Business & Tax Solutions for the Entrepreneur

Volume 14 • Issue 2 • 2008

5 7 1 2 1 4 2 0 8 1 2 0 2

2 3 5 1 1 8 5 2 2 5 1 8 2

KATZ, SAPPER & MILLER

THE ADVISOR

0 8 9 1 9 1 6 1 8 1 5 1 0

5 3 2 0 9 1 9 1 1 2 1 3 1

5 1 9 2 0 1 5 2 2 5 1 8 2

2 3 5 1 1 8 5 2 2 5 1 8 2

5 7 1 2 1 4 2 0 8 1 2 0 2

0 8 9 1 9 1 6 1 8 1 5 1 0

"Among Obama's proposals are the elimination of capital gains taxes for entrepreneurs and investors in small businesses and lowering corporate tax rates for corporations that choose to expand or start operations in the United States."

In This Issue:

Barack Obama's Tax Plan

By William Robinson, J.D. CPA

SUMMARY: In an ever-changing American and world economy, perhaps none are impacted more by the ebbs and flows of economic stability than the middle class. The degree of optimism on the state of the economy as measured by the Consumer Confidence Index (CCI), is nearly half of what it was a year ago. In an effort to restore confidence in the economy, President-elect Barack Obama has proposed a tax plan that he says specifically targets middle class Americans.

The forefront of Obama's plan is to restore individual income tax rates to their pre-EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001) levels, with the exception of the 10% bracket for lower income individuals. This plan would restore the 36 and 39.6% brackets. After EGTRRA was passed in 2001, the taxpayers in the highest income bracket enjoyed the largest reduction on a percentage basis as a group. Conversely, with the return of the 36 and 39.6% rates and all other factors remaining equal, these upper income bracket individuals will endure the largest, and only, increase in individual income taxes across the board. The marginal increase of 4.6% on the earnings of these top-tier taxpayers will be used to fund the tax credits proposed by Obama.

Among the credits proposed by Obama are the Making Work Pay tax credit, the American Opportunity tax credit, and the Universal 10% Mortgage Interest tax credit. These three credits are geared, almost exclusively, toward helping middle class families and individuals. The Making Work Pay tax credit would provide up to $1,000 as a refundable tax credit for working lower and middle-income families. The American Opportunity tax credit is a fully refundable tax credit of up to $4,000 to cover qualified tuition expenses. This credit covers 100% of qualified expenses up to $4,000 per year which, according to Obama, would make "community college essentially free and cover about two-thirds of the cost of public 4-year college." Finally, the Universal 10% Mortgage Interest credit is a refundable credit

Continued on page 11. See "Tax Plan."

5 7 1 2 1 4 2 0 8 1 2 0 2

0 8 9 1 9 1 6 1 8 1 5 1 0

Managing Partner Message

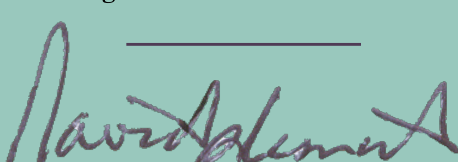
David Resnick, CPA
Managing Partner

We are pleased to announce that we have acquired Digitech, Inc., an Indiana-based consulting and networking services firm. Founded in 1998, Digitech provides services in the areas of computer systems evaluation, security and the design, installation and maintenance of networks. This acquisition will allow us to strengthen our industry reach and provide additional business technology services to our clients.

We have also made internal technological improvements that will allow us to better serve our clients. Although it is difficult to conceive of an accounting firm whose employees' desks are not cluttered with stacks of files and piles of paper, those days are coming. Katz, Sapper & Miller (KSM) is among the leading accounting firms that are searching for ways to improve our production process and client service through the use of technology. We are attempting to move to a less paper world, where access to client information can be obtained without leaving our desks.

Most of our staff members now have three computer monitors to allow the viewing of multiple years of audit and tax records simultaneously. All client service personnel have been provided with smart phones to allow for remote access to our computer network. We are reviewing and making necessary revisions to our processes, to help streamline our electronic workflow and further automate our handling of physical documents. During this past tax filing season, we implemented e-filing procedures to facilitate electronic transfer of tax information directly to federal and state taxing authorities, thereby eliminating the possibility of returns being lost in the mail and our clients waiting in long lines at the post office.

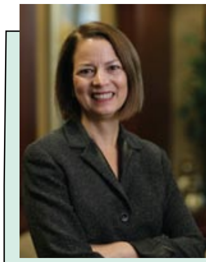
We are committed to continuing our exploration and incorporation of future technological advances into KSM processes to enable us to provide you the best service possible. I welcome your thoughts and observations.

