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PUBLIC
ACCOUNTANTS**

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THE SOCIETY OF LOUISIANA CERTIFIED PUBLIC ACCOUNTANTS

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Coming in the April Technology Issue

- Top 10 Technology Issues
- Harnessing the Power of Technology
- The IT Role in Mergers and Acquisitions

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Revisions to the Louisiana Accountancy Act

The LCPA, in a cooperative effort with the Louisiana State Board of Certified Public Accountants and the Louisiana Legislative Auditor, will sponsor legislation in the upcoming 2006 Regular Legislative Session to revise the Louisiana Accountancy Act.

Introduced by Rep. Gil Pinac, the bill focuses on three main areas:

- 1) To clarify the definitions of “CPA” and “CPA Inactive”; to confirm through that definition, specifically what a CPA Inactive can and cannot do.
- 2) To allow a CPA to issue a compilation disclosing a lack of independence and have the report accepted by the Legislative Auditor. This is the current practice, and this legislation will match the statute with practice.
- 3) To make a technical correction to the Pre-trial Review portion of the statute, requiring the parties involved with pre-trial review to put up a deposit to cover the costs of the Attorney Chair and CPAs on the review panel.

The LCPA and the Legislative Steering Committee will closely review and monitor all bills of interest to CPAs and keep members informed of the progress. Check the LCPA’s website and future issues of *Lagniappe* for updates.

AICPA Issues Tool to Help Plan Sponsors Select their Plan Auditor

As part of the AICPA’s Employee Benefit Plan Audit Quality Center’s ongoing effort to raise awareness of the importance of audits performed on the financial statements of employee benefit plans covered by ERISA, the Center released a new tool to help plan sponsors select the most qualified plan auditor. Obtaining Quality Employee Benefit Plan Audit Services highlights the critical steps of the proposal and auditor evaluation process and contains a checklist of items that should be considered in preparing an RFP.

For more information about the AICPA Employee Benefit Plan Audit Quality Center and employee benefit plan audits, visit <http://www.aicpa.org/ebpaqc>.

2006-07 Index Catalog Coming Soon

2006 marks the third year of the current three-year CPE cycle which ends on December 31. The LCPA is ready to help members meet their State Board requirements with a complete offering of over 250 courses, workshops and conferences.



The 2006-07 LCPA Annual Index Catalog will be mailed soon and posted online in April. The catalog is organized in a “quick-find” index format arranged by date, location and knowledge category – making it easy to choose courses that meet individual needs and goals. Full descriptions will be listed under the CPE section of www.lcpa.org. There you can register directly for courses at the completion of your search.

Additionally, monthly catalogs will be published and feature full descriptions, a monthly training calendar, and listings of new offerings added throughout the year. Brochures will be mailed for conferences and workshops. CPE e-mail reminders and alerts will be sent to those members who have specifically requested to receive them. Keep in mind, that opting out blocks you from receiving all e-mails, including important tax alerts.

Women Making Strides in Public Accounting: AICPA Survey

Women increasingly are attaining leadership positions in public accounting firms, and many more women, as well as men, are taking advantage of alternative career paths offered by an increasing number of firms. These are two of the findings in a new AICPA study: “A Decade of Changes in the Accounting Profession: Workforce Trends and Human Capital Practices.” Women now account for 19 percent of all firm partners, up

from 12 percent a decade ago. Even more significantly, women partners do not appear to be experiencing barriers to leadership positions in their firms. Many CPA firms are moving beyond the “up or out” philosophy and recognize that choosing an alternative career path is often a solution for some individuals to help them cope with children, aging parents or other issues. Only 38 percent of the firms surveyed, however, offered some kind of alternative career path that does not lead to partner, i.e., choosing to stay as a senior manager or moving into an area like recruiting that is less client service driven. The report includes recommendations for firms and individual CPAs.

The report is available as a PDF document from the AICPA website. Go to www.aicpa.org/worklife and click on the “Research” tab.

Due Statements Mail in April

Statements for annual dues will be mailed to all LCPA members in mid-April. Statements are payable June 30th and will be subject to a \$15 late fee if not received by that date. There has been no increase for this dues cycle.

CPE transcripts will be mailed under separate cover. Transcripts document the amount of CPE hours you’ve completed with the LCPA for the current three-year CPE cycle, January 1, 2004 through December 31, 2005.



Five-year-old Courtney Hebert reminds everyone to hug their CPA everyday – especially when her CPA is her dad, Alexandria CPA, Blaine Hebert.



FINANCIAL STATEMENT FRAUD IN THE KATRINA AFTERMATH: A WHIRLWIND OF OPPORTUNITIES

By Tracy L. Coenen, CPA, MBA, CFE

Hurricane Katrina altered lives forever. Thousands of displaced survivors have lost their jobs as businesses struggle to survive. However, other opportunistic firms shamelessly have taken advantage of the disaster by altering their financial statements. Here's how auditors and fraud examiners can find this hidden crime.

Hurricane Katrina has caused more than 1,300 deaths, destroyed thousands of homes, and scattered the populace of half of New Orleans throughout the country. And some have estimated that up to 50 percent affected by the storm will experience varying degrees of post-traumatic stress. Lives have been altered permanently.

The hurricane also has devastated thousands of companies and eliminated jobs. But for other firms it has created opportunities to enhance their financial statements. All too often, management feels a certain sort of market pressure that pulls them into financial statement fraud. What sometimes starts as aggressive accounting treatment to "fix" a quarter that fell short of expectations can quickly snowball into long-term, large-scale fraud.

Consider the situation of Waste Management Inc. The U.S. Securities and Exchange Commission (SEC) determined that from 1992 through 1997, management officials participated in a systematic scheme to falsify the company's financial results.

Their actions caused expenses to be underreported, which increased net income by \$1.7 billion. Quarterly financial statements were adjusted to align Waste Management's results with predetermined earnings targets. By meeting earnings targets, management received performance-based bonuses and valuable stock options.

Financial statement frauds following the devastation created by Hurricane Katrina will be no different. While the underlying motive may be a bit different, the results will still be the same. Earnings will be "enhanced" or "managed" to temper the negative financial effects of the natural disaster.

The risk of fraud may be greatest in the industries that were hardest hit by Katrina: shipping, tourism, gambling, and fishing. The more obvious frauds will include those committed by contractors and insurance policyholders who overstate cleanup and repair costs. The less obvious situations, however, relate to financial statement manipulation following the hurricane.

The opportunities abound for financial statement fraud yet no obvious cases of this type of fraud have been publicized. Is this because it hasn't happened? Or could it be that auditors are more sympathetic to their clients as victims of natural disasters? Has the hardship of it all caused the financial watchdogs to take a softer approach to the business of auditing?

Magnitude of the Damage

The human toll may be incalculable but since Hurricane Katrina hit there have been many estimates of the total monetary damage caused by the natural disaster. Damage to the Louisiana ports alone exceeds an estimated \$1.7 billion, according to the American Association of Port Authorities. The United States Census Bureau estimates that 9.7 million residents of the Gulf Coast were affected by Hurricane Katrina. Thousands of businesses have been affected as well.

