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"Any business with rising inventory costs should consider adopting the LIFO method."

In This Issue:

LIFO Inventory Method

By Vidya Harish, CPA

SUMMARY: FOR MANY COMPANIES, INVENTORY REPRESENTS A LARGE PORTION OF ASSETS AND, AS SUCH, MAKES UP AN IMPORTANT PART OF THE BALANCE SHEET. INVENTORY IS DEFINED AS ASSETS THAT ARE INTENDED FOR SALE, ARE IN PROCESS OF BEING PRODUCED FOR SALE OR ARE TO BE USED IN PRODUCING GOODS.

Inventory Equation

Beginning Inventory + Net Purchases - Cost of Goods Sold (COGS) = Ending Inventory

The accounting method that a company decides to use to determine the costs of inventory can directly impact the balance sheet, income statement and statement of cash flow. Three inventory-costing methods are widely used by both public and private companies: First-In, First-Out (FIFO); Last-In, First-Out (LIFO) and Average Cost.

Inventory Valuation Methods

- **First-In, First-Out (FIFO)** - This method assumes that the first unit recorded or processed into inventory is the first unit sold.
- **Last-In, First-Out (LIFO)** - This method assumes that the last unit recorded or processed into inventory is sold first. The older inventory units, therefore, are left over at the end of the accounting period.
- **Average Cost** - This method takes the weighted average of all units available for sale during the accounting period and then uses that average cost to determine the value of COGS and ending inventory.

An important point to note is that COGS appears on the income statement, while ending inventory appears on the balance sheet under current assets. If inflation were nonexistent, then all three of the inventory valuation

Continued on page 10. See "LIFO Inventory."

David Resnick, CPA
Managing Partner

Managing Partner Message

As I sit and write this article, it is hard to believe that 2007 is coming to a close. For Katz, Sapper & Miller this year has been one of growth and success, and I look back with a tremendous sense of accomplishment.

We recently completed a client satisfaction survey and among the many findings, the results indicated that over 98% of the clients surveyed positively ranked their satisfaction and would recommend KSM to a friend or associate. The survey allowed us to learn a great deal about the rendering of our professional services, and I truly appreciate the time clients took to complete it. I am confident that the results and comments will only help us to further improve our client service level.

We very much believe that the only way we will be able to maintain our commitment to provide you with the highest quality of audit, tax and consulting services will be to continue to recruit the best and brightest to KSM. We are active on all of the major college campuses in Indiana and remain one of the top choices in public accounting for accountants at all stages of their careers. We have been recognized for the second year in a row as one of the "Best Places to Work in Indiana" and for the fourth consecutive year as one of Inside Public Accounting's Top 50 accounting firms in the country. For 2007, we were the only Indiana-based accounting firm to receive this recognition. Our firm continues to grow physically as well, and as a result, we recently expanded our offices to occupy more space on the fourth floor of our building at Parkwood Crossing.

I hope that 2007 was a productive and prosperous year for you as well, and all of us wish you much continued success.

David Resnick is the Firm Managing Partner. David can be contacted at 580-2090 or dresnick@ksmcpa.com.

Why Invest in Water?

By Karen Mersereau, CPA, CFP™
KSM Capital Advisors, LLC

Geo-political events and the media keep our focus on the price of oil, potential supply interruptions and the need to reduce our country's dependence on foreign oil. Very little is written or reported about another very strategic resource – water. A top United Nations official addressing the 17th annual *World Water Week* in Stockholm last August stated that water is going to be the dominant world issue far into the current century. "The supply of water may threaten the social stability of the world," the U.N. official warned.

Why is water such a strategic resource? First, water is an essential for human life and has no substitute at any price. Second, although water covers nearly 75% of the planet and is considered abundant, usable fresh water is less than 1% of such amount. Further, pollution, climate change, population growth, industrial expansion and urbanization all continue to place unremitting demand on a scarce water supply.