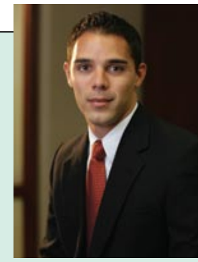


David Resnick is the firm's Managing Partner. David can be contacted at 317.580.2090 or dresnick@ksmcpa.com.

Where To Go From Here?

By Karen Mersereau, CPA, CFP™ and Jared Nishida, CFA





SUMMARY: As advisors continue to process the seemingly endless supply of unprecedented developments in the global financial system, it is important to recognize the impact of investor sentiment on the capital markets in the short run.

Fundamental factors will drive investor returns in the long run, but there are moments of extreme dislocations where emotionally-driven markets overwhelm rational decision making. With the benefit of hindsight, it is obvious that peak moments of fear have historically coincided with market bottoms and provided the most compelling opportunities to invest. However, in that moment it is difficult to remove emotions from the decision. Human nature pushes one to extrapolate recent experiences in perpetuity. When that recent experience is negative, it is hard to see how it could ever go the other way.

In the midst of the 2000 – 2002 bear market, John Hussman (Manager of the Hussman Strategic Growth Fund) attempted to identify common characteristics of a market bottom in a letter to investors. He said, "At meaningful market lows, the tenor of news reports has always been something to the effect that 'conditions are bad, expected to get worse, and there is no end in sight.' When the news reports are uncontroversial in reporting the U.S. is in recession, when they suggest that there is worse news ahead, and when they indicate that nothing seems to be helping, THAT is when the market is more likely to register its low."

This is not an attempt to declare a market bottom. With all the moving parts of the current bear market, both fundamentally and from an investor confidence standpoint, short-term market projections are fruitless conjecture. It is constructive to consider evidence of how the pendulum of investor sentiment tends to swing too far in either direction of the rational center.

The equity markets are oversold in the short run. Could it go lower from here? Certainly, but clearing rallies have typically occurred after sharp market declines and this could be viewed as the short-term path of least resistance. As of this writing, the market just experienced a 10.5% increase in one week.

It is important to note that this view is not mutually exclusive with a cautious view of equities. There are certain fundamental headwinds that will create a difficult environment for economic growth and stocks going forward. The unemployment rate, durable goods orders and consumer spending point to a near certain recession, and it is the presence of dysfunctional credit markets that have created enormous uncertainty and risk aversion. Arguably these issues will not be worked through quickly. The key question is not if these problems exist, it is whether the current market prices reflect reasonable assumptions about their effects on future corporate earnings. Time will tell the answer to this difficult question but there is a high probability that the pendulum will swing too far to the pessimistic side before reasonable values are reached.

Where to Invest from Here?

For investors with long-term time horizons, we believe there are a number of attractive investment opportunities. One of the most compelling is high-quality growth companies. These are companies with consistently high earnings growth, strong and growing free cash flows, low debt-to-equity ratios, high debt coverage ratios and astute management teams.

Standard & Poor's analyzes over 4,000 companies traded on the NYSE, AMEX, and NASDAQ by "quality factors" (such as earnings per share growth and stability of earnings and dividends over the most recent 10-year period) and only 13% of stocks earned an A+, A or A- rating. Active managers employing high-quality screens usually narrow the universe of eligible stocks to less than 200. Examples of this type of company are Johnson & Johnson, Microsoft, Proctor & Gamble and Coke.

High-quality growth companies have fallen victim to indiscriminate selling along with lower quality, highly leveraged companies. Many are selling at prices less than half their intrinsic values; however they are well positioned to continue their earnings growth through the recession and slower growth period. They are often market leaders in defensive sectors that can fuel growth, acquisitions and dividends through organic free cash flow. High-quality growth companies have outperformed in the current bear market and are positioned to appreciate substantially when the market returns to valuations based on underlying fundamentals. Over the long term, a company's stock price will reflect the earnings growth of the business.

"For the first time in many years, there are also solid investment opportunities in fixed income."

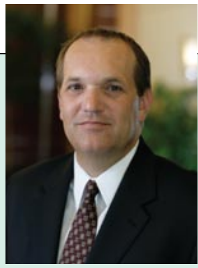
For the first time in many years, there are also solid investment opportunities in fixed income. Corporate and municipal bond yields have increased to attractive levels, particularly on a risk-adjusted basis. In addition, inflation protected bonds are now priced to generate real yields (net of inflation) of over 3% for a 10-year note.

