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TONNESON & COMPANY CPAs PC

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Healthy computers = better performance

If you're like most people, you know the feeling of your stomach dropping to the floor when a computer malfunctions or crashes. That feeling can turn to sheer panic when the computer malfunction is companywide. Maintaining your computers is critical to enabling and sustaining your business operations. Lax computer maintenance can decrease employee productivity, increase security risks, cause costly downtime, squander sales and, overall, drag down your company's performance.

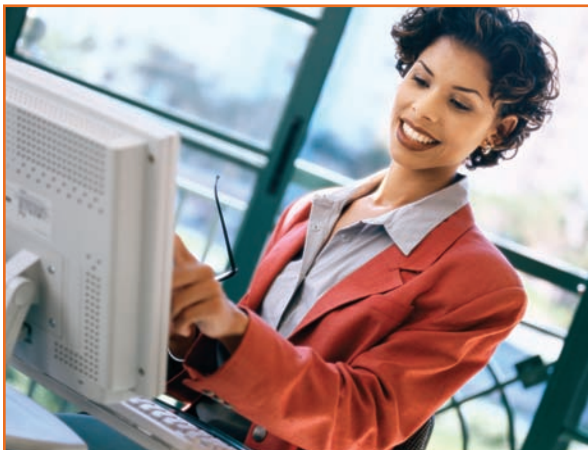
General maintenance

Keeping your company's computers operating efficiently begins with regular maintenance and cleaning. This includes:

Downloading operating system updates. Regularly download system updates and enhancements from the software provider's Web site. Better yet, check the preferences on your computers to allow automatic updates. Your company's network administrator can also prompt users and initiate updates over the companywide network.

Cleaning inside and out. Employees need to periodically organize and clean up their personal files. Establish a document retention policy with guidelines for files that must be saved indefinitely and those that should be cleaned out annually or more often. Guidelines may depend on your company's business needs, its industry and any compliance requirements.

Crumbs, dust and dirt can impair a computer's function and even permanently damage the computer or its components. Remove any dust and crumbs that have settled on the computer and keyboard with a vacuum or a can of compressed air. Also, make sure computer air vents aren't obstructed by desk clutter.



Keeping your computers operating efficiently begins with regular maintenance and cleaning.

Defragging hard drives. As an employee accesses programs and stores files on a computer, the computer's hard drive uses up space on a first-available basis. Data is subsequently stored in a fragmented or random fashion, which, over time, causes the computer to take more time retrieving data. Employees should "defrag" their hard drives at least monthly. Defragging is a procedure in which the files on a hard drive are rewritten so that all parts of each file are written to contiguous sectors, thus making retrieving a file much faster.

Security measures

Equally important to performing general maintenance and cleaning is implementing information security measures. These include:

Installing and updating security programs. Unfortunately, there will always be people who look for new ways to wreak havoc on computer systems or gain unauthorized access and use of proprietary data. Antivirus programs have been around for years to help thwart such malicious attacks. But it's become increasingly important that companies also install antispyware and software firewalls to protect against attacks on multiple fronts.

In addition, computer operating systems often contain programming errors or bugs that can impair the computer's function, or holes where hackers can gain access to data. So regularly downloading the latest security patches and updates from your operating system software provider's site can help you keep a step ahead of these potential problems.

Backing up data. Although you may take appropriate precautions to protect company computers, they aren't foolproof. Hackers and spies have been known to find points of entry in even the most guarded computer systems. Also, there's always the risk of a disaster wiping out your company facilities and computers. Therefore, performing daily data backups is essential for recovery efforts.

Establishing a software installation protocol. Employees may download and install personal programs on their computers that can slow computer performance or unleash destructive viruses. Provide employees with a protocol for installing new programs on their computers, including the types of programs that may be installed and sources for obtaining safe programs.

Keep your computers humming

To help ensure your company computers are well maintained and secure, document and review your maintenance and security procedures with all your employees. And give them regular reminders to clean up their hard drives. Consider providing your workers with hands-on training and incorporating that training into the company's orientation for new hires. ◈

Figuring out dependent tax breaks isn't child's play

Caring for children or other dependents may entitle you to a variety of tax breaks. But just because you support another person financially doesn't mean that you'll qualify. For federal tax purposes, it all depends on whether that person is your "qualifying child" or, in some cases, a "qualifying relative."

Childish simplicity

For years, the Internal Revenue Code contained several definitions of "child," which varied depending on the tax provision in question. In an effort to simplify the tax code and eliminate confusion, Congress established a uniform definition of "qualifying child" as part of the Working Families Tax Relief Act of 2004 (WFTRA). The definition applies for purposes of several child-related tax benefits, such as:

1. Dependency exemptions,
2. The Child Tax credit,
3. The Child and Dependent Care credit, and
4. Head-of-household filing status.