Examining the economics of global water supply as an investment theme, the demand drivers are very attractive from a business perspective. The product is not a luxury item; it is an essential good needed by every person and business, industrial or agricultural. Human demand is constant and largely unaffected by price increases. Business and agricultural demand is steady and continuous, without the cyclical ups and downs experienced by most input commodities. The water business is generally immune to economic cycles, recessions, interest rate fluctuations, inflation, changing consumer preferences and other common variables affecting global businesses.

From a supply perspective, most U.S. citizens don't appreciate the scarcity of fresh water. The Great Lakes (combined with other freshwater lakes throughout the world) contain most of the planet's supply of fresh surface water; however, on a global basis, this supply is small and finite, and in many countries available fresh water is being polluted at an alarming rate. In China, for example, 26% of the water in the seven biggest river systems has been found to be so polluted it is dangerous to come into contact with or has lost the capacity for basic ecological function. Another supply issue is water is not evenly distributed throughout the world. Less than 10 countries have 60% of the world's available fresh water. China's population is 21% of the world's population but it possesses only 7% of the world's fresh water. Large migrations from countryside to cities in the developing countries of the world coupled with overall population increases also exacerbate the problem of the location of water supplies and getting it to the end user.

"Historically, water utility stocks have been the backbone of water investing in the U.S."

These themes of noncyclical, increasing demand and declining supply create opportunities for a broad range of public companies, both domestic and international. The global market for water-related products and services currently approximates $500 billion per year. Globally, there are over 400 water-related public companies with a combined market capitalization of almost $1 trillion. These companies provide a broad range of water-related products and services involved in water transfer, storage, treatment, monitoring, analysis and recycling for residential, commercial, industrial and agricultural end users. They are usually divided into two groups: water utilities and infrastructure companies (utilities) and water equipment and materials companies (industrials).

Historically, water utility stocks have been the backbone of water investing in the U.S. The Water Utility Stock Index* has outperformed the Dow, S&P 500 and NASDAQ over the past 5 and 10 year periods. For the period December 31, 2001 through December 31, 2006, the Water Utility Index returned 15.37% per year compared to 6.81% for the Dow, 6.19% for the S&P 500 and 4.99% for the NASDAQ. The returns for the 10-year period ended December 31, 2006 are also compelling with the Water Utility Index returning 8% more on an annualized basis than the Dow and S&P 500, and 10% more per annum than the NASDAQ.

Water utility stocks will benefit in the future from privatization as the number of investor-owned utilities are expected to rise dramatically. Municipalities with capital-intensive infrastructure needs view water-service privatization as a resource to generate cash without raising taxes.

Although water utilities stocks have been excellent investments, the overall opportunity for growth and investment return in water-related equities is much broader. Of the over 400 public companies involved in water-related industries, less than half are utilities. The remaining companies are basic water industrial companies involved in manufacturing (pipes, valves, pumps, etc.), treatment, testing and water-related service providers (engineering firms, recycling, research into new technologies, etc.). These companies also benefit from the supply/demand imbalance discussed above. Further, consolidation is another important force at work in the market for these companies as regional and sector-specific water-related companies seek greater economies of scale.

Investors that wish to allocate a portion of their portfolio to water-related assets have a number of investment options. The investor may analyze water stocks on a fundamental basis focusing on growth prospects and valuation. There are also a number of investable water indices, such as the Palisades Global Water Index, Palisades Water Index and S&P Global Water Index, available through exchange traded funds (ETFs).

As water scarcity is a worldwide issue, water stocks and indices that have global exposure have favor. Although the U.S. has aging water infrastructure that will require large capital outlays in future years, the global economic growth in China and India (which together represent 40% of the world's population) combined with their under-developed water delivery systems, pollution and sanitation problems, pose tremendous opportunities for global water companies. •

**An equally-weighted list of all publicly traded U.S. water utility stocks that existed as of 12/31/06. Summit Global Management, Inc. (2007). The Case for Water Investing-2007, John Dickerson and Rob Anfuso.*

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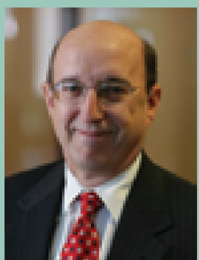
New Legislation Creates Potential Conflict



By Kent Manuel, CPA

On May 25, 2007, President Bush signed the *U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007* (the "Act"). The new law, as its name implies, assuredly has many desirable goals; however, a relatively obscure provision relating to tax return preparers is ill-conceived and wrong.