During the third quarter, overall risk aversion and flight to safety occurred in the bond market in addition to the equity market. Credit markets seized up, and investors lost confidence in the global fixed income market selling bonds in all fixed income categories other than U.S. government bonds. As prices fell on investment-grade, municipal and high-yield bonds, yields rose sharply.

Current spreads (bond yields in excess of the comparable yields on treasury obligations) are well above historic averages. To illustrate, as of this writing, 10-year high grade corporate bonds (AAA) yield 5.5% to maturity (180 bp over treasuries) and 5-year AAA municipal bonds yield 3.4% compared to 2.8% for a 5-year treasury. (It is very rare to see a tax-free municipal bond (AAA) providing an absolute yield

Continued on page 10. See "Investment."

Changes Coming to Indiana Property Taxes



By Jeff Kelsey, CPA

SUMMARY: The 2008 Indiana legislature made some sweeping changes to Indiana's property tax system. Some of the changes will have an immediate impact, while others will not resonate for a couple of years. The most immediate impact was an additional $620 million for homestead credits to be applied to the March 1, 2007 property tax bills due in 2008. Statewide, this change is expected to result in a 26% reduction in homeowner property taxes compared to the 2006 pay 2007 bills.

Beginning in 2009, the majority of school operating expenses will be shifted from property taxes to state funding. Pre-1997 local police and fire pension obligations will also be shifted to state funding, as will juvenile incarceration and health care for the indigent. In total, nearly $1 billion will be transferred from the property tax rolls to state funding, which is expected to provide significant property tax relief to all taxpayers (not just homeowners).

The Legislature also imposed caps or maximum tax rates that may apply to property values in future years. For 2009, the maximum tax rate on homestead property will be 1.5% dropping to 1% for 2010 and thereafter. Similarly, the maximum rates on other residential property (including apartments) and agricultural property will be 2.5% for 2009 and 2% thereafter; while the maximum rate for business personal and real property will be set at 3.5% for 2009 and 3% thereafter. Certain debt obligations incurred as the result of a local referendum will be exempt from these caps. In addition, a local unit that is severely impacted by the caps may petition for relief subject to approval of a nine-member board.

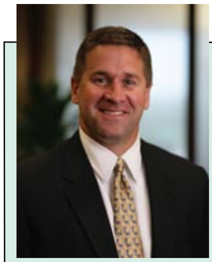
Effective July 1, 2008, the duties of most Township Assessors were transferred to the County Assessor. A referendum was held in November in townships that have more than 15,000 real estate parcels to determine whether to retain the duties of the Township Assessor or to transfer those duties to the county. Most Township Assessor's duties were transferred to the county as a result of the referendum. Most construction projects will also be subject to a taxpayer referendum.

"In total, nearly $1 billion will be transferred from the property tax rolls to state funding, which is expected to provide significant property tax relief to all taxpayers (not just homeowners)."

Although these changes are expected to significantly reduce the amount of property taxes paid by most businesses and individuals, the Legislature did provide for certain tax increases. Most significantly, the state sales and use tax rate was increased from 6% to 7 %. In addition the Legislature allowed (strongly encouraged) county governments to increase the local income tax rate that applies to individuals as a means of additional funding.

Jeff Kelsey is a Director in the State and Local Tax Department. For more information, contact Jeff at 317.580.2058 or jkelsey@ksmcpa.com.

Merger & Acquisition Accounting Rules Changing Again



By Mike Lee, CPA

SUMMARY: The financial accounting standards board (FASB) released the statement of financial accounting standards (SFAS) no. 141R, business combinations, in december 2007, which introduced the "acquisition method" of accounting. This standard is effective for fiscal years that begin after december 15, 2008. Therefore, the accounting for an acquisition in 2009 will be different than the same acquisition made in 2008. Although early adoption of the new standard is prohibited, businesses should assess the impact of the revisions of the business combination standard now, as it could affect a contemplated M&A deal.

In 2001, the rules regarding the accounting for mergers and acquisitions (M&A) transactions were changed; the impact was dramatic including no more pooling-of-interests and no more goodwill amortization. All business combinations were to be accounted for under the "purchase method" of accounting. These changes had an impact on how deals were structured, negotiated and executed. While accounting should not drive the decision to buy or sell a business, generally accepted accounting principles (GAAP) for acquisitions is changing again and it may have an impact on how deals are evaluated and earnings are forecasted in future periods.