Risk Management Solutions estimates insured losses to be between \$40 billion and \$60 billion. Uninsured and underinsured losses will add billions to those figures. The total economic loss from this natural disaster is expected to exceed \$125 billion.

In comparison, Hurricane Andrew caused an estimated \$30 billion to \$45 billion in property damage, which was the costliest natural disaster in U.S. history up to that point. The 1992 natural disaster hit the southern part of Florida, continued across the Gulf of Mexico, and then struck the Louisiana coastline. It left an estimated 250,000 people homeless, and destroyed or damaged 82,000 businesses.

A hurricane obviously makes an impact in the short term by flooding businesses, forcing closures, and damaging buildings. Unfortunately there will be a long-term impact as well. Even with proper insurance coverage and an opportunity to rebuild quickly, a business is still in the position of ramping-up business particularly when there may be a decrease in population.

Accounting Standards

Accounting Principles Board (APB) Opinion No. 30 directs reporting of expenses related to "Extraordinary, Unusual and Infrequently Occurring Events and Transactions." If a hurricane is considered unusual in nature and nonrecurring, then losses are to be shown as a line-item separate from continuing operations.

However, due to the geography of the Gulf Coast, most agree that a hurricane wouldn't be considered nonrecurring. That is, it's more likely than not that a hurricane will hit the area in the future. So even though the extensive damage from Hurricane Katrina might be considered

unusual, the losses from the hurricane must be included in income or loss from continuing operations because a similar event will occur again.

Some companies still may be inclined to report their hurricane losses as extraordinary and separate them from income from continuing operations. This accounting treatment is attractive because the company would be highlighting the company's normal performance separate from the unusual losses. However, this isn't the proper treatment.

An unsophisticated user of financial statements likely won't make the distinction between this treatment of the losses and the proper treatment under Generally Accepted Accounting Principles (GAAP). In fact, many may agree that it may seem fairer to present the financial statements with the Hurricane Katrina losses separated from normal operations.

The Fraud Risk

The U.S. Department of Justice is interested in fraud schemes related to Hurricane Katrina, so a task force has been organized to focus on government benefit fraud, government contract fraud, fraudulent charities, insurance fraud, and identity theft.

No attention has been given to the risk of financial statement fraud although arguably it could cost more than the frauds being eyed by the task force. Financial statement fraud will occur in both private and public companies but it's unlikely that the financial statement fraud perpetrated by private companies will be publicized.

It should be noted that financial statement fraud risks aren't limited to companies directly in the path of Hurricane Katrina. Companies that do business with hurricane victims have opportunities to manipulate their financial statements as well.

Risk: Revenue Overstatement

The risk of generally overstating revenues applies to both companies in the path of Hurricane Katrina, as well as companies that do business with Katrina victims. In both situations, pressure for financial results may encourage the deliberate recognition of fictitious revenues.



The more obvious frauds will include those committed by contractors and insurance policyholders who overstate cleanup and repair costs.

The less obvious situations, however, relate to financial statement manipulation following the hurricane.

For at least three quarters in 1995 and 1996, Photran Corp. executives recorded fictitious revenues to avoid showing financial losses in the company's filings with the SEC. The company had inadequate internal controls, which allowed the recording of false revenues. Executives themselves even assisted in backdating documents to support Photran's premature revenue recognition. The result of this scheme was a net profit shown in the initial registration statement and subsequent quarterly filings, when the company actually had substantial losses.

Companies affected directly or indirectly by Hurricane Katrina also may be inclined to record fictitious revenue to bolster their financial statements. Auditors should be skeptical of the revenue of companies in the path of Katrina or companies doing business with Katrina victims.

It's recommended that auditors pay special attention to the revenues recorded after the disaster and ask themselves whether those financial results are reasonable. These companies probably should show decreased revenues in the months following the disaster. If revenues show no noticeable change, further examination is warranted.

Risk: Revenue Recognition

Companies may be tempted to improperly recognize sales when, in fact, the sales weren't completed due to circumstances surrounding the hurricane. Consider a manufacturer of heavy equipment. Orders for machinery may be made months or years in advance of the

expected delivery date. What happens if the manufacturer has nearly completed the machinery, but the customer was hit by Hurricane Katrina and is unable to accept delivery?

While the manufacturer may have legal remedies available to enforce the contract, revenue recognition rules will likely prohibit the company from recording a sale. FastComm Communications Corp. found itself in hot water with the SEC when it was alleged that on at least two occasions the company recorded sales for products that weren't even completed at the end of the quarter. This improper recording of revenue overstated the company's revenues by 33 percent in one quarter.

Similarly, machinery or products that aren't able to be completed or shipped to Hurricane Katrina victims shouldn't be recognized as completed sales. It's easy to see why management may be inclined to record certain incomplete sales particularly when the items are of significant value.

Auditors should be on the lookout for sales recorded toward the close of the accounting period. Supporting documentation should be examined, and the company's premises should be inspected, if possible.

On one audit, I asked management the name of a customer for a large piece of equipment that appeared to be collecting dust. An examination of the financial records showed a sale to that same customer just prior to the close of the fiscal year. In fact, that was an improperly recorded sale for the piece of equipment in

(Continued on page 6)

(Financial Fraud continued from page 5)

the plant, which couldn't be shipped until some other difficulties were resolved. The reversal of the sale changed the company's bottom line from a profit to a loss.

Risk: Accounts Receivable Reserves

Consider the potential losses from accounts receivable due from hurricane victims. Companies decimated by Hurricane Katrina have a high likelihood of slow payment or non-payment of receivables.

Upon discovering that accounts receivable aren't likely to be collected, GAAP requires that the company establish a reserve for the uncollectible accounts. This records a corresponding expense, thereby lowering the company's profits.

It's apparent why an executive may be reluctant to book these expenses, particularly if large dollars are in play. Not only will the company's financial statements suffer in the current year, the following year's sales may also suffer if a significant number of customers are now out of business.

The SEC is on the lookout for companies that don't properly account for uncollectible and delinquent accounts. First Merchants Acceptance Corp. experienced rising delinquent

accounts in 1996. To avoid charging off the uncollectible accounts, the company manipulated the accounts receivable to make more than 7,000 delinquent accounts appear current. The effect of this was an overstatement of net income by \$76.7 million in 1996, for which the SEC took action.

Overstatement of accounts receivable may not be easily discovered, but auditors can engage in specific procedures to help uncover delinquent accounts related to Katrina. Significant customers should be examined, and the auditor should attempt to determine the location of those customers' operations. If the operations are located in the "Katrina Zone," then further investigation of the collectibility of accounts receivable is warranted. Additional procedures might include confirmations and review of cash receipts subsequent to the close of the accounting period.

Risk: Inventory Fraud

An annual concern shared by many companies is the problem of obsolete inventory. Companies identify old inventory that has little value, and then they are left to decide whether they will recognize an expense in the current year as required by the accounting rules.