Section 8246 of the Act significantly increases the reporting standard for tax return preparers. Under previous law, return preparers needed to have a "realistic possibility of success" when reporting items on tax returns. Under the new law, a tax return reporting position must have a "more likely than not" probability of being sustained on its merits. Failure to meet this standard can result in financial penalties for the preparer and, more importantly, can endanger the preparer's right to practice before the Internal Revenue Service (IRS). A preparer can only avoid penalties in these situations by disclosing the controversial tax position on the return.

"The new standard affects the nature of the representation of taxpayers and a taxpayer's right to representation, and provides a disincentive for taxpayers to seek advice on complex tax matters."

The major problem with this provision is that the preparer's standard for reporting is now higher than the taxpayer's standard. Taxpayers are not penalized for any tax reporting position so long as there is "substantial authority" for such position. "Substantial authority" is a significantly lesser standard than "more likely than not." Therefore, the new law puts tax preparers in potential conflict with their clients.

To avoid penalty, preparers would have to disclose a tax position for which there is "substantial authority" but isn't "more likely than not" to prevail. The new standard affects the nature of the representation of taxpayers and a taxpayer's right to representation, and provides a disincentive for taxpayers to seek advice on complex tax matters.

Numerous professional organizations, including the American Institute of Certified Public Accountants, the National Association of Tax Professionals and the National Association of Enrolled Agents, have sent comments to Congress describing other serious problems this legislation causes for preparers, taxpayers and the government including:

- Applying the "more likely than not" standard to a tax return preparer results in a fundamental change in the role of the preparer, from that of an advocate to that of an advisor.
- It is often extremely difficult, if not impossible, to determine the probable correctness of the treatment of items with the degree of certainty required for the higher "more likely than not" standard. There may be little guidance for the tax treatment of an item at the time the item must be reported on a return, or the proper treatment of an item depends on an analysis of unique or unusual facts and circumstances that were not contemplated in published guidance.
- A disclosure made under a system with a "more likely than not" standard could be viewed as a concession on the merits.
- The corresponding increase in expected costs from this more restrictive standard may result in more aggressive reporting positions by unadvised taxpayers, creating a situation where the legislation actually leads to decreased compliance by taxpayers.
- The potential penalties on a preparer for failure to satisfy the high standard are so severe that preparers will feel compelled to protect themselves by urging their clients to include disclosures for virtually every item for

Continued on page 8. See "New Legislation."

Adapting Technology for Business Improvement

By Charlie Brandt

SUMMARY: Productivity gains and subsequent improved profit performance resulting from technology enhancements are measured easily over extended periods of time.

Thinking back five, ten or fifteen years ago and comparing it to how business is done today, it is a wonder how anything was accomplished given the tools that were available. Calendars and schedules are just as stressed now as then; however, more work is completed now in the same amount of time.

Competition continues to increase, so technology is used to either keep up or, hopefully gain the necessary competitive advantages. Using the right technology at the right time to support the business needs of a company requires planning, project management and an assessment of results.

Looking back, recent general technologies such as spreadsheets, financial systems, personal computers, E-mail and the Internet each changed the way business was done. However, as new technology emerges, it is difficult to see how it will provide benefits that improve profitability.

After the Y2K rush (which in many cases involved shoring up old technologies and legacy systems) passed and the tech bubble burst, a new technology paradigm emerged. The benefits are now being realized in the base technologies and applications that are being implemented today. These technology components and applications more readily support and adapt to business needs as opposed to the other way around.

