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NewsBriefs

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New Filing Requirement for Tax-Exempt Organizations

— Patricia DiGiannantonio

This past year there have been many legislative changes that have increased the reporting requirements for tax-exempt organizations. In particular, the Pension Protection Act (PPA), enacted in August 2006, requires most small tax-exempt organizations that previously were not required to file returns to file an annual electronic notice.

Tax-exempt organizations whose gross receipts are normally \$25,000 or less, are generally not required to file annual information returns (Form 990

or Form 990-EZ.). Beginning in 2008, these organizations will be required to electronically file Form 990-N, also known as the e-Postcard, annually with the IRS.

Starting in July 2007, the IRS began mailing educational letters notifying these organizations that they may be required to file the e-Postcard. The IRS is currently developing the e-Postcard system and will publicize filing procedures when the system is completed and ready for use. Organizations may choose to file Form 990 or Form 990-EZ in-

stead of the e-Postcard.

This filing requirement applies to tax periods beginning after December 31, 2006. Organizations that do not file the e-Postcard (or Form 990 or 990-EZ) for three consecutive years will lose their tax-exempt status as of the filing due date of the third year. Because of the significant consequences, it is important to be aware of this new requirement. Additional information may be obtained at the IRS website www.irs.gov or you may call of our office to discuss this further.

New Risk Assessment Standards—David M. Stinson, CPA, MS, Partner

The Auditing Standards Board has introduced 8 new auditing standards, *Statements of Auditing Standards no. 104 through 111*, which will be effective for audits of financial statements for periods ending on or after December 15, 2007. The standards, collectively referred to as the "risk assessment suite", clarify the concepts of audit evidence, materiality, and audit risk while offering guidance intended to facilitate the planning and performance of audit procedures to address assessed risks. Although these concepts are not new to auditing, the new standards stress the linking of identified risks to relevant controls and the performance of audit procedures that adequately address these risks. An additional standard, *Statements of Auditing Stan-*

dards no. 112, requires certain communications between auditors and entities in situations where internal controls are apparently lacking.

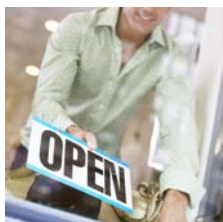
During the planning stages, auditors will assess a materiality and audit risk. The former concept is primarily based on the needs of financial statement users and linked to the overall audit objective of providing reasonable assurance that the financial statements are free of material misstatement. Assessing risk requires auditors to understand the entity and the related operating environment. The new standards address linking risks to assertions that are embodied in the financial statements.

Subsequent to identifying risks, auditors must identify and docu-

ment the effectiveness of internal controls designed to mitigate these risks. Whereas, in the past, auditors could default to a high control risk assumption and rely entirely on substantive procedures, the new standards require that auditors assess the design of controls and examine some evidence that controls have been properly implemented. Finally, substantive procedures are to be performed in order to obtain corroboration of balances reflected in the accounting records and information reported in the financial statements.

SAS 112 (effective for years ending after December 15, 2006) defines weaknesses in the

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Do you own a small business?

“...we can help you craft a tax strategy that maximizes the benefits of the new law.”



Do you think your business' internal controls may be lacking?

Small Business and Work Opportunity Tax Act of 2007

— Edward H. Rudert, CPA, MPA

Tax law seems to be constantly changing. In May of this year, Congress passed a new package of tax incentives. As the name of the act indicates, most of the tax breaks are targeted to small businesses. The offsets, which are revenue raisers to pay for the tax cuts, primarily hit individuals. However, we can help you craft a tax strategy that maximizes the benefits of the new law.

Kiddie tax. Let's first take a look at the change in the new law that has gotten the most attention. It really has nothing to do with Small Business. Rather, it's the principal "offset" mentioned above. The "kiddie tax" rules have prevented most parents from using their children's low tax brackets to shelter significant amounts of investment income. Under those rules, investment income over a small amount is taxed at their parent's marginal tax rate, as if earned by the parent. Until last year, the kiddie tax applied to children under the age of 14 with unearned income. In 2006, Congress raised the age to under 18. The new law raises it to under age 19 (under age 24 for full-time students). When Congress raised the age in 2006, it did so retroactively to January 1, 2006. This time, Congress makes the change prospective. It kicks-in for 2008. The difference is important. Unlike in 2006, you have time to adjust your tax planning.

Small business expensing. Congress significantly extended and expanded small business expensing. The tax laws allow you to deduct some business expenses that would otherwise have to be depreciated. Under prior law, you could deduct up to \$112,000 in qualifying expenditures for property placed in service in 2007, as long as your total investment in new equipment didn't exceed \$450,000. The new law raises the deduction limitation from \$112,000 to \$125,000 and the investment limitation from \$450,000 to \$500,000, retroactive to the start of 2007. The amounts are also indexed for inflation. If you have been debating whether to make a business expenditure, the increased expensing rules could make that purchase more attractive.

Work Opportunity Tax Credit. The WOTC is one of several tax incentives to encourage employers to hire individuals who are challenged by physical disabilities or challenged economically. The new law extends the credit to cover more veterans and some other target groups. In return, employers that hire individuals from these targeted groups get some generous tax savings.