From 1997 through 2000, Del Global

Technologies materially overstated its inventory by maintaining obsolete inventory on its balance sheet at the full value, rather than properly writing it down. This, in conjunction with the improper capitalization of ordinary expenses, overstated Del's pre-tax income in each year by \$3.7 million to \$7.9 million. The overstatement of net income was 110 percent to 466 percent of the actual net income.

The fraud went undetected by the auditors because the company maintained two sets of books – one for its auditors and one for internal purposes. Fictitious documentation was created by management to further conceal the fraud.

Hurricane Katrina may give companies an opportunity to reduce their inventory write-offs this year. To the extent that obsolete inventory really was damaged by the hurricane, insurance coverage may apply. However, the valuation of the inventory may be called into question, and companies may attempt to over-value the inventory for insurance purposes.

Companies also may be tempted to write off obsolete inventory as damaged by the hurricane even if this isn't the case. Investors and users of the financial statements may likely judge that type of write-off less harshly than a straight inventory write-off due to obsolescence.

Auditors should critically examine the write-offs due to the hurricane and compare details to the prior year's obsolete inventory reserves. If auditors are observing the company's annual physical inventory they should be on the lookout for damaged inventory and perform additional procedures to verify the correct accounting treatment.

Risk: Underreporting Expenses

A simple way to beef up a company's financial statements is by not reporting expenses. Hurricane Katrina cleanup and rebuilding is expensive and to the extent that a company doesn't report these items on the financial statements net income is increased.

Consider the example of Aurora Foods Inc. In 1998 and 1999, upper management underreported trade marketing expenses by more than \$43 million, and actively concealed the underreporting from the independent



It's recommended that auditors pay special attention to the revenues recorded after the disaster and ask themselves whether those financial results are reasonable. These companies probably should show decreased revenues in the months following the disaster. If revenues show no noticeable change, further examination is warranted.

auditors. This resulted in the material misstatement of Aurora's financial statements, which inflated the company's net income by \$43 million.

When management is actively concealing the company's expenses, it may be very difficult to determine that a fraud has occurred. Auditors should be looking for expenses related to cleanup. The absence of such expenses should raise serious questions, and the auditor should conduct a skeptical inquiry into the whereabouts of cleanup and rebuilding costs.

Risk: Improper Capitalization of Expenses

It's often tempting for companies to capitalize expenses and deduct them over several accounting periods rather than expensing the entire cost immediately. Costs related to Katrina clean-up and rebuilding are no different. These costs may be substantial, and executives may be inclined to spread the costs out over a few years rather than expensing them when they are incurred.

The most notable fraud related to capitalized expenses was committed by executives at WorldCom Inc. Billions of dollars in operating expenses were capitalized during 2001 and early 2002. This reduced the expenses shown on the income statement thereby overstating the company's net income.

Many hurricane clean-up costs won't benefit future accounting periods, and therefore shouldn't be capitalized. Capitalization may be appropriate for some repair and replacement of significant equipment and buildings, but these situations should be easy to spot.

In theory, improper capitalization of expenses shouldn't regularly occur in companies with independent auditors. The rules about capitalization are fairly straightforward, and improperly recorded transactions should surface if the auditors carefully examine capitalized items. However, the devil is in the details if management creates fictitious documentation to support its accounting treatment of items that they prefer to capitalize.



Auditors should be examining supporting documentation and determine whether items are related to the hurricane. Questionable items should be investigated more thoroughly, and auditors may consider contacting vendors to inquire about the true nature of products and services provided.

Risk: Overstatement of Insurance Receivables

In addition to the rules on the technical treatment of the losses under today's accounting rules, management must also consider the proper treatment of insurance reimbursements. Properly insured companies will be reimbursed for the majority of their property losses and loss of business. However, insurance settlements and payments may not be made for some time.

It's expected, therefore, that financials of hurricane victims will show decreased revenue from Gulf Coast locations for at least the third and fourth quarters of this year. Recoveries from insurance policies shouldn't be recorded by the companies until contingencies are resolved and the amount of insurance payments can be reasonably estimated.

If a company includes an insurance receivable in the current year's financial statements, auditors should critically examine the source documentation and inquire with management. They should determine whether the insurance company has agreed to such payments, and this might be accomplished with confirmations.

Risk: Disguising Losses As Related to Katrina

Although losses related to Hurricane Katrina should be combined with regular business expenses, the management's discussion and analysis will likely highlight the magnitude of these items. Therefore, it might be advantageous for companies to try to disguise ordinary losses as related to Katrina.

The easiest types of expenses to roll into hurricane-related accounts would be related to repairs and cleaning because those sound like Katrina items. Auditors should be examining supporting documentation and determine whether items are related to the hurricane. Questionable items should be investigated more thoroughly, and auditors may consider contacting vendors to inquire about the true nature of products and services provided.

Be Sympathetic but Skeptical

Will Katrina-related frauds really be any different from the garden-variety financial statement frauds? I don't think so. Instead, I think that Hurricane Katrina has just created an additional avenue for fraud.

I believe most of the general population has sympathy for the individuals and businesses affected by this tremendous natural disaster, and this may cause them to be less skeptical about financial results. Auditors should make sure that the true facts are not lost in management's "spin" on the hurricane's effect on the financials.

It's important as fraud examiners that we find the latent fraud and avoid adding to the woes of the people of the region.



Editor's Note: Tracy L. Coenen, CFE, CPA, is president of Sequence Inc., a forensic accounting firm with offices in Milwaukee and Chicago. Her e-mail address is: tracy@sequence-inc.com.

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GMV – GET MORE VALUE FROM YOUR MEMBERSHIP

Legislation & Advocacy – Your Voice Gains the Strength of Thousands

In each issue of *Lagniappe* we'll feature one of your many member benefits and highlight the ways you can get more value from your membership investment. This issue's spotlight is on the value of:

Legislation & Advocacy

The Society maintains a strong and successful role in monitoring and influencing legislation to create a more favorable business environment for CPAs, employers and clients. As a member, your voice gains the strength of thousands in state and federal legislation that impacts the profession.

This member benefit has proven its value, especially in the last few months. The LCPA continues to play a highly proactive role in serving as a liaison between LCPA members and the Internal Revenue Service and the Louisiana Department of Revenue.

In January, the LCPA hosted a Commissioner's Forum with key IRS officials. As a result of the collective efforts of the LCPA and our members, the IRS granted much-needed tax relief for hurricane victims in the form of federal filing extensions. The LDR soon followed with extensions on state returns as well.

Since the January meeting, the Society has worked closely with IRS and LDR officials to publish guidance on other questions and concerns raised throughout an increasingly complicated filing season. The LCPA also has passed along members' frequently asked questions to the IRS and they have responded accordingly.

Over the years, the Society has built and maintained this and other **strong alliances with key organizations** for the mutual benefit of all parties involved. Ongoing relationships with the State Board of CPAs of Louisiana and the American Institute of CPAs help us keep up-to-date with new developments affecting the business and CPA profession.

The LCPA also sponsors several liaison meetings with the State Board, the IRS, the LDR, and the Legislative Auditor's Office, all with the goal of improving communication and safeguarding the interests of our members. Members always

are encouraged to submit topics and problems for consideration.