Technology should allow businesses to operate, sell, market, communicate, measure and most importantly, evolve the way they should in order to remain competitive. By implementing the right technology, businesses can adapt to changing needs more quickly as opportunities present themselves. The information necessary to make decisions can be readily available to the users and decision makers in a more timely manner and useable format. Technologies such as Unified Communications, CRM, Online Meetings, Virtualization, Business Process Modeling, Workflow Management, Social Networks and Web 2.0, among others, can readily be evaluated by businesses to determine if they might support the business needs of an organization.

Businesses who take advantage of the technologies can experience improved profitability. First, they must recognize technology is a strategic asset that should be evaluated in terms of its capability to improve the financial performance of the company. Improved performance can come from many areas, however it should be explicitly defined and measured.

Second, they should create an IT strategy for the business that coincides with the business objectives of the company and that can be reasonably adopted in the short, medium and long-term. Legacy systems that have been in place for many years, may be holding the company back and need a reasonable, well-defined plan for conversion.

Third, they should use a project management methodology that will monitor the planning, resources and timing of specific technologies projects, thus providing the greatest opportunity for a successful implementation. The appropriate assessment of a company's information needs, use of appropriate project management techniques, support from stakeholders and users, and the alignment of technology with business objectives is essential to assure the optimum return on the technology investment. •

Charlie Brandt is a Director in KSM's Business Technology Group. For more information, contact Charlie at 428-1132 or cbrandt@ksmcpa.com.

The SAS 114: Auditor's Communication With Those Charged With Governance

by Matt Alber, CPA

SUMMARY: Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication With Those Charged With Governance*, was issued in December 2006 and is effective for periods beginning on or after December 15, 2006. Thus, in most cases, this standard will be first effective for the upcoming 2007 calendar year audits.

In 1988, the AICPA's Auditing Standards Board (ASB) issued SAS No. 61, *Communications with Audit Committees*, which required auditors to make certain communications about the audit of an entity's financial statements to the entity's audit committee. However many privately-owned companies do not have audit committees; rather they have informal boards of directors consisting of the owners of the company or a board of advisors. Due to this disparity in the structure of the top level management of entities, the ASB has recently issued SAS 114, a new auditing standard.

SAS 114, which supersedes SAS No. 61, expands the required types of communications and the parties to whom these communications should be addressed. While SAS No. 61 required communications to audit committees, SAS No. 114 requires communications to "those charged with governance." The standard does not establish requirements regarding the auditor's communications with an entity's management or its owners unless they also have a governance role.

The new standard seeks to improve two-way communication between auditors and their clients. This communication should help "those charged with governance" understand the scope, timing, outcome and responsibilities of the audit. It will also help auditors to gain information from those charged with governance in planning the audit.

Who Are "Those Charged With Governance?"

"Those charged with governance" are the persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including the financial reporting process. Depending on the entity, this might mean the board of directors or advisors, audit or finance committee, a separate government agency, the owners or management. There is no formula for who that might be. Additional consideration must be given if all of "those charged with governance" are involved in managing the entity or when the entity is a branch or subsidiary of another entity.

What Should Be Communicated?

The auditor should communicate the auditor's responsibilities under generally accepted auditing standards. These responsibilities include that the auditor is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with the applicable accounting principles. The auditor should communicate that the audit of the financial statements does not relieve management and "those charged with governance" of those responsibilities.

Information regarding the scope and timing of the audit should also be communicated. However, the auditor must not disclose too much information about the audit plan so as to not affect the effectiveness of the audit procedures.

The auditor should also communicate the significant findings of the audit, including:

- Qualitative aspects of significant accounting practices, including accounting policies, accounting estimates and disclosures

Continued on page 9. See "SAS 114."

Employers Receive Another Extension of Time to Comply with IRC Section 409A

by Jay Benjamin, CPA, JD

SUMMARY: The IRS recently issued extensive guidance on nonqualified deferred compensation plans under section 409A. Plans must operate in good faith compliance with these rules starting with the effective date, and must be amended to be in written compliance with these rules no later than December 31, 2008. The rules concern the timing and form of payment and elective deferrals.