More changes. The new law also preserves the FICA tip tax credit at its present rate in spite of the minimum wage increase. It allows married couples who operate a joint venture and who file a joint return to elect not to be treated as a partnership for federal tax purposes. Additionally, the new law includes a package of S corporation reforms. While these provisions are complex, they are worth a careful look since each of them provides a tax break previously unavailable. There are more revenue raisers besides the kiddie tax change. Most of those concern tax administration issues, such as giving the IRS more authority in charging penalties and user fees.

If you have any questions about the *Small Business and Work Opportunity Tax Act of 2007*, please give our office a call today. We can sit down and review in detail the new law and it how it affects you.

New Risk Assessment Standards—continued from page 1

design or operation of internal controls (*control deficiencies*) and establishes thresholds whereby auditors must communicate (in writing to management or those charged with governance) control deficiencies that aggregate to the level of *significant deficiencies* or *material weaknesses*. Significant deficiencies describe an aggregate level of control deficiencies such that there is more than a remote likelihood that a

misstatement of the entity's financial statements that is more than inconsequential will occur (the standard suggests that a potential misstatement that exceeds 20 percent of overall financial statement materiality is "more than inconsequential"). Material weaknesses are significant deficiencies aggregating to a level where there is more than a remote likelihood that a material misstatement of the entity's finan-

cial statements will occur.

Although the new standards are expected to initially require additional audit time, auditors may subsequently rely upon information obtained in previous audits where the related subject matter and audit evidence have not fundamentally changed.

Please contact us for more information on the new standards.

New Accounting Standards — Christina A. Larkin, CPA

The following are summaries of recently issued pronouncements by the Financial Accounting Standards Board. Please contact our office for more information if any could be applicable to your entity.

SFAS No. 154, "Accounting Changes and Error Corrections" requires retrospective application to prior periods' financial statements of changes in accounting principle.

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This Statement is effective for an entity's first fiscal year that begins after September 15, 2006.

SFAS No. 156, "Accounting for Servicing of Financial Assets", requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract, based on certain criteria. An entity should adopt this Statement as of its first fiscal year that begins after September 15, 2006.

SFAS No. 157, "Fair Value Measurements" This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007.

SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position. This statement is effective as of the end of the fiscal year ending after June 15, 2007.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" is effective as of the beginning of an entity's fiscal year that begins after November 15, 2007. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value.



Please contact our office for more information.

"In an effort to stimulate economic growth, support investment and attract new businesses to New York State, substantial tax credits are now available..."



Empire Zone and QETC Credit Updates — Amy A. Iles, CPA

In an effort to stimulate economic growth, support investment and attract new businesses to New York State, substantial tax credits are now available to qualifying taxpayers investing in or operating as qualified emerging technology companies and/or new or expanding companies located within an Empire Zone. Lots of information has been released about these credits in the last year and we have started to file a large number of claims for our clients. Specific guidelines exist for these credits. Please consult with us should you believe you may be able to take advantage of one of the following types of credits:

Qualified Emerging Technology Company Credits - Three credits exist, one at the investor level and two at the business level. The company must be selling or researching a product that meets the Emerging Technology requirements. Business level credits are refundable regardless of tax liability. Unused investor credits are carried forward for an unlimited number of years. Companies must apply for certification as a QETC before an investor may file a claim for a purchase of originally issued stock or a capital contribution. The investment must be held for at least four years. No certification is required for credits at the business level, but certain ratios must be met to qualify.

Empire Zone Credits - Several tax credits exist for businesses located within an empire zone. Credits are based primarily on increasing employment within the zone. Most of the credits require zone certification and New York State cost benefit analysis. Zones exist within the City of Ithaca, Town of Ithaca, Lansing Business and Technology Park, Airport Area and Business and Industrial Park and the Town of Dryden. Benefits include elimination or reduction in state income tax, state sales tax and real property tax, credits for investment in depreciable property and equipment used in manufacturing, wage tax credits and utility rate reductions. Applications for certification can be obtained from Heather Filiberto, Empire Zone Coordinator, Tompkins County Area Development by calling 607-273-0005 or by emailing heatherf@tcad.org.



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The Active Professionals!

Getting E-mails From IRS? Do NOT Reply!

The Internal Revenue Service has issued several consumer warnings on the fraudulent use of the IRS name or logo by scamsters trying to gain access to consumers' financial data in order to steal their assets. The IRS does not send out unsolicited e-mails or ask taxpayers for detailed personal information such as PIN numbers, passwords or similar secret access information for their credit card, bank or other financial accounts.

Identity theft and financial scams are a real concern in our society today. Be skeptical of ALL communications you receive from sources you are not expecting. Some suggestions to help protect yourself:

Verify the authenticity of phone calls, standard mail, faxes or e-mails of questionable origin before responding.

Do not reveal secret passwords, PINs or other security-based data to third parties.

Do not click on links contained in possibly questionable e-mails; instead, go directly to the site already known to be genuine. For example, the only address for the IRS Web site is www.irs.gov.

Shred paper documents containing private financial information before discarding.

Please do not hesitate to call our office whenever you are contacted by any taxing authorities. We would be glad to help you determine the validity of the communication and prepare any required response.

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