Some of the major changes mandated by SFAS NO. 141R include:

- **Transaction costs** (due diligence costs, finders' fees, etc.) must be expensed as incurred. Previously, these costs were generally capitalized as part of the overall purchase price and allocated to the assets acquired. Under SFAS No. 141R, these costs will have a direct impact on current earnings. Costs incurred to issue debt (debt issuance costs) and the registration and issuance of equity securities will continue to follow existing GAAP.
- **Earn-outs** and other forms of contingent consideration will be recorded at fair value on the date of the acquisition. Subsequent changes in the fair value of most contingent consideration arrangements will be recorded in earnings in the year of change. Under the previous accounting rules, earn-outs were generally not recorded until earned (in future periods) and they were considered part of the purchase price.
- **Restructuring costs** (planned restructuring of the acquired company's operations) are to be charged to earnings in the post-acquisition period. Under previous accounting rules, the cost of the acquirer's planned restructuring of the acquired company's operations was recorded as a liability and as part of the acquisition cost, resulting in greater goodwill. The revised standard provides for certain exceptions whereby the cost to restructure as a result of the deal can be recognized as part of the acquisition accounting.

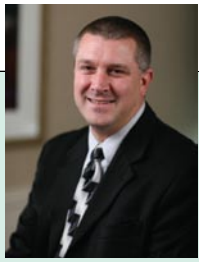
"While accounting should not drive the decision to buy or sell a business, generally accepted accounting principles (GAAP) for acquisitions is changing again and it may have an impact on how deals are evaluated and earnings are forecasted in future periods."

- **Acquired contingencies** (acquired contingent assets and liabilities) such as litigation, environmental, etc. will be recorded at fair value as of the acquisition date. The new standard introduces complexities, such as acquiring companies will need to distinguish the nature of the contingency, whether it is contractual or non-contractual, and the likelihood of occurrence. The threshold for recognition of acquired contingencies is lower than in the past, which was: Is the liability probable and can it be reasonably estimated? Contractual contingencies will be recorded at fair value as of the acquisition date. Non-contractual contingencies will be recorded if it is more likely than not that the liability will be incurred (probability greater than 51%). Additionally, subsequent

Continued on page 10. See "Rule Changes."

2 3 5 1 1 8 5 2 2 5 1 8 2
5 7 1 2 1 4 2 0 8 1 2 0 2
0 8 9 1 9 1 6 1 8 1 5 1 0

Proposed 401(k) Plan Fee Disclosure Requirements



By Patrick Brauer, CPA

SUMMARY: Fiduciaries of 401(k) plans are under intense scrutiny with respect to the transparency and appropriateness of service provider compensation paid by the plan and their participants. This has resulted from a series of lawsuits against both employers and financial institutions relating to revenue sharing, fee arrangements and the adequacy of fee-related disclosures.

In response, the U.S. Department of Labor (DOL) has proposed new disclosure rules that are intended to help employers that sponsor a 401(k) plan and the plan participants make informed decisions. Under the proposal, employers offering 401(k) and other participant-directed account plans would have to disclose summary information, including fee and expense information, for all investment options under the plan.

The DOL's three-part fee disclosure project is aimed at providing fee transparency for plan participants, plan fiduciaries and the DOL, and includes:

- Recently issued proposed regulations under ERISA Sections 404(a) and 404(c), requiring disclosures from plan fiduciaries to plan participants
- Proposed regulations under ERISA Section 408(b) (2), the prohibited transaction exemption for the provision of services to ERISA-covered plans, requiring significant fee disclosure by service providers to plan fiduciaries
- Changes to the Annual Form 5500, Schedule C, requiring detailed reporting of service provider compensation

The new disclosures would affect plan sponsors, fiduciaries, participants and beneficiaries, and providers of services to participant-directed account plans. The regulations are proposed to take effect for plan years beginning on or after January 1, 2009.

The proposal sets out two types of information to be disclosed: plan-related information and investment-related information.

Plan-Related Information

Plan-related information includes general information that participants might need to direct their accounts, such as how to initiate investment instructions. This information would also detail administrative expenses and individual expenses. Administrative expenses are those charged to all participants, such as compliance and recordkeeping fees. Individual expenses are those charged to a participant for requested services, such as the processing of a hardship withdrawal or a loan request. Sponsors would have to furnish the general information, administrative expense information, and individual expense information on or before the date the employee becomes eligible for the plan and at least annually thereafter. Any material changes to general information must be disclosed within 30 days of adoption of the changes. In addition, the plan sponsor must disclose dollar amounts actually charged for administrative and individual expenses at least quarterly.

"The new disclosures would affect plan sponsors, fiduciaries, participants and beneficiaries, and providers of services to participant-directed account plans."