These rules generally apply to plans that provide for a deferral of compensation which is vested after December 31, 2004. Exceptions apply for certain "short-term" deferrals, qualified employer plans, bona fide vacation leave, sick leave, disability pay or death benefit plans, incentive stock options (ISOs) and other arrangements where the strike price is equal to the fair market value at the date of grant. If a plan is "materially modified" after October 3, 2004, then these rules will generally apply to amounts deferred prior to 2005 as well.

Timing of Payments

A plan must provide that compensation deferred under the plan cannot be paid earlier than:

(i) the participant's separation from service,
(ii) the date the participant becomes disabled,
(iii) the participant's death,
(iv) a specified date, or a fixed schedule, provided for under the plan at the date of the deferral,
(v) in certain cases, a change in the ownership or effective control of the employer, or in the ownership of a substantial portion of the employer's assets, or
(vi) an "unforeseeable emergency."

Acceleration or Delay of Payment of Benefits

Plans that provide for payment under item (iv) above must generally not permit the acceleration or delay of the date or schedule of any payment under the plan. Payments that may be made without being deemed an acceleration include payments to fulfill a domestic relations order and certain de minimis payments (i.e., $15,500 (indexed) or less to terminate the participant's entire interest).

For a plan that permits the employer or participant to delay a payment or change the form of payment, the following requirements must be met:

(i) the plan must require that the delay cannot take effect for at least 12 months,
(ii) for payments not made by reason of disability, death, or unforeseeable emergency, the plan must require that the first payment be deferred for a period of at least five years from the date on which the payment would otherwise have been made, and
(iii) the plan must require that any delay related to a payment made at a specified time or under a fixed schedule must be made at least 12 months before the date of the first scheduled payment.

Elective Deferrals

In general, elections to defer compensation must be made before the beginning of the tax year with respect to which compensation will be deferred. Further, the time and form of distributions must be specified at the time of deferral. For

Continued on page 11. See "IRC Section 409A."

KSM Charitable Foundation Services

By Rick Cuculick, CPA

SUMMARY: A significant challenge facing family and corporate private foundations is allocating resources to sufficiently handle the day-to-day activities of the foundation and monitoring compliance requirements especially in an ever-changing world. These demands may make it difficult for foundation professionals to focus on their core objective: making and evaluating grants.

The paperless initiative that is so popular in today's business environment is very appealing to foundations. The amount of paperwork involved in the grant making process can be overwhelming; automating the process and eliminating the majority, if not all, of the paper would be ideal. Additionally, if the grants could be received and stored on-line, the management, follow-up and reporting of the grants would be much more efficient. However, the software platforms for this type of data management can be cost prohibitive for many foundations and require a certain level of staffing with the appropriate training or expertise.

Katz, Sapper & Miller recognized these challenges foundations face and created KSM Charitable Foundation Services (KSM CFS) to provide an innovative solution to charitable organizations. While already serving charitable foundations in various capacities, KSM CFS enhances the capacity to further serve these organizations through implementing a web-based grant management system. The experience and expertise of KSM CFS supports every aspect of a grant making organization including:

- Initial implementation and set-up
- Establishing policies and procedures
- Administration and support
- On-line grant application management
- Compliance monitoring
- Transaction processing, including distribution of grant payments
- Financial and activity reporting
- Tax return preparation and filing
- Offering a customized and secured website to provide immediate access and unprecedented control over information

Utilizing KSM CFS allows the organization's internal resources to have more time to concentrate on the most important aspect of the organization — determining the best organizations or projects to fund and evaluating results to ensure that the organization's funding dollars are well-spent. •

Rick Cuculick is a Director in KSM Charitable Foundation Services and the Business Advisory Group. For more information, contact Rick at 580-2476 or rcuculick@ksmcpa.com.