Unlike previous definitions, which generally required that you provide more than half of a dependent's *support,* the new definition relies on *residency,* which Congress felt was

an easier test to apply. More specifically, a qualifying child must meet these four tests:

1. Relationship. The new definition applies to your child (including one who's adopted or who's an eligible foster child), stepchild, brother, sister, stepbrother or stepsister. It also includes any of their descendants. So, for example, your grandchildren, nieces and nephews also qualify.

2. Age. A child must be under age 13 when the care was provided in order to qualify for the Child and Dependent Care credit, under age 17 (as of the end of the year) for the Child Tax credit and under age 19 (age 24 for a full-time

Tie-breaking rules

If two or more people are eligible to claim the same child as a dependent, they can decide among themselves who will claim the tax benefits. In the event that more than one person actually claims those benefits, the following rules will be used to break the tie:

- An eligible parent's claim trumps all other claims.
- If each parent claims the child on a separate return, the tax benefits go to the parent who lives with the child longer or, if the child resides with each parent for the same amount of time, to the parent with the higher adjusted gross income (AGI).
- If neither parent claims the child, the tax benefits go to the claimant with the highest AGI.

If the parents are divorced, special rules allow the noncustodial parent to claim the child if the custodial parent consents and certain other requirements are met.

student) for the other tax benefits. Except for the Child Tax credit, there's no age limit for someone who's permanently disabled.

3. Residence. The child must share your principal place of abode for more than half a year, which includes time spent away from home because of school, military service or illness.

4. Support. Although it's no longer necessary for you to provide more than half of a child's support, the qualifying child generally can't provide more than half of his or her own support.

In addition, under the new definition, the child must be a citizen or resident of the United States, Canada or Mexico in order to qualify. However, if that child files a joint return, he or she won't qualify. If more than one person claims a benefit with respect to the same child, the tax code specifies who's entitled to tax benefits. (See "Tie-breaking rules" above.)

Relatively speaking

If you support someone who isn't a qualifying child, you still may be entitled to a dependency exemption and head-of-household status if that person is a "qualifying relative."

Essentially, WFTRA retained the old dependency rules as a backup, allowing you to claim the exemption if, among other things, you provide more than half of the support for someone who is either: 1) a relative, or 2) a nonrelative who's a member of your household for the entire year. In either case, that person's gross income must be less than the personal exemption amount ($3,500 in 2008).

Relatives include all of the qualifying-child relationships, plus parents, stepparents, grandparents and other direct ancestors, nieces, nephews, aunts, uncles, and most in-laws. You can't claim someone as a qualifying relative, however, if someone else is entitled to claim him or her as a qualifying child.

Unexpected outcomes

For most traditional families, the new, uniform definition of qualifying child will make it easier to determine whether you qualify for child- and dependent-related tax breaks. In some cases, however, the current rules produce unexpected — and seemingly unfair — results.

Suppose, for example, that 11-year-old Louis lives with his grandparents, whose sole income is $1,500 a month in Social Security checks. Louis's mother, Geri, sends the grandparents $2,000 a month for his support. Even though she provides more than half of his support, Geri can't claim Louis as a qualifying child because they don't live together.

Stay tuned

In its fiscal year 2008 budget, the federal government has proposed modifications to the new definition that would avoid unintended outcomes like the one in Geri's situation. In the meantime, contact your tax advisor with questions about how the uniform definition of qualifying child affects your tax return. ◈

The 4-1-1 on FIN 48

New accounting rules can be taxing

To paraphrase Benjamin Franklin, "Nothing is certain except death and taxes." But while the *fact* of taxes may be certain, the *amount* is another story. Under new accounting rules, some organizations must disclose uncertain tax positions on their financial statements.

Many business owners are concerned that the new disclosure requirements will not only increase their costs and affect their earnings, but also provide the IRS and state taxing authorities with ammunition they can use during an audit.

Do the new rules apply to you?

The new requirements are found in Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which applies to all companies that prepare their financial statements according to Generally Accepted Accounting Principles (GAAP).

To comply with the new rules, you will need to review every tax position you've taken on your income tax returns.

The biggest impact will be felt by public companies, which are required to follow GAAP in their SEC filings. But FIN 48 also applies to private companies that prepare GAAP-compliant financial statements to satisfy lenders, investors or other third parties.

FIN 48 applies to any entities that issue GAAP financial statements for fiscal years beginning after Dec. 15, 2006 (the 2007 calendar year for most organizations). But in November 2007, FASB voted to delay the effective date of FIN 48 for private companies. Those that haven't already implemented the new rules can postpone compliance until periods beginning after Dec. 15, 2007. For most private companies, this reprieve means that FIN 48

will affect only their calendar-year 2008 and later financial statements.

What does FIN 48 require?

To comply with the new rules, you will need to review every tax position you've taken on your federal and state income tax returns. A tax "position" is virtually anything that results in a tax benefit, such as claiming a deduction, credit or exemption, or determining how certain income should be characterized. It may also include a decision not to file a return in a particular jurisdiction (more on this below).

For each tax position, you must determine whether it's "more likely than not" that the position would be sustained if it were challenged in an IRS audit. To make this determination, you will need to consider the taxing authority's policies, practices and prior rulings, and any relevant court decisions.