Investment-Related Information

Investment-related information includes the investment options available, fee and expense information, past performance data, comparable benchmark returns and a website address for additional information such as fund composition, investment strategy and risk characteristics. For nonfixed investments (e.g., an equity index fund), the fiduciary would have to provide the average annual return of the fund for one, five, and 10-year periods, if the information is available. For fixed investments (e.g., a guaranteed investment contract), the fiduciary would have to provide both the fixed rate of return and the term of the investment. The plan's investment advisor should already be providing this information to the fiduciary. However, it is the fiduciary's responsibility to distribute this information to the plan participants.

Finally, the DOL has issued a final rule revising Schedule C to Form 5500, the schedule that reports fees paid by plans for services. The revisions, effective for plan years beginning after December 31, 2008, include a broadening of the definition of service providers whose compensation must be reported, provide for reporting of direct compensation paid to service providers, and will require reporting of indirect compensation received by service providers.

The revisions to Schedule C are intended to help fiduciaries satisfy their obligation to monitor and review arrangements with plan service providers (especially with respect to plan fees and expenses). The DOL's recent reporting and disclosure initiatives will necessitate an extensive fiduciary review by plan sponsors and service providers alike of their reporting and disclosure content and compliance systems.

Patrick Brauer is a Partner in the Employee Benefits Plans Group. For more information, contact Patrick at 317.844.4873 or pbrauer@ksmcpa.com.

Focus on Cash Flow

By Brian Schmidt, CPA

SUMMARY: Cash flow is often considered the lifeblood or heartbeat of any business. Whether a company is in the growth stage or is a mature entity trying to weather an economic slowdown, ignoring the importance of current and future cash needs can be devastating to the success and stability of any business.

The ability to manage the cash flow cycle is a critical component of the business plan for any company. The cash flow cycle is the movement of money into and out of the company. The cycle is similar to a circular pattern with the company acquiring or producing inventory, moving that inventory (or service) through the sales process to customers (which turns the product into a receivable) and finally collecting that receivable while meeting the payment expectations of vendors and employees.

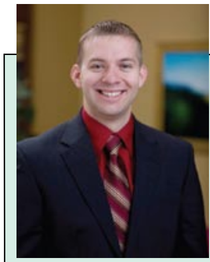
Dealing with the time lag between the point when the company must use cash resources to pay vendors and employees and the time when it receives cash from customers is the difficult part of the cash flow cycle. While managing the cash flow cycle has many variables, there are three basic issues to consider:

- **Cash Flow Projections -** Every company can benefit from preparing an accurate cash flow projection for the next month, the next quarter, the next year, etc. This projection ties in with strategic planning that allows a company to be proactive rather than reactive with creditors and lenders. While preparing the projection entails making an educated guess regarding everything from outlays for capital items to the success of the sales team in the upcoming period, the projection is an important management tool for running the business.

- **Collecting Receivables -** An important part of any strategy to maximize cash flow is to ensure that cash is flowing into the company as quickly as possible. There are a wide range of strategies such as implementing a program giving customers that pay their invoices

Continued on page 9. See "Cash Flow."

When do Contingencies Count?



By Justin Hayes, CPA

SUMMARY: The financial accounting standards board (fasb) defines the word contingency as "an existing condition, situation or set of circumstances involving uncertainty as to possible gain or loss to an enterprise that will ultimately be resolved when one or more future events occur or fail to occur." Simply put, a contingency is a future event that will affect the company in either a positive or a negative way as long as another future event occurs (or does not occur).

A perfect example of a contingency that is typically recorded is the "Allowance for Doubtful Accounts." In this case the situation is non-collection of the accounts receivable. The future event that will effect the situation is payment by the company owing the account receivable.

For purposes of financial statement presentation, there are two types of contingencies:

- **Gain Contingencies** - Gain contingencies are almost never recognized in the financial statements. A company does not want to recognize revenue that has not been realized and might never be realized. Contingent gains can be disclosed in the financial statement footnotes, but extreme caution should be used to avoid misleading implications as to the likelihood of the gain being realized.
- **Loss Contingencies** - The accounting for a loss contingency is a little more complicated. Loss contingencies are classified into one of three categories. The first category is that of the contingency being probable, or the future event is likely to occur. The second category is that of being remote, which means it is highly unlikely that the future event will ever occur. And the third category falls in between the first two, which is classified as being reasonably possible. To be classified as reasonably possible the occurrence of the future event must be more then remote, but less than likely.