New Legislation *(Continued from page 4)*

> which there is even the slightest uncertainty regarding the proper treatment. These excessive disclosures for routine tax return positions will overburden tax administration, thereby defeating the purpose of the disclosure system and also undermine the electronic filing initiative, which currently is not capable of processing a large number of disclosures in a return.

The new standard is overreaching and an overreaction to the highly publicized tax shelter problems from earlier this decade. Previous legislation, as well as changes to the regulations governing practice before the IRS, has more than dealt with the problems involved with the tax shelters. The IRS, which apparently did not request this change and was somewhat unprepared for the new standard, has announced it will delay enforcing the new standard with respect to tax returns filed before 2008. Many professionals have suggested that the delay is not enough and that the law be changed so that taxpayers and tax preparers will be governed by the same "substantial authority" reporting standard. This is eminently rational and hopefully Congress will listen. •

Kent Manuel is the Co-Partner-in-Charge of the Real Estate Services Group. For more information, contact Kent at 580-2020 or kmanuel@ksmcpa.com.

The Increased Age for Kiddie Tax

By Don Boezeman, CPA

SUMMARY: The 2007 Small Business Act provided many beneficial tax provisions such as an extension and expansion of the Work Opportunity Credit, an adjustment to ignore the new hike in the minimum wage in the FICA tip credit calculation and an increase in Code Section 179 expensing for small businesses. However, the Act also includes several so-called "revenue raisers."

The particular revenue raiser likely to affect the high net worth taxpayer is aptly named the "Kiddie Tax." This is the second time in recent years that Congress has adjusted the provisions of the kiddie tax. The provisions of the tax were also modified in the 2005 Tax Increase Prevention and Reconciliation Act ("TIPRA").

"Such transfers are done to shift income away from parents' higher marginal tax rate down to a child's generally lower tax bracket, thereby reducing a family's overall income tax."

The kiddie tax, first passed into law in 1986, is designed to lessen the effectiveness of intra-family transfers of income-producing property. Such transfers are done to shift income away from parents' higher marginal tax rate down to a child's generally lower tax bracket, thereby reducing a family's overall income tax. Prior to 2006, the kiddie tax applied to children who were younger than the age of fourteen as of the end of the year. Effective for 2006, TIPRA increased the age of the children subject to the tax to children under the age of eighteen. Effective for tax years beginning after May 25, 2007, the 2007 Small Business Act increases the age of children subject to the tax to those who are under the age of nineteen or under the age of twenty-four if the child is a full-time student.

While the age limit of children subject to the kiddie tax has continued to increase, the other basic provisions of the tax have not. The net unearned income of the child over $1,700 is taxed at the parents' marginal tax rates, if the rates are higher than the child's tax rates. Unearned income is typically earned from investments held in the child's name. It is important to note that earned income from jobs or self-employment is entirely exempt from the kiddie tax. •

Don Boezeman is a Manager in the Business Advisory Group. For more information, contact Don at 580-2242 or dboezeman@ksmcpa.com.

SAS 114 *(Continued from page 6)*

- Difficulties encountered in the audit
- Uncorrected misstatements noted in the audit
- Disagreements with management
- Material, corrected misstatements noted during the audit
- Representations requested of management through the representation letter
- Management's consultations with other accountants
- Any other significant issues discussed with management

How Will These Items Be Communicated?

Many of these items will be communicated through changes to letters which are already part of the audit, including the engagement letter and management's representation letter. However, there is no requirement that the communications be made in writing so long as there is documentation that the communications have occurred. The most efficient means of communicating this information is through a planning and closing meeting with "those charged with governance" and through a closing letter which will communicate all of the significant findings of the audit. •

Matt Alber is a Director in the Accounting & Assurance Group. For more information, contact Matt at 580-2095 or malber@ksmcpa.com.

LIFO Inventory *(Continued from page 1)*

methods would produce the exact same results. However, that is rarely the case. Over the long term, prices tend to rise, which means the choice of accounting method can dramatically affect valuation. If prices are rising, each of the accounting methods produce different results.