The Society's **Key Person Program** is one of the most influential grassroots lobbying forces in the State Legislature. As important legislation pertaining to CPAs is enacted, key persons establish and maintain contact with senators and representatives on the state and federal level. To volunteer to serve as a key person contact Grady Hazel at the Society office or via e-mail at ghazel@lcpa.org.

Comprised of LCPA member volunteers, the Society's **Legislation Committee** strives to maintain a sound accountancy law in Louisiana and to successfully oppose any weakening in the licensing and regulatory laws which would adversely affect the public interest or the professional status of the CPA, or in any way permit unqualified persons to practice accountancy. LCPA's Legislation Committee closely monitors legislation and state agency proposals to determine their impact upon the profession.

The Society's legislative programs are very successful and the role of the **PAC (Political Action Committee)** is key to that success. The rules of the political process mandate that a lobbying voice be heard and, likewise that political contributions be made to candidates. Supported by member contributions, PAC enables the Society to maintain its legislative success.

The Society retains Harris, Deville and Associates of Baton Rouge as the Society's **chief lobbying force** to influence legislative activities which affect the accounting profession. Our well-connected, professional lobbyist works on behalf of members, enabling the voice of Louisiana CPAs to be heard in the political process.

Visit <http://www.lcpa.org/SocietyLeg.Program.html> for a listing of the LCPA's Legislative Accomplishments.



Members Tell Us How They Experience the Value!

"Thank you for being so responsive to our needs post-Katrina. I laud the LCPA for their extraordinary efforts on our behalf. Thank you so much for being such a strong advocate."

Linda Cox

"I think members are now realizing the value of their membership and the important role the Society has now undertaken since August 29."

Ted Stacey

"Thanks for all your hard work and efforts. You are doing a great job for us."

Tony Dyess

"The work the LCPA has been doing for the residents of our area, and, of course, the CPAs has been terrific. I cannot thank you enough, both as a taxpayer and as a tax preparer! Your efforts are appreciated so much."

Ellen S. Yellin

"Thank you for all your efforts. Well done."

Susan Breaux

"Thanks again! You all have done a wonderful job for us 'affected' practitioners as well as taxpayers."

Jodie Arceneaux

"Thanks for your response. It has been a tremendous help to us who are sole practitioners."

Frank Bourque Jr.

Legislation & Advocacy
*Just one of your many
LCPA Member Benefits . . .
We're Here for You!*

State taxing authorities have long been concerned with the potential loss of sales tax revenue due to sales through catalogs, the internet, and other remote means. At the same time, over the years, states have created special rules for exemptions, applicable rates, and otherwise for targeted products and services. Thus, a complex, non-uniform, and administratively cumbersome system of taxation and compliance has evolved – a system all parties agree needs improvement.

Current State

Today, a business looking to collect sales taxes on a monthly basis for each taxing jurisdiction in the United States would have to file over 230 returns per month, apply 7,600 different tax rates and determine whether a sale would be taxable under at least 46 different definitions of taxable transaction. The business would have to deal with different sourcing rules as well as different administrative procedures for registration, exemption certificates and statutes of limitations. Under the U.S. Constitution, states have the right to apply different taxing methodologies as long as their tax laws do not interfere with the stream of interstate commerce. There is no bright-line test to determine when a business has “nexus,” that is, the requirement to collect sales taxes, but there must be “some definite link, some minimum connection between a state and the person, property or transaction it seeks to tax.”¹ In *Quill*, the United States Supreme Court held that the Due Process Clause requires a minimum connection to the state, but does not require a taxpayer to have a physical presence in the state before the state may exercise its taxing power.² In general, a good rule of thumb is that employees or property within a state will likely create nexus for sales/use tax purposes.

Background of the SSTP

The Streamlined Sales Tax Project (SSTP) was envisioned as a means for businesses, taxing authorities and tax practitioners to work together to simplify the current system as well as encourage, and ultimately mandate, sales tax

collections for the jurisdictions into which goods are shipped. Begun in 2000, the SSTP was created with a stated mission “to design, test and implement a sales and use tax system that radically simplifies sales and use taxes.”³ The unstated objective of the project is the enactment of federal law that would allow states adopting the simplified system to impose sales and use tax collection obligations on companies without physical presence in the state. Forty-three of the 45 states that impose a sales tax, plus the District of Columbia, are involved at some level.

Companies need to consider the changes that are occurring in state sales tax laws. These changes affect more than just remote sellers. The changes can potentially affect taxation of purchased goods as well as sales tax collections.

Currently the following states have implemented or plan to implement the new laws/procedures:

Full Implementation on 10/1/2005

- Indiana
- Iowa
- Kansas
- Kentucky
- Michigan
- Minnesota
- Nebraska
- New Jersey
- North Carolina
- North Dakota
- Oklahoma
- South Dakota
- West Virginia

Planned Implementation (Date)

- Ohio (January 1, 2008)
- Tennessee (July 1, 2007)
- Utah (July 1, 2006)
- Arkansas (January 1, 2008)*
- Wyoming (January 1, 2008)*
- Nevada (January 1, 2008)*

* AR, WY and NV are in compliance with SSUTA as a whole, but not with each provision and they must re-petition

Requirements for States to Adopt Streamlined Sales and Use Tax Agreement (SSUTA)

Simplification can be a challenge when taxes are involved, and the SSUTA is no exception. States are required to adopt

certain rules that promote uniformity for administration, rates, tax base definitions and sourcing, as well as other items. Central registration is available for participating states, along with a uniform return and exemption certificate for those jurisdictions. The participating states had to adopt uniform rules on bad debt deductions. Each implementing state is required to post an informational matrix on its website.⁴

Tax rates are required to be a single rate for each jurisdiction without any special caps or thresholds, with exceptions for food and drugs. Local jurisdictions may still apply local rates, but the rate must be the same based on zip code boundaries. The state must act as the collector for all local taxes and audits may be conducted at the state level only. These requirements have likely been one challenge that Louisiana faces as the state considers whether or not to implement the SSUTA.

Tax base definitions must be uniform among the states for certain goods and services, including the definition of tangible personal property, sales price, lease, delivery charges, food, clothing, “digital goods” and healthcare products. States may still exempt different items, as the SSUTA does not require uniformity on what items are taxable – instead, it requires that definitions be the same. Sourcing of the sale must be at the destination. This issue has been a challenge for Texas in implementation because city taxes are based on origin and MTA taxes are based on destination. Kansas changed its sourcing rules effective on January 1, 2005 in order to be in compliance with SSUTA.

Amnesty

SSUTA provides that a seller who decides to register and collect may apply for amnesty without any payments for uncollected and unpaid sales and use taxes for prior periods as long as the seller now collects for all participating states for at least three years after registration. Amnesty does not cover any taxes due in the seller’s capacity as a buyer on purchases, nor does it cover taxpayers who have received a notice of audit.

(Continued on page 18)

COST SEGREGATION APPLICATIONS FOR COMMERCIAL PROPERTY

By Jim Shreve

The economics of tax depreciation for commercial property may be a practical question for your clients or employers who are commercial property owners: "What is the chance of using all of the 39 years of depreciation on my commercial property I acquired if I am 55 years old?" There is now an alternative to apply more depreciation expense in a commercial property owner's business and personal life.

