allows businesses to immediately write off the entire purchase price of qualifying property, such as machinery, instead of depreciating it over several years. Under the new Jobs Act, for **2010 and 2011** this limit has increased from \$250,000 to **\$500,000**, and is subject to phase-out, but only if total acquisitions exceed \$2,000,000. Plus, for the first time in history, certain real property expenditures are eligible, but only up to \$250,000.

First-year Bonus Depreciation. Extended is the first-year **50% write-off** for qualifying property such as business equipment placed in service in **2010** (and 2011 for longer-lived property), although an exception exists for construction companies under long-term contracts.

Deductibility of Health Insurance From Self-employment Income. Business owners can now use health insurance premiums incurred and paid for themselves and dependents to reduce 2010 self-employment tax. In the past, the deduction was available to reduce income tax only, and had never been allowed to reduce self-employment tax. Now it can, but **only for 2010**. The resultant effect here mirrors the strategy of hiring your spouse and then being covered under your spouse’s health insurance so that the premium costs are entirely deductible.

Rental Property Owners. This is not a tax-savings provision, but should be planned for just the same. Beginning in 2011, annual information reporting to IRS will be required for rental property expenses totaling \$600 per year or more paid to a service provider. Some exceptions exist, but most landlords will

now be subject to this new reporting requirement which will begin in 2012 for reporting 2011 expense payments. To help with this requirement, obtain a signed W-9 from your service vendors, such as your plumber, landscaper, etc. This W-9 will provide most of the information needed to properly prepare 1099 forms at the end of the year. In addition, you must keep track of all payments made to your providers. Use that amount, if at least \$600, plus the info from the W-9, to prepare and issue 1099 forms to those vendors and the IRS, respectively. Start keeping track of those payments January 1, 2011, and obtain the signed W-9 *before* you actually pay your vendor to ensure its receipt. You will only need to obtain the W-9 once, retain it in your records; if nothing changes, the same information can be used from year to year.

Capital Gain Rates. Although not part of the Jobs Act, federal tax rates on long-term capital gains and qualified dividends continue to be **0% and 15% for 2010**...but you must end up in the lowest tax brackets to benefit.

More common. Planning includes funding retirement plans or IRAs; utilizing a home office; becoming an S-corporation; paying bonuses; deferring earning income; converting taxable investments to nontaxable municipals; if itemizing, bunch payments for state estimates, property taxes, medical, and/or charitable donations in certain years; purchasing long-term care and/or health insurance, and/or contributing to a Health Savings Account if you qualify; establishing employee fringe benefits such as a “premium only plan”; prepaying expenses if on a cash basis; hiring your kids...just to name a few!

This written advice is not intended or written to be used, and it cannot be used by you or any taxpayer for purposes of avoiding penalties that may be imposed on the taxpayer by the IRS or any applicable state or local tax authority.

Sources: Thomson Reuters/RIA

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Business Owners in 419, 412i, Section 79 and Captive Insurance Plans Will Probably Be Fined by the IRS Under Section 6707A

by Lance Wallach

Taxpayers who previously adopted 419, 412i, captive insurance or Section 79 plans are in big trouble. In recent years, the IRS has identified many of these arrangements as abusive devices to funnel tax deductible dollars to shareholders and classified these arrangements as “listed transactions.” These plans were sold by insurance agents, financial planners, accountants and attorneys seeking large life insurance commissions. In general, taxpayers who engage in a “listed transaction” must report such transaction to the IRS on Form 8886 every year that they “participate” in the transaction, and the taxpayer does not necessarily have to make a contribution or claim a tax deduction to be deemed to participate. Section 6707A of the Code imposes severe penalties (\$200,000 for a business and \$100,000 for an individual) for failure to file Form 8886 with respect to a listed transaction. But a taxpayer can also be in trouble if they file incorrectly. I have received numerous phone calls from business owners who filed and still got fined. Not only does the taxpayer have to file Form 8886, but it has to be prepared correctly. I only know of two people in the United States who have filed these forms properly for clients. They told me that the form was prepared after hundreds of hours of research and over fifty phone calls to various IRS personnel. The filing instructions for Form 8886 presume a timely filing. Most people file late and follow the directions for currently preparing the forms. Then the IRS fines the business owner. The tax court does not have jurisdiction to abate or lower such penalties imposed by the IRS.

Many business owners adopted 412i, 419, captive insurance and Section 79 plans based upon representations provided by insurance professionals that the plans were legitimate plans and they were not informed that they were engaging in a listed transaction. Upon audit, these taxpayers were shocked when the IRS asserted penalties under Section 6707A of the Code in the hundreds of thousands of dollars. Numerous complaints from these taxpayers caused Congress to impose a moratorium on assessment of Section 6707A penalties.

The moratorium on IRS fines expired on June 1, 2010. The IRS immediately started sending out notices proposing the imposition of Section 6707A penalties along with requests for lengthy extensions of the Statute of Limitations for the purpose of assessing tax. Many of these taxpayers stopped taking deductions for contributions to these plans years ago, and are confused and upset by the IRS’s inquiry, especially when the taxpayer had previously reached a monetary settlement with the IRS regarding the deductions taken in prior years. Logic and common sense dictate that a penalty should not apply if the taxpayer no longer benefits from the arrangement.

Treas. Reg. Sec. 1.6011-4(c)(3)(i) provides that a taxpayer has participated in a listed transaction if the taxpayer’s tax return reflects tax consequences or a tax strategy described in the published guidance identifying the transaction as a listed transaction or a transaction that is the same or substantially

similar to a listed transaction. Clearly, the primary benefit in the participation of these plans is the large tax deduction generated by such participation. It follows that taxpayers who no longer enjoy the benefit of those large deductions are no longer “participating” in the listed transaction.