> *"When looking at contingency standards issued by the International Accounting Standards Board, it should be noted that loss contingencies are accounted for similarly under Generally Accepted Accounting Principles (GAAP)."*

For a loss contingency to be recognized in the financial statements, it must meet two criteria. First, the occurrence of the future event that will create the loss must be classified as probable. Second, there must be a reasonable estimate of the amount of loss. If these criteria are met, then the loss contingency must be recognized in the financial statements as an increase in a liability or impairment of an asset and a reduction of income. If the loss contingency is classified as being reasonably probable, then the loss contingency must be disclosed in the footnotes to the financial statements. The disclosure must indicate the nature of the contingency and it must give an estimate of possible loss, a range of loss, or it must state that an estimate could not be made. If the loss contingency is believed to have a remote chance of occurring then the item is neither recognized nor disclosed.

With the talk of international convergence of accounting standards, one must look at how that might affect current accounting practices. When looking at contingency standards issued by the International Accounting Standards Board (International Accounting Standard 37), it should be noted that loss contingencies are accounted for similarly under Generally Accepted Accounting Principles (GAAP). The only difference in accounting for loss contingencies under IAS 37 is that any provision for a future loss must be discounted to its present value before being recognized. GAAP does not discount any amount that is recognized as a contingent loss.

The accounting for gain contingencies under IAS 37 has one point is very different from GAAP. Recall that under GAAP gain contingencies are very rarely recognized since they have not yet been realized. Under IAS 37 a gain contingency (called a contingent asset) is recognized in the financial statements if the income from the contingency is determined to be "virtually certain" of occurring. If convergence does occur, the question faced is, what will constitute as "*virtually certain*?"

Justin Hayes is a Staff Accountant in the Audit Department. For more information, contact Justin at 317.428.1158 or jhayes@ksmcpa.com.

Cash Flow *(Continued from page 7)*

promptly a discount for their timeliness. Also, process reviews should be made to ensure billing and collection systems are running efficiently. Invoices should be sent as soon as reasonably possible and past due invoices should promptly be followed up with phone calls or emails. Track slow paying customers and consider instituting either cash on delivery requirement or asking for a deposit up front before product is delivered.

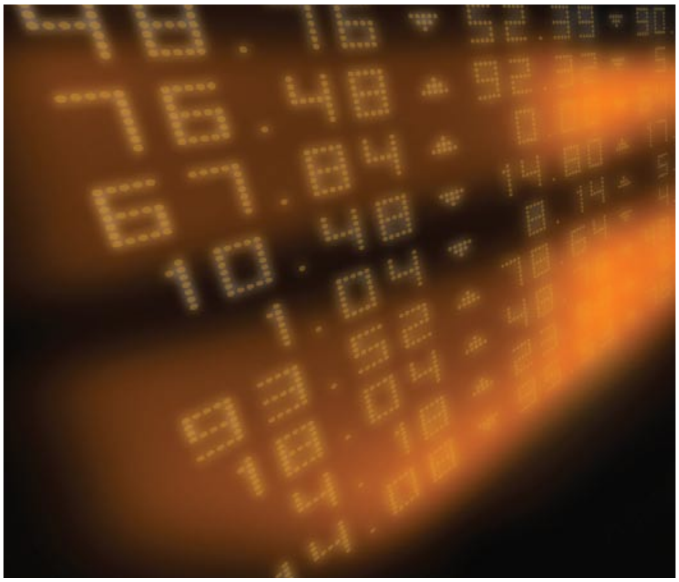
- **Handling Payables -** Review the policies of your vendors to ensure full advantage is being taken of terms. Many vendors expect payment in 30 days, however, many companies negotiate longer timeframes such as 60 or 90 days. For those suppliers who insist on a 30-day term, consider using electronic funds transfer so that money can be moved on the last day of the payment cycle. Review all the details regarding what the suppliers are offering - sometimes what seems to be the lowest price is not the lowest price once other costs, such as the finance costs, are factored into the price.

When completing any cash flow projection, it is important to be realistic regarding assumptions. Make sure that the items, such as sales projections and the related collections, are realistic in comparison to prior actual results.

Brian Schmidt is a Director in the firm's Business Advisory Group. For more information, contact Brian at 317.580.2248 or bschmidt@ksmcpa.com.

Investment *(Continued from page 3)*

advantage compared to a taxable treasury bond.) Although these bond returns are not exciting, they can play a key role as the foundation of an asset allocation. Further, they are dramatically higher than just a few months ago.



Lastly, good hedge fund strategies have protected capital in clients' portfolios. The ability of talented hedge fund managers to "hedge risk" through short selling or option strategies has provided much needed "defense" these past few months. In addition, these investments usually capture a good percentage of market appreciation in up markets as well. Thus, they can be a welcome component in the portfolio of high net worth investors.

From an emotional point of view, it is very difficult to stay invested in a bear market. Investors tend to extrapolate recent events into the future (either market lows or market highs). Remember not all of the portfolio is needed today (even if at retired, only withdraws of a certain amount are needed) and use this opportunity to position the portfolio in line with long-term return objectives.