For commercial property owners who have purchased, constructed, or substantially renovated a building since 1987, a revenue procedure, coupled with a landmark tax court case, provide a new reason to undergo a cost segregation study that could result in significant and immediate cash flow and tax savings.

While the enactment of the Tax Reform Act of 1986 eliminated the Investment Tax

Credit (ITC), it substantially altered the depreciation system for real and personal property by classifying assets into nearly 130 different categories, each with its own depreciable life. This pattern of depreciable lives is known as the Modified Accelerated Cost Recovery System (MACRS).

In the landmark tax court case *Hospital Corporation of America, 109TC 21 (1997)*, the court held that if the property would have qualified as tangible, personal property under the repealed ITC, that same property would also qualify as tangible personal property under MACRS. In addition, a 1999 IRS Revenue Procedure allows real estate owners to automatically go back to closed tax years and "catch up" the entire omitted depreciation in the current tax year, *without* amending tax returns.

A 1999 IRS Revenue Procedure allows real estate owners to automatically go back to closed tax years and "catch up" the entire omitted depreciation in the current tax year, without amending tax returns.

Why Cost Segregation Engineers

An IRS counsel memo to the Service recommended an "engineered cost segregation study" to best provide for the proper study for commercial properties. The study performed by the cost segregation engineers allow for the optimum economic benefit resulting from the thorough definition of the applicable items in the property, and to assure the proper protocol by correct methods and the "rules".

A cost segregation study will identify and price nonstructural elements and exterior improvements, making it possible for property owners to maximize their depreciation deductions. The study reclassified as much of the related cost as possible from building cost to personal property and exterior improvements. In addition, indirect construction cost such as construction period interest, general conditions, architecture, and engineering fees are allocated on a pro rata basis to the assets identified as non-structural. By maximizing their depreciation deductions, building owners increase their cash flow by paying less income tax during the early years of a building's depreciable life. The owner is also eligible to play "catch up" for depreciation in prior years.

Under today's guidelines, a commercial building is depreciated for tax purposes over 39 years (27 1/2 years for residential real estate). Upon segregation of tangible personal property and exterior improvements from a building's cost, companies realize the benefits of deducting accelerated depreciation on assets otherwise lumped together with a building's cost. For many commercial properties, 20 to 40 percent of building cost can be segregated into five, seven, or 15-year life instead of a 39-year life.

(Continued on page 18)

COST SEGREGATION STUDY REVIEW - Bank Building (Example)

The following chart outlines the "benchmark" estimate for the expected results.

PHASE I: Preliminary Analysis and Identification

Building Cost	\$1,400,000		
Date Acquired	January 2003		
Tax Year:	2005	2006	2008
Current Method			
Accumulated Depreciation Reported 39 year straight line method	\$106,246	\$142,142	\$213,934
Alternative Method			
Cost Segregation Study Depreciation			
5 yr.	\$307,328	\$349,664	\$392,000
15 yr.	\$37,940	\$48,146	\$65,598
39 yr.	\$65,873	\$88,128	\$132,639
Total	\$ 411,141	\$ 485,938	\$590,237
Results for Tax Year:	2005	2006	2008
Increased Depreciation Expense	\$304,895	\$343,796	\$376,303
Tax Rate (estimated)	36%	36%	36%
Tax Savings Benefit	\$109,762	\$123,767	\$135,469

These results represent a benchmark of the expected results. The tax reduction benefit in tax year 2005 is \$109,762, and in tax year 2006 is an accumulated tax reduction benefit of \$123,767. The tax reduction benefit accumulates to \$135,469 in tax year 2008.

LOUISIANA REVENUES

Restoring Taxpayer Confidence Is a Coordinated Team Effort

By LDR Secretary Cynthia Bridges

Perhaps you are familiar with the old adage, "Once bitten. . . twice shy." For many Louisiana taxpayers today, this phrase can take on a new meaning. The constant bombardment of our individual and business taxpayers with news of delayed or hampered recovery efforts on the part of local, state and federal officials has overwhelmed the airwaves. The result is not only a lack of trust in the source of recovery coordination, but a noticeable impact on every community throughout the state. Having been bitten once, some taxpayers are becoming shy, perhaps reserved, harboring the misconception that Louisiana is losing its appeal as a place to live and conduct business.

Perception misdirected as reality is an unfortunate by-product of our Post-Katrina/Rita times and can negatively affect us all. I certainly don't have to remind you that your clients or employers impacted by these unprecedented natural disasters, both individual and business taxpayers alike, are making critical decisions about how to proceed with their personal and professional recovery. Every decision they make, large and small, will affect the growth of our state economy for years to come.

I am not alone in preferring to strive toward completing the task at hand rather than stopping to measure the pace of our work through the negative perceptions of others. As professionals we have no time for ill-conceived

commentary that only serves to make confidence in our success less stable. We can ill afford to standby while the "news of the day" erodes the confidence of our taxpayers, leading them to become convinced that the recovery is in jeopardy. With "Accentuating the Positive" in mind, I'd like to ask for your continued assistance in guiding taxpayers in the proper positive direction. As a remedy, positive fact rather than reinforced negative misconception must greet their inquiries.

I want taxpayers to understand that we are all partners in the rebuilding of our state. On a practitioner's part, it can be as simple as making sure clients fully understand the benefits of extended deadlines, the "Natural Disaster Sales Tax Refund" program, the fact that electronic filing is available to every taxpayer, or a host of other initiatives highlighted on our LDR website. Introducing such programs to taxpayers and accentuating the positive may seem small on your part, but one client at a time, it's the key to reinforcing confidence in our ability to restore the environment we have worked so hard to create.

Frankly, I doubt that any community in the nation is watching from near or far and envying our current circumstances. Negative images abound and "Once bitten . . . twice shy" is unfortunately a fitting suit of armor that many impacted taxpayers and the curious outside our communities find comfort in wearing.

I am convinced that those who have



Secretary Bridges

already written off our state as an environment perhaps too challenging for new investment and development will, in a few years, envy the experiences we have gained in having gone through and survived this unprecedented tragedy. I'll even take that one step further and predict that after the hard work is done, many more will have a renewed desire to join us in our restored and firmly founded business environment.

The health of Louisiana's economy is dependent upon the combined success of every regional area within it, and every chance to convince the "bitten and shy" that it has not ceased to be a great state to live and work in will be worth the effort. LDR will not be shy in promoting the benefits of being a part of our renewed community.

Thank you for your continued support!
Cynthia Bridges, Secretary
Louisiana Department of Revenue

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Bill Hyde
Attorney At Law

MOST CPA CLAIMS LOSSES INCURRED IN TAX ENGAGEMENTS

By Ron Klein, JD, CFE

A recent study conducted in the fall of 2005 by CAMICO claims and loss prevention staff, showed that 55 percent of CPA professional liability claims come from tax engagements. This high frequency has in turn resulted in a large total of claims dollars incurred, especially in engagements involving technical income tax issues, Sub-S or C corporations, and estate tax planning.