But that is not the end of the story. Many taxpayers who are no longer taking current tax deductions for these plans continue to enjoy the benefit of previous tax deductions by continuing the deferral of income from contributions and deductions taken in prior years. While the regulations do not expand on what constitutes “reflecting the tax consequences of the strategy,” it could be argued that continued benefit from a tax deferral for a previous tax deduction is within the contemplation of a “tax consequence” of the plan strategy. Also, many taxpayers who no longer make contributions or claim tax deductions continue to pay administrative fees. Sometimes, money is taken from the plan to pay premiums to keep life insurance policies in force. In these ways, it could be argued that these taxpayers are still “contributing,” and thus still must file Form 8886.

It is clear that the extent to which a taxpayer benefits from the transaction depends on the purpose of a particular transaction as described in the published guidance that caused such transaction to be a listed transaction. Revenue Ruling 2004-20, which classifies 419(e) transactions, appears to be concerned with the employer’s contribution/deduction amount rather than the continued deferral of the income in previous years. This language may provide the taxpayer with a solid argument in the event of an audit.

Lance Wallach, National Society of Accountants Speaker of the Year and member of the AICPA faculty of teaching professionals, is a frequent speaker on retirement plans, financial and estate planning, and abusive tax shelters. He writes about 412(i), 419, and captive insurance plans; speaks at more than ten conventions annually; writes for over fifty publications; is quoted regularly in the press; and has been featured on TV and radio financial talk shows.

Lance has written numerous books including Protecting Clients from Fraud, Incompetence and Scams (John Wiley and Sons), Bisk Education’s CPA’s Guide to Life Insurance and Federal Estate and Gift Taxation, as well as AICPA best-selling books including Avoiding Circular 230 Malpractice Traps and Common Abusive Small Business Hot Spots. He does expert witness testimony and has never lost a case. Contact him at 516.938.5007, wallachinc@gmail.com or visit www.taxadvisorexperts.org or www.taxlibrary.us.

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The membership of NCCPAP sends a heartfelt "THANK YOU" to each one of our dedicated NCCPAP Officers, Committee Chairs and Directors for all the time and effort you expended on behalf of NCCPAP. Some of you have moved on, others have moved up and some of you are carrying our torch for yet another year. No matter what the scenario, NCCPAP could not have grown, or continued its mission and programs, without you.

DID YOU KNOW?

Your attendance at a National Issues Committee and/or Tax Committee Meeting during NCCPAP quarterly meetings qualifies you for up to 2 CPE Credits per meeting.

Call the National Office for details.

CHAPTERS' CALENDAR OF EVENTS**NOVEMBER / DECEMBER 2010 / JANUARY 2011****NASSAU/SUFFOLK, NEW YORK**

Contact: Chapter Office (516) 997-9500
 Chapter Meeting; Reg. /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.), except as noted

November 17, 18 & 19 – Three-Day Event

2010 LONG ISLAND TAX PROFESSIONALS SYMPOSIUM

Crest Hollow Country Club, Woodbury, NY
 (A & A and Tax Credits Available)

Visit: www.litps.org for details and to register

Thursday, December 2 – Chapter Meeting

EMPLOYMENT ISSUES AND NEW TAX DEDUCTIONS –
 2 CPE credits (Tax)

Wednesday, December 15, 8–10 a.m.

MAP MEETING. YEAR-END OFFICE PROCEDURES –
 2 CPE credits (MAP)

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

Wednesday, January 12, 8–10 a.m.

2011 – NOW WHAT? ESTATE TAX PLANNING

CONSIDERATIONS—2 CPE credits (Tax)

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

Wednesday, January 12, 8–10 a.m.

HEALTH CARE – 2 CPE credits (Tax)

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

Thursday, January 20 – Chapter Meeting

TAX PROBLEMS OF THE STARS – 2 CPE credits (Tax)

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; meetings, topics, times, locations.

November, December & January: To be announced.

WESTCHESTER/ROCKLAND, NEW YORK

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

Tuesday, November 9, 9 a.m.–5 p.m.

S CORP AND PARTNERSHIP UPDATES – 8 CPE credits

Saturday, December 11, 8 a.m.–4 p.m.

INDIVIDUAL UPDATE – 8 CPE credits

Tuesday, December 14, 8:30 a.m.–5 p.m.

Tri-State Update – 8 CPE credits

January: To be announced

NEW JERSEY

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

E-mail: bachmanncpa@msn.com

All meetings at Victor's Maywood Inn
 122-124 West Pleasant Avenue, Maywood, N.J.

Phone (201) 843-8022/ E-mail: www.maywoodinn.com
 6–8 p.m. – Dinner and Seminar

Monday, November 1

NJ TAX UPDATE – 2 CPE credits

Monday, December 6

IRS TAXPAYER ADVOCATE SERVICE – 2 CPE credits

Monday, January 10

NY TAX UPDATE – 2 CPE credits

FLORIDA

Contact: Neil Fishman (561) 369-3228

All meetings at 1500 Gateway Blvd., Room 220,
 Boynton Beach, FL

8:45 a.m. – 10:45 a.m., Registration at 8:30 a.m.

Thursday, November 4

MORTGAGES, THE COURTS AND THE BANKS
 – 2 CPE credits

Thursday, December 2

ESTATES AND TRUSTS – 2 CPE credits

January: No chapter meeting.

MASSACHUSETTS

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

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

Wednesday, November 3, 7:30 a.m.–11:30 a.m.

1099 TAX AND COMPLIANCE ISSUES – 4 CPE Credits

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

FEDERAL TAX UPDATE – 2 CPE Credits

Wednesday, January 12, 7:30 a.m.–9:30 a.m.

STATE TAX AND FILING UPDATE – 2 CPE Credits

HOUSTON

Call for Information: (888) 488-5400

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