This article was contributed by KSM Capital Advisors, LLC, a separate entity registered as an investment advisor under the Securities and Exchange Commission. Katz, Sapper & Miller, LLP and KSM Business Services, Inc. are not responsible for the contents of this article, or any changes or updates. For more information about KSM Capital Advisors, please call Karen Mersereau, Peter Reist or Jared Nashida at 317.571.3400.

Rule Changes *(Continued from page 5)*

changes in the recorded amount of an acquired contingent liability will not be recognized unless there is new information about its outcome, and amounts under existing standards would be higher, until resolved.

- **Partial acquisitions**, when control is obtained, the acquiring company will recognize and measure 100% of the assets and liabilities, including goodwill, as if the entire target company had been acquired. This means that minority interest will also be recorded at fair value rather than historical costs as under the previous standard.

The above are just a few of the more significant changes on the horizon with the revised standard on business combinations. Others include the treatment of acquired in-process research and development costs, clarification of the acquisition date, and the accounting for negative goodwill. The accounting implications of this revised standard on acquisitions should be carefully analyzed.

Another significant change impacting acquisitions was brought about by the issuance of SFAS 157, Fair Value Measurements. This standard dramatically changes the definition of fair value and provides a framework for fair value measurements in a business combination. The valuation of assets acquired will now be more reflective of the most advantageous market for an asset, which is different from the income tax definition of fair market value, generally the price between a willing buyer and seller without compulsion to sell.

While these standards are not expected to impact deal flow, it is possible the new accounting standards will influence acquisition and deal structures. For example, evaluating the use of earn-outs and the impact on future earnings may cause seller indemnifications to become a greater part of the negotiation process. Additionally, the expensing of deal costs and restructuring charges will have an impact on earnings and may affect certain modeling considerations, earnings projections and possibly certain covenants.

Mike Lee is a Partner in the Audit Department. For more information, contact Mike at 317.580.2151 or mlee@ksmcpa.com.

Tax Plan *(Continued from page 1)*

which would allow taxpayers who do not currently itemize deductions to deduct 10% of their mortgage interest, up to $800. These three credits are aimed at putting money back into the pockets of middle class taxpayers and making educational opportunities more attainable and affordable.

Another way Obama believes he can generate tax revenue is by allowing the limitation on itemized deductions for higher income taxpayers to sunset after 2010 under the EGTRRA's sunset rules. Currently, taxpayers whose AGI exceeds $79,975 (or $159,950 for married couples filing jointly) lose one-third of the value of certain itemized deductions that would otherwise be required under the phase-out provisions. However, absent further legislation, the full phase-out would return after 2010, effectively eliminating the value of all but a few itemized deductions for higher income taxpayers. Obama has also proposed restoring the phase-out for personal exemptions and imposing a 4% payroll tax on higher-income individuals. This 4% tax would be split equally between the employee and the employer and the threshold for its imposition has been suggested at $250,000 and above. Capital gains taxes and taxes on dividends would also increase to a maximum rate of 20% for those making more than $250,000.

Other proposals made by Obama include sustaining and making permanent the "marriage penalty" relief provisions and the $1,000 child tax credit. Perhaps Obama's longest stride in this area is his proposal to increase the child and dependent care credit to include up to 50% of the first $6,000 in qualifying expenses. Currently, the credit can include up to 35% of qualifying expenses and is not refundable. Obama would like to make this a refundable credit.

Under Obama's proposed tax plan, federal estate taxes would carry an individual exemption amount of $3.5 million and a 45% rate. According to Obama, this would effectively repeal the estate tax for 99.7% of estates (those under $7 million per couple). To help taxpayers save and plan for retirement, Obama proposes expanding retirement savings incentives by ensuring that every American worker has the option of saving in an automatic pension account. In addition, Obama has proposed expanding the Savers Credit to match 50% of the first $1,000 of savings for families that earn under $75,000, and making this a fully refundable credit.

Obama's strategy also includes tax cuts for businesses. Among his proposals are the elimination of capital gains taxes for entrepreneurs and investors in small businesses and lowering corporate tax rates for corporations that choose to expand or start operations in the Unites States. It is currently unclear what the definitions of "small business" or "start-up" will be under this provision. He also proposes broadening the corporate tax base by eliminating loopholes and repealing deductions that incentivize locating operations overseas. By broadening the tax base, therefore subjecting more income to tax, Obama hopes to offset the impact of lowering corporate tax rates while encouraging production and job creation within our own borders. Obama would also like to provide a fully refundable, 50% small business healthcare tax credit on premiums paid by employers.