The study determined the areas of practice that incur the most risk, as well as those factors which place them at risk. What follows is a brief description of three types of tax claims and the approaches that are effective in minimizing liability.

Technical Income Tax

The technical nature of this area places most of the burden for decision-making on the CPA. There's usually a limit to how much the CPA can ask the client to decide in technical tax issues. It's much like a patient seeing a doctor about a serious, complex medical condition. The problem and treatment are so critical that the patient will ultimately go with the treatment the doctor recommends. The tax professional must be sure of his or her competency and ability to render the best advice possible for the client.

Loss Prevention Tip – Careful screening of the firm's clients and engagements will help avoid "engagement creep," whereby the scope of an engagement may begin to extend beyond the competencies of the CPA firm. All clients and engagements should be re-evaluated on a regular basis, at least annually, to assure that the firm is:

- 1) capable of performing the services required by the engagement; and
- 2) is performing the services often enough to become proficient at them.

There are also high-risk clients and engagements. Both can be discovered through careful client screening. Much of the information a firm needs to screen a new client is easily obtained by running a credit check, examining previous financial statements, examine the prior CPA's management letters, interviewing the client, interviewing the client's key personnel, and discussions with the client's banker, legal counsel, prior accountants and auditors.

Sub-S or C Corporations

Clients make choices about S corporation elections because they believe the benefits of their choices outweigh the detriments. But sometimes events after a choice make it less beneficial than originally planned, exposing the CPA to liability. CPAs can also face liability from not consulting with clients regarding S elections. For example, a consultation should occur (and may or may not result in an S election) when a closely held C corporation has substantially appreciated assets.

Provide the client with a full consultation of all negative and positive tax ramifications involved, and document the consultation in an "informed consent" letter, providing a brief summary of the issues discussed....Documentation will prevent the client from later asserting that the CPA firm is responsible for unexpected events and for less than optimal results.

Loss Prevention Tip – Provide the client with a full consultation of all negative and positive tax ramifications involved, and document the consultation in an "informed consent" letter, providing a brief summary of the issues discussed. Also, provide an area at the bottom of the letter which:

- 1) allows the client to indicate that they have read and understood the summary letter; and
- 2) provides the client an opportunity to affirmatively indicate that they either do or do not want an S election.

"Informed consent" is always important but even more so in this situation because of its technical nature and the limited ability of the client to discern the pros and cons.

Documentation will prevent the client from later asserting that the CPA firm is responsible for unexpected events and for less than optimal results.

Estate Tax Planning

There is generally a long period between the time that estate planning decisions are made and the time that the results of the decisions are known. Memories of the CPA's advice and the client's decisions fade over time, making documentation of the advice and decisions all the more important.

Sometimes the client dies, and the CPA is dealing with unhappy, litigious beneficiaries. We know that there will be no deposition from the deceased client, so the documentation from the original planning and decision-making process becomes the CPA's primary line of defense.

Loss Prevention Tip – Make it a policy to put all planning advice in an "informed consent" letter, outlining the pros, cons and options in terms the client will understand, and obtain the client's consent. The informed consent letter clarifies that the CPA advises and informs, and the client decides. Without this letter, it is easier for claimants to make it appear that the CPA made the decisions.

The tax professional must be sure of his or her competency in this area and must be sure to document the reliance upon the attorneys drafting the estate plan. Also document which professionals are responsible for which aspects of the plan.



Editor's Note: Ron Klein, JD, CFE, is vice president of claims with CAMICO Mutual Insurance Company and is responsible for the management, negotiation, and settlement of all claims brought against CAMICO policyholders. Mr. Klein has been with CAMICO since its inception in 1986 and has seen over 3,000 professional liability claims during his tenure.

For more information, contact Wyatt Sanders with Alexander & Sanders Insurance Specialists at (225) 924-1371, or visit www.alexsand.com.



PROPERTY CASUALTY LOSSES – VALUATION AND EXPERT OPINION REQUIREMENTS

By Wade R. Ragas, PhD, MAI

After testifying on behalf of the Society of Louisiana CPAs as an appraisal expert and being a central participant in a 28-person IRS conference call and subsequent e-mails, the most efficient way to summarize the outstanding valuation issues appeared to be this article available to Louisiana CPAs, appraisers, contractors and engineers. Paul Waldman's efforts as counsel and a concerted effort by LCPA members Tony Stoltz, Gerard Schreiber, Pat Buckley, Richard Light, GERALYN SUHOR and others were crucial to moving forward these time additions.

Katrina and Rita property and casualty loss filing deadlines of March 15 and April 15 have been extended to October 16, 2006 for all taxpayers through the efforts of Society of Louisiana CPAs' staff and members with my assistance as a valuation expert. Additional filing delays are described in other e-mails from the Society for most personal and business filings. Business and personal property and casualty losses caused by Hurricane Katrina can be claimed on the taxpayers 2004 or 2005 return with additional net operating loss carrybacks available for losses in excess of taxable income for those years.

The number of effected taxpayers will be large. Over 200,000 residences were damaged by the hurricane with

about half of those possessing flood insurance at the time of the damage. At least 30,000 businesses in Louisiana experienced significant damage. Damages in Mississippi affect at least 60,000 houses and 15,000 businesses. Even those with flood insurance often have significant disputes over the costs to repair damages as estimated by the adjusters of the various representative insurance companies for the National Flood Insurance Agency (NFIA), a subsidiary of FEMA. However, it is likely nearly half of the damaged properties did not have any flood insurance.

Wind-caused damages were also substantial which has caused disputes over the extent and cause of damages due to wind with subsequent rain damage as well as simultaneous flood damage. This is becoming an issue increasingly referred to attorneys for arbitration or litigation. Suits over flood insurance casualty loss payments are also becoming increasingly frequent.

The valuation process for asserting a casualty loss for income tax filings and for litigation is essentially identical. Current IRS regulations allow the documenting of a casualty loss to include:

I. The loss is the decrease in fair market value measured as the difference between fair market value immediately before and immediately after the casualty.

- A. A before the event opinion of market value offered by a competent appraiser and a post event opinion of market value by a competent appraiser provide the facts for measuring the casualty loss. The post event opinion is based on market value after the event and will reflect physical damage costs to cure and should include (when sales are available) comparable sales. Beyond physical deterioration (curable or incurable) other forms of generally accepted depreciation such as locational obsolescence may be appropriate.
- B. The appraiser must recognize the effects of any general market decline that may occur along with the casualty. This information is needed to limit any deduction to the actual loss resulting from damage to the property.
- C. IRS in evaluating the accuracy of an appraisal will consider
 - 1. appraiser's familiarity with the property before and after the casualty,
 - 2. knowledge of sales comparables in the area, and
 - 3. knowledge of conditions in the area of the casualty and method



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of appraisal. Appraisals for Federal disaster loans may be used.