FIFO typically gives a better indication of the value of ending inventory (on the balance sheet) because the typical flow of goods is the sale of oldest items first. However, it also increases net income because inventory that is older and cheaper is used to value the cost of goods sold on the income statement, resulting in higher taxable income. The FIFO method has the potential to cause a company to pay higher taxes than under a different inventory valuation method.

Because the typical flow of goods is to sell the oldest items first, LIFO may not be as good of an indicator of ending inventory value because the actual inventory on hand is the newer inventory. The result is a valuation that is much lower than current prices. However, with regard to the cost that is flowing through cost of goods sold, LIFO is a much better valuation method because the cost of items that are being sold are the current costs and not the cost from earlier periods when the inventory was actually acquired. With current costs flowing through cost of goods sold, LIFO results in lower net income and lower taxes.

Average cost produces results that fall somewhere between FIFO and LIFO. It is important to note that in an environment where prices are decreasing, the opposite results of FIFO and LIFO will be experienced.

There could be significant tax-saving opportunities for companies that elect to use the LIFO inventory method. Any business with rising inventory costs should consider adopting the LIFO method. By adopting LIFO, a business can reduce income taxes and thus keep more cash in its business.

In order to calculate LIFO inventory value, the taxpayer needs to measure the inflation in its inventory costs for the year. This is

Example

To understand the financial impact of the different inventory valuation methods, the inventory of ABC company is illustrated as follows:

Monthly Inventory Purchases*

Month	Units Purchased	
January	1,000 @ $10	$ 10,000
February	1,000 @ $12	$ 12,000
March	1,000 @ $15	$ 15,000
Total	3,000	$ 37,000

Beginning Inventory = 1,000 units purchased at $8 each

Income Statement (simplified): January-March*

Item	LIFO	FIFO	Average
Sales = 3,000 units @ $20 each	$60,000	$60,000	$60,000
Beginning Inventory	8,000	8,000	8,000
Purchases	37,000	37,000	37,000
Ending Inventory (appears on B/S) *See calculation below	8,000	15,000	11,250
COGS	$37,000	$30,000	$33,750
Expenses	10,000	10,000	10,000
Net Income	$13,000	$20,000	$16,250

*Note: All calculations assume that there are 1,000 units left for ending inventory: (4,000 units - 3,000 units sold = 1,000 units left)

LIFO Ending
Inventory Cost = 1,000 units X $8 each = $8,000

FIFO Ending
Inventory Cost = 1,000 units X $15 each = $15,000

Average Cost Ending Inventory = [(1,000 x 8) + (1,000 x 10) + (1,000 x 12) + (1,000 x 15)]/4000 units = $11.25 per unit.

1000 units X $11.25 each = $11,250

done by comparing the current cost of all inventory items to the costs at the beginning of the year or earlier base period. This is commonly referred to as the "double extension method."

As an alternative to the double extension method, the Internal Revenue Service also allows the use of a simplified method called the Inventory Price Index Computation (IPIC) method. The IPIC method is based on published inflation indexes from the Bureau of Labor Statistics.

The advantages of the IPIC method include:

1. There is no longer any requirement to "double extend" every item of the company's year-end inventories.
2. Companies that are growing and improving their purchasing functions may experience deflation in actual inventory purchasing and still get the benefits of LIFO because the economy as a whole is experiencing inflation.
3. LIFO calculations can be quickly performed, significantly reducing the compliance burden.

A company that decides to adopt the LIFO method must comply with several requirements, including:

1. Form 970 must be filed with the IRS to use the LIFO inventory method and specify the goods to which the election applies. This election must be filed with the tax return for the year of adoption.
2. The beginning inventory must be valued at cost in accordance with the taxpayer's prior inventory method.
3. Any former write-downs to market value made to prior year's ending inventory must be restored.
4. When LIFO is used for tax purposes, it must also be used in the primary financial statements and credit reports that are issued to shareholders and creditors. Once the LIFO method is adopted, it generally cannot be terminated without IRS consent.

