Business & Tax Solutions for the Entrepreneur

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THE ADVISOR

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"Much of the stimulus money flowing from the federal government will be disbursed to the care and administration of state government. An estimated 75,000 jobs will be saved or added in Indiana."

In This Issue:

American Recovery and Reinvestment Act of 2009

By Keith Gambrel, CPA and Christopher Bradburn, CPA

SUMMARY: WITH DISBURSEMENTS ALREADY UNDERWAY, THE NATION'S STIMULUS BILL IS PREDICTED TO SIGNIFICANTLY IMPACT INDIANA'S ECONOMY AND MANY LOCAL BUSINESSES IN THE COMING YEARS.

On February 17, 2009 President Obama signed into law H.R. 1, the American Recovery and Reinvestment Act of 2009 (ARRA). This legislation is commonly referred to as the "stimulus bill," and as of the date of this newsletter, disbursement of portions of the budgeted stimulus funds is already underway.

The Congressional Budget Office has estimated H.R. 1 will increase the federal expenditures by $185 billion through the remaining months of 2009, and $789 billion over the 2009 - 2019 period. ARRA commits $463 billion (63 percent) to spending primarily in transportation and infrastructure upgrades and other construction, health care programs, education, housing assistance and energy efficiency upgrades. There are approximately $326 billion (37 percent) in personal and business tax breaks and provisions affecting payments to states.

The scale of ARRA, and the task of administering the disbursement and use of funds, is challenging to comprehend. Much of the stimulus money flowing from the federal government will be disbursed to the care and administration of state government. An estimated 75,000 jobs will be saved or added in Indiana.

The Greater Indianapolis Chamber of Commerce says Indiana should anticipate $4.3 billion in increases in existing federal programs including:

- Medicaid: $1.4 billion
- Education: $1.3 billion
- Roads and Bridges: $650 million
- Nutrition: $400 million

Of the transportation money Indiana will receive, $440 million will come through the Indiana Department of Transportation

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Managing Partner Message

David Resnick, CPA
Managing Partner

We are truly living in unprecedented times. As I sit to write this message informing our clients of the happenings at KSM I cannot hide from the state of the economy and the uncertainty many clients and friends are feeling.

Searching for new streams of revenue, containing operating costs, managing labor costs, maintaining financial performance, and evaluating bank relationships and lending capacity, business owners, presidents, chief financial officers, and employees are focused more on these issues than ever before. Determined to successfully manage our businesses is keeping all of us awake at night. While each of us faces our own unique business challenges, we all share in the uncertainty of these economic times. I'm reminded as I reflect over KSM's 67 year history, our firm and clients have grown and prospered, but not without enduring several recessions, run away inflation, a tech bubble burst, and the sky rocketing