- D. To use the costs of repairs as part of the facts to support a decrease in fair market value, the IRS guidelines require:
1. The repairs are actually made (although not specifically in the tax year of the casualty claim)
 2. Repairs are necessary to bring the property back to its former condition (not improved new features)
 3. The amount spent on the repairs is not excessive
 4. The value of the property after the repairs is not, due to the repairs, more than the value of the property before the casualty.
 5. Landscaping damage and restoration costs including tree damage/loss can be considered in the decline in fair market value.

The As Of Date of the casualty damage estimate is supposed to be immediately after the event. An IRS guideline is being sought to determine the end of the event criteria such as (1) dry land restored or (2) state of emergency lifted and households are allowed to return, or (3) market sales activity of real estate resumed. The real estate market in most of the disaster areas remained inactive for the first 45 to 60 days after Hurricane Katrina. Without sales there can be no direct sales comparison analyses. Allowing the appraiser to define an event end date for the specific parcel would be desirable which in no case would be later than December 31, 2005. An IRS valuation team has been asked to address these issues along with others in an expedited manner.

There appear to be no written guidelines at this time of the qualifications of damage estimate supporting personnel such as engineer standards, mold expert certification, contractor licensing or costs estimator qualifications to meet as a condition of issuing an opinion. Federal Uniform Standards of Professional Appraisal Practice require the use of certified residential or general appraisers for opinions of market value involving federally insured or regulated agencies. While the IRS can accept opinions from non-certified appraisers the typical practice

has been to expect the appraiser to be state certified with credentials appropriate to the value and use of the property.

The entire population of state certified appraisers with businesses in the New Orleans area is approximately 290 persons, of which 206 are residentially certified and 84 are commercially certified. The shortage of appraisers will be worsened by the variety of valuation needs imposed by the extensive hurricane damage (financial institution portfolios, buyouts of severely damaged housing at a portion of pre-Katrina market values, loans for restoration of damage property, litigations, and normal transactional activity).

Valuation teams composed of state certified appraisers working with licensed contractors or graduate engineers who can build reliable local costs databases for a wide range of repair categories will be needed immediately to efficiently support the volume of casualty loss estimates. Mold damage causes and costs to cure should require inclusion in the team a nationally certified mold investigator, who can ascertain the extent of mold and appropriate methodology for safe, permanent removal. Under ethics standards, the mold investigator should not be the contractor who does the subsequent mold remediation.

Measurement of loss of inventories, movables, business equipment and furniture/ fixtures/equipment (FF&E) as well as tenant build out may be partly within the scope of the real estate valuation team, but will have to mostly be done by the CPA in conjunction with the client based on their records and memory of items lost.

To maximize the internal consistency of loss estimates and minimize costs of services to the client, these same expert opinions should be available for subsequent litigations since the opinion requirements for the IRS are similar to those required in the course of litigation with insurance companies in state courts. Adjustments in the costs to repair for depreciation may be required depending upon policy language, which are not required in the casualty loss claims. Foregone business profit claims are also often an ingredient in litigation claims, which are not likely to be present in taxpayer casualty loss claims. There are significant disputes emerging over the interpretation of business interruption

policies and the measurement of business loss income, which should be within the scope of the valuation team's capabilities, but outside the scope of the casualty loss claim.

These reports should also be useful for property owners seeking to settle insurance disputes through the state insurance commission's mediation process. The tax documentation for the casualty loss claim should allow the mediator to have expert testimony in a written form in an efficient manner to supplement the opinions of the insured party and the insurance company adjuster estimates without having to provide a member of the valuation team for a personal appearance at each mediator session.

Guidelines for appraisal standards, qualifications and reporting formats specific to Katrina casualty loss claims need to be clarified in the near future by the IRS. An IRS staff valuation team is expected to be on site in the New Orleans area in the coming days to gather information on the special needs and situations posed by this largest of natural disasters in U.S. history. Homebuilder, contractor representatives as well as appraisal representatives will be recruited to meet with IRS field personnel during their site visit. A further update of valuation issues relating to casualty loss will be provided after the IRS provides any further guidance.

Editor's Note: Wade R. Ragas holds a PhD in Finance and is an MAI, SRA with extensive private appraisal experience over the past 30 years including numerous court expert opinions and in IRS valuations for private property owners. He affiliates for casualty loss estimation with Bayou Technical services, led by William B. Martin, graduate mechanical engineer and certified mold specialist, and Edward Taylor, graduate engineer and licensed general contractor, as well as a team of state certified residential appraisers with whom he does team assignments. Wade can be reached at (504) 324-3994, Real Property Associates Inc, 3017 Harvard Ave., Suite 204, Metairie, LA 70006.



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Correct application of IRS rules now allow building owners to depreciate certain assets in 5 years rather than 39 years... and that means huge tax savings.

Cost Segregation Services, Inc. are engineers who provide "engineered cost segregation studies" as a strategic tax savings tool allowing companies and individuals, who have constructed, purchased, expanded, or remodeled any kind of real estate, to increase their cash flow through accelerating depreciation. Cost Segregation Services focuses on the identification of these cost elements of real estate that qualify as personal property and depreciating those parts separately from the real property. The identification of personal property is particularly difficult for taxpayers when an existing property is acquired. Our engineering and tax expertise permits us to provide a study that is acceptable to the IRS.

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In the past few months, the LCPA has sent out several very time sensitive and important tax alerts to our members via e-mail. Those alerts included IRS and LDR announcements regarding filing extensions. The Society views the e-mail tax alerts as a valuable member service and an efficient means of keeping our members up-to-date at such a critical time.

E-mails are sent to those members who have requested to receive electronic communications from the Society. Members can opt-in or opt-out of receiving e-mails. An opt-out selection excludes you from receiving *all* e-mails, including CPE reminders, Society announcements, *and* tax alerts.

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If you have previously opted-out and wish to opt-in, simply contact an LCPA member services representative. We are only able to store one e-mail address per member, so be certain you are providing us your preferred e-mail address. Please

inform us if this address changes so we can update your record immediately. You also may opt-in or opt-out on your upcoming LCPA dues statement.

Blocked E-mail Solution

Some members who have opted-in have reported not receiving the recent tax alerts. This can be attributed to our "bulk" e-mails being blocked by certain servers in an effort to reduce spam. In order for a server to allow our e-mails through, please request that <http://www.LCPA.org> be added to your server's white list.

E-mail: More Important Than Ever for Society's New Database

The Society will soon be implementing new internet-based member association software, Q, which features enhanced online registration and member profile viewing. In lieu of identifying members by their Social Security numbers, e-mail will become the universal means of identification and primary mode of

information delivery. It is essential that you provide us with a preferred e-mail address for this purpose.

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While e-mail is the ideal way of quickly disseminating information, we understand not all members have e-mail. For those members, tax alerts have been posted on our website and can be accessed from the home page.


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Ed d'Hemecourt



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(Sales Tax Report continued from page 10)

Suggestions on Action Steps

In general, what should taxpayers and tax practitioners do about Streamlined Sales Tax? First, consider what operations may occur in implementing states. For example, has the company potentially had nexus in these states due to activities beyond remote sales? Second, if a company is already operating in an implementing state, review definitions to determine if any changes need be made to sales tax collection procedures. Third, be sure to address both the sales and the purchase sides of transactions. Review whether new use tax accrual procedures apply for existing operations such as Kansas use tax accruals based on location where the goods were received. Finally, focus on exemption certificate procedures and assure that certificates are current and valid.

Conclusion

Companies need to consider the changes that are occurring in state sales tax laws. These changes affect more than just remote sellers. The changes can potentially affect taxation of purchased goods as well as sales tax collections. If the larger, more populous states (California, New York, Texas, etc.) see that sales tax collections increase for the states that have implemented SSUTA, it is likely just a matter of time before they get on board and push for federal legislative action to require collections when no physical presence exists within a state.

- ¹ See *Miller Bros. v. Maryland*, 347 U.S. 340, 344-45 (1954); *Allied-Signal, Inc. v. Director, Division of Taxation*, 505 U.S. 768, 777 (1992).
- ² *Quill Corporation v. North Dakota*, 504 U.S. 298 (1992).
- ³ <http://www.streamlinedsalestax.org/oprules.html>
- ⁴ To view a sample matrix, go to <http://www.ksrevenue.org/pdf/KsTaxabilityMatrix.pdf>.



Editor's Note: Susan Breaux is a member of the State and Local Tax (SALT) Practice of Ernst & Young LLP, based in New Orleans. Susan can be reached at susan.breaux@ey.com or (504) 596-4215.



(Cost Segregation continued from page 11)

The savings from an accelerated recovery can be quite significant. Take the following industry examples:

Medical Clinic

Eligible assets identified include \$897,000 of construction cost as 15-year land improvements, and \$750,000 as five and seven-year personal property, which resulted in a present value tax benefit of \$220,000.

Apartments

For a newly constructed \$6.9 million facility, cost segregation identified in excess of \$1.5 million of cost for a five or 15-year property. The tax deferred savings over a four-year period exceeded \$270,000.

Office Building

Cost segregation applied saved a company \$183,000 in present value tax savings on its \$3.1 million office building facility. Assets reclassified from the conventional 39-year tax life to five and 15-year lives, exceeding 24 percent of the total project cost.

Real estate investments best suited to

undergo a cost segregation study include:

- Commercial property purchased or constructed since January 1, 1986;
- Is either historically or prospectively tax profitable;
- Has a least \$300,000 cost basis of property to be segregated.

Other factors to be considered when deciding to undergo a cost segregation study include a profitability of the entity or its shareholders, passive activity rules, early disposition, and other tax-related situations.

A Coordinated Effort

CPAs can work together with a cost segregation engineer to conservatively estimate for the client the potential for the alternative depreciation results to expect prior to starting a study. This simply requires the review by the cost segregation engineer of the client's current tax depreciation schedule, or the building cost for a newly purchased or constructed building. This studied review with the cost segregation engineer of the estimated results will assist CPAs and their clients in assuring a successful strategy before enrolling the cost segregation specialists.

Upon agreement to proceed, the cost segregation engineer are enrolled to perform the cost segregation study. The completed study is then given to the CPA for application to their clients' financial records.

Your clients may be quite pleased with your initiative to apply this depreciation tax strategy.

Editor's Note: Jim Shreve is the president of Cost Segregation Services, Inc. in Baton Rouge. You can reach Jim at (225) 757-5025 or CostSeg@CostSegServ.com.



Upcoming Teleconferences

Compilation & Review Clinic

May 24, 2006 • Louisiana State University Shreveport, University of Louisiana – Monroe • 8 CPE Credits

Designed for CPAs who are not familiar with, or need a refresher on, the performance of compilation or review engagements. The information provided in this course will benefit CPAs by helping reduce their liability risk, as well as helping ensure that they comply with peer review requirements. The course addresses engagement administration issues such as determining whether SSARS No. 1 applies, engagement letters, independence issues, and peer review. The course also addresses the performance and reporting requirements of corporations and other entities for traditional compilations, management-use-only compilations, and review engagements, including documentation requirements. In addition, financial statement preparation and special reporting situations are discussed.

Not-for-Profit Update

June 21, 2006 • Louisiana State University Shreveport, University of Louisiana – Monroe • 8 CPE Credits

Learn what you need to know about the latest and most important developments affecting non-profit organizations from a panel of national experts. Coverage will include accounting, auditing and tax issues, and the latest legislative developments. Understand the concerns that your clients' donors have and learn techniques to attract donations. To obtain a fundamental understanding of Non-Profits receiving federal grants under OMB Circular A-110 and indirect cost rates under OMB Circular A-122. Review the latest developments affecting grants, fund-raising, taxation and accounting for non-profit organizations. Our panel of experts will address the latest AICPA audit and accounting guidance affecting Not-for Profits and the work of the Accountability Task Force. Get practical advice for yourself and your clients about pitfalls that may flow from service on not-for-profit governing boards.

New Reporting Requirements for CPA/CFPs

The CFP Board is encouraging CFP® certificants to complete their biennial 30-hour continuing education (CE) requirement through programs provided by CE sponsors registered with the CFP Board. Beginning January 1, 2006, CE sponsors registered with the CFP Board will be required to electronically report attendee lists to the CFP Board within 30 days of a program's delivery, and CFP certificants will receive automatic notification when CE programs have been reported for them. The AICPA and Surgent McCoy have registered their appropriate programs with the CFP Board. All registrants must inform the LCPA at the time of registration that they require CFP credit. They must request, complete and turn in, a CFP Sign In Sheet at each designated program. The LCPA will forward this information onto the AICPA and Surgent McCoy who, as the program sponsor, must forward it onto the CFP Board. There will not be any additional charge for CE credits for AICPA and Surgent McCoy registrants, as they have absorbed these costs.

Additionally, the LCPA, in the effort to help our CPA/CFP members, will register as a sponsor for certain LCPA-developed programs such as the Estate and Financial Planning Workshop, the Financial Planning Conference, and courses developed for the LCPA, by Raymond Ladoucier, CPA, MBA, Atty. In order for the LCPA to cover the additional fees that this process demands, a fee of \$10 per CFP registrant will be collected by the LCPA, who will forward the certification

information onto the CFP Board. All registrants must inform the LCPA at the time of registration that they require CFP credit. They must request, complete and turn in, a CFP Sign In Sheet at each designated program, to facilitate the forwarding of credit information.

The CFP Board will continue to allow certificants to report CE programs taken from non-registered programs, but non-registered programs completed on or after January 1, 2006 will be subject to a \$20 processing fee per program. The non-refundable processing fee must be paid online when the non-registered CE program is submitted to CFP Board, and the fee will cover the costs of reviewing the non-registered program to ensure that it meets CFP Board's CE requirements.

These new requirements will benefit CFP® certificants by significantly reducing the burden of reporting and recordkeeping. Documentation of programs completed will no longer be needed because hours reported electronically by the sponsor are not subject to audit.



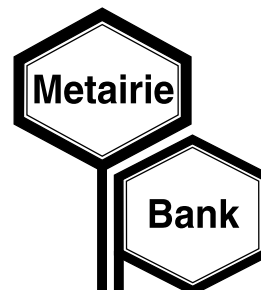
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