While the election of the LIFO method does add a layer of complexity, in an inflationary economy LIFO can also provide significant tax deferrals. With the use of IRS prescribed simplified methods, the overall burden of calculating LIFO inventory has been significantly reduced, typically making the benefits of the LIFO method greater than the additional compliance burden and cost. •

Vidya Harish is a Manager in the Tax Services Group. For more information, contact Vidya at 580-2083 or vharish@ksmcpa.com.

IRC Section 409A *(Continued from page 7)*

"performance-based compensation" (i.e., bonuses based on services performed over a period of at least 12 months), the deferral election must be made no later than six months before the end of the year.

Penalty Provisions

If these requirements are not met, the compensation deferred for the current year and all prior years will be taxable to the participant at the time it first becomes vested, and the participant will also be subject to a 20% penalty at that time.

Any plan or employment agreement that provides for the deferral of compensation should be reviewed to determine if it needs to be amended to comply with section 409A. Although the date for written compliance has been extended twice, do not anticipate further extensions. It is important that all plans be in compliance with the complexities of the requirements of section 409A to avoid significant adverse tax consequences. •

Jay Benjamin is a Partner in KSM's Tax Advisory Group. For more information, contact Jay at 580-2075 or jbenjamin@ksmcpa.com.

IN THE FIRM NEWS

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

JENNIFER DUNBAR, JUSTIN HAYES, JOHN HENNE, RANDY HOOPER, BEN LYON, CYNTHIA REDMON, ERIN WAGONER

Congratulations to the following staff members who passed exams:

CHAD HALSTEAD, BAR Exam
JARED NISHIDA, CFA Exam
LAURIE TANSELLE, CFP Exam

Welcome to the following new staff members:

SCOTT ALEXANDER, CHARLIE BRANDT, KIMBERLY CANADA, KATHY COLLINS, HEATHER FURRER, MATT GARD, CHAD HALSTEAD, DEREK HAMMOND, JUSTIN HAYES, CRYSTAL JACQUAY, TIFFANY KRAFT, CARLA LASTER, LESLIE LATHROP, ANDY MANCHIR, DENISE McCLURE, MARK PAHOS, EMILY REITMEYER, CHRISTY RUNDLE, ROBERT SOKOL, BRYAN STEFFEN, IAN STRAW, LAURIE TANSELLE, RICK TYSON, JESSE VASQUEZ, RACHEL WALKER, PHILIP WOODBURY

Acknowledgements:

KAREN KENNELLY
Elected as board emeritus to Dress for Success Indianapolis

GREG KIRKLAND
Elected the chairman of the IT committee for Baker Tilly International

TERRY O'NEIL
Elected president of the advisory board for the Central Indiana Small Business Development Corporation

ED STOHLMAN
Joined the board of directors at DAD's Inc. and joined the finance committee of AYS Inc.

Speeches/Presentations:

JAY BENJAMIN and **TIM COOK**
Presented at the Indiana Continuing Legal Education Forum annual law update seminar. Tim presented a state tax update and Jay presented a federal tax update.

DAVID CHARLES and **STEVE WARNER**
Presented "Update on Determining Fair Market Value in Healthcare Transactions" at *The Stark Reality* healthcare seminar in Carmel, IN.

ANDY MANCHIR
Presented "Demystifying the ESOP Appraisal and Communicating that Value to Employee Owners" to the Tri-State ESOP Conference in Louisville, KY, "ESOP Termination Issues" to the ESOP Association's Las Vegas Trade Show and Conference and "Valuation of Businesses for Buy/Sell Agreements" to the Estate Planning Council in Indianapolis.

TERRY O'NEIL and **DOUG RUBENSTEIN**
Presented "Advanced Partnerships, LLCs and LLPs: Organization and Operation in Indiana" at a one-day Lorman Education Services seminar.

***The Advisor* Editorial Committee:**

ROSANNE AMMIRATI, TIFFANY CALVERT, MARK FLINCHUM, RON SMITH, ANNE WHISLER

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

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P.O. Box 40857

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