Obama believes that in conjunction with investing in areas such as healthcare, clean energy, innovation and education, his tax plan will help restore bottom-up economic growth that will help create good jobs in America and empower all families to achieve the American dream. Obama believes that his tax proposals will restore faith in the American economy by targeting the demographic that is arguably most affected by troubled economic times.

William Robinson is a Staff Accountant in the Tax Services Department. For more information, contact William at 317.580.2061 or wrobinson@ksmcpa.com.

In The Firm News

Congratulations to the following staff members who recently passed all parts of the CPA Exam:

BRETT BREEDLOVE, AMBER CHANCE, JULIE CRITSER, MACK DYER, RYAN ELMORE, ASHLEY MORTON, MANDY ROBINSON

Congratulations to the following staff members who recently passed Exams:

WILLIAM GRAFF, Bar Exam

Welcome to the following new staff members:

LATOYA ALEXANDER, LIBBY ANTOGNOLI, MARK BARNHART, RACHEL BAUER, ALISA BEISNER, BLAIR BELLAMY, PATTI BOWES,JASON BRENNON, JP BRYAN, AIMEE CLATON, SARAH CONWELL, ERIN DONOVAN, CYNTHIA EDWARDS, JASON FERRELL, MARIAM GHUMMAN, NATHAN GRIFFITTS-COHEN, MICHAEL HART, NATASHA HOUSTON, MARGO JOHNSON, LORI KAMMINGA, ZACH KRAUSE, DANIEL LARSON, RANSOM LeMAY, RICK LICH, SCOTT LIPSKY, AMANDA McGINITY, BEN MILIUS, CHAD MILLER, MILIND NAGARSHETH, TRENT PARKINSON, NICOLE RANDOL, JOSE RIVERA, STACEY SPENCER, ARON SPREEN

Acknowledgements:

BRIAN EADIE
Elected to the Board of Trustees of the Indianapolis Civic Theatre

MARK FLINCHUM
Elected Chairman of the Noblesville Chamber of Commerce Board of Directors for 2009

BRUCE JACOBSON
Received the Jewish Federation of Greater Indianapolis 2008 Service Award

KAREN KENNELLY
Elected as Treasurer of the Board of Impact 100 Greater Indianapolis and joined the Board of the Indianapolis Museum of Contemporary Art

JOSH MALARSKY
Elected Treasurer of Theatre on the Square

MATT SNIVELY
Appointed by the Indiana CPA Society Board of Directors to the Indiana CPA Society's Leadership Cabinet

Speeches/Presentations:

CHRIS BARTENBACH and MATT BISHOP
Presented "Construction Financial Statements, Budgeting and Overhead Allocation" to IBEW

JAY BENJAMIN
Spoke at the Indiana Continuing Legal Education Forum's Indiana Law Update in September on the topic of Federal Tax Update

SCOTT BROWN
Elected to serve as Vice President of the CPA Manufacturing Services Association

BERNADETTE FLETCHER
Presented "What's New for 401k Plans" at the Indiana CPA Society's Contractors' Conference

STEVE GAYLORD
Was a panelist for an IU graduate business class at Indiana University and apppointed to serve on the Indiana CPA Society Ethics Committee

KAREN KENNELLY
Presented "How to Select an Auditor" at the Fraternity Executives Association conference, "UPMIFA, FSP FAS 117-1 Update" at the Not-For-Profit CFO Roundtable, "Evaluating Grants - Focus on Sustainability and Capacity" and "Nonprofit Accountability in Today's Environment" at the MicroEdge Solutions Conference

ANDY MANCHIR
Presented "Fiduciary Responsibility for Valuation" at the ESOP Association's 2008 Conference and Trade Show in Las Vegas.

TERRY O'NEIL
Presented to the Central Indiana Veterinary Medical Association "How to Start a Veterinary Practice"

The Advisor is a bi-annual publication distributed to our clients and friends. Any tax advice or opinion herein contained is not intended to be used, and cannot be used, by anyone to avoid the imposition of any federal tax penalties. For more information on the articles featured in this edition of The Advisor, please contact the authors at (317) 580-2000.

The Advisor Editorial Committee:

MARK FLINCHUM, ROSANNE AMMIRATI, DONNA BLACKMON, CHRIS BRADBURN, AIMEE CLATON, STEVEN LEVY, RON SMITH, ANNE WHISLER

For more information about Katz, Sapper & Miller, please visit our website at www.ksmcpa.com.

KATZ, SAPPER & MILLER

P.O. Box 40857

Indianapolis, IN 46240-0857