If a position fails the more-likely-than-not test, the tax benefit shouldn't be recognized on your financial statements. If it passes the test, then, according to the interpretation, you should recognize "the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement

with a taxing authority." FIN 48 also requires specific financial statement disclosures regarding uncertain tax positions — whether you recognize the tax benefits or not.

What about state taxes?

Accounting for state business income and franchise taxes is particularly challenging. Tax liability in a particular state depends on whether your business has a sufficient physical or economic connection, or "nexus," with that state. Each state has its own rules regarding the level of business activity within its borders that will trigger its tax laws.

Under FIN 48, you must not only analyze your tax positions for every state in which you file a return, but also evaluate any decisions *not to file* a return in a state where you do business. If there's uncertainty over whether you're required to file, you may have to reflect some of the potential tax liability on your financial statements.

Tipping off the IRS?

Even though the new rules require you to disclose only aggregate amounts on your financial statements — rather than specific details about uncertain tax positions — these disclosures may provide the IRS and state taxing authorities with clues on how to spot vulnerabilities in your tax returns.

If your company generates its financial statements under GAAP, consult your tax and financial advisors to discuss the potential impact of FIN 48 on your financial reporting and tax strategies. ◈

Pssst! Have you heard?

Word-of-mouth marketing can help you build your business

Word-of-mouth marketing is one of the best, most cost-effective ways of growing a business. Because your business has been recommended, you already have established credibility with the prospect, requiring less time and energy for you to convert them into a customer. In effect, referrals represent a great source of profit potential for your business.

While you're apt to gain referrals as a result of successful product and service delivery, you'll gain many more by proactively asking for them. To help maximize these opportunities, develop a program that consists of a structured, methodical process and system for handling referrals:

Identifying referral sources. Start by asking your existing client base to refer new clients to your business. Additional referral sources may include businesses that sell noncompeting products or services in your market, vendors, contacts made through industry associations, business referral services, and even friends and family. Implement a contact management database to capture and track business referral leads.

Following up on referrals. Once a referral has been made, you must turn the lead into a sale before it grows cold. Professionalism and respect in your approach are paramount — you don't want your referral source to regret recommending your business! Don't forget to personally thank your referral source.

Motivating and rewarding referrals. To help motivate existing customers to refer your business, offer them special discounts on your products or services, or send them a gift certificate to a restaurant or store when a prospect they refer becomes a client. Consider offering the new customer the same special deal or gift incentive.

If you're operating in a regulated industry where a discount or gift would violate business ethics or legal regulations, consider taking your referral contact source and new client out to dinner or a sporting or theater event as a token of your appreciation.

Selling a home in today's market

Home prices in most areas of the United States have decreased in tandem with a slump in home sales. And the market is likely to remain in a slump for the foreseeable future. If you absolutely must sell your home, what can you do?

Find a good agent

A good real estate agent, who understands the market in your area, can help you set a reasonable sale price for your home — understanding that, in a depressed market, you can't expect to receive top dollar or even your asking price in most situations.

Your agent can assess local market conditions and pull information on comparable listings and recent sales so you'll know what you're likely to get for your home. Obtaining an independent appraisal of your home's value can also help you set a fair price.

Make sure your agent documents all offers and counteroffers for your review. You may also want to involve a real estate attorney to ensure your best interests are kept in mind during negotiations.

Set the stage

Because first impressions are key, ask your realty company whether they offer professional "home staging" services. Home staging can help sell your home faster and for more money by giving it a model-home appearance.

In addition, take care of any maintenance issues before you put the house on the market. Doing so will help it pass a prospective buyer's mechanical inspection and facilitate a more favorable negotiation process.

Consider alternative solutions

What if you still can't sell it? If you must sell for a personal or business reason, or are facing the risk of foreclosure and damaging your credit rating, you still have some options. You can:

Sell to a real estate investor. Such companies or networks of investors often will pay cash for homes in any condition, area and price range. The sale transaction process generally is completed within a few days.

Auction it off. An experienced auctioneer can help drum up interest in a slow-moving market. However, you'll incur the cost of the home inspection, and will have to pay the auction house the seller's fee on the purchase price.

Lease it out. This option can tide you over until the market picks up again and provide rental income to help cover your mortgage costs. Or you may consider a lease-to-buy option, in which you provide a renter the option to purchase the home at the end of the lease term.

Help from Uncle Sam

As more and more people default on their mortgages and end up in bankruptcy and foreclosure, the IRS and Congress are offering a helping hand. Special IRS relief provisions may help struggling homeowners minimize, or even eliminate, the tax liability created during mortgage workouts and foreclosures. Be aware that the relief provisions may not apply in some situations.

In addition, a mortgage tax relief bill is slowly making its way through Congress. Talk with your CPA for more information.

Make the most of a bad situation

If you can wait to put your home up for sale until the market bounces back, do. But if you must sell now, get help from a good real estate agent, your CPA and a real estate attorney. Together, they can help you make the most of a bad situation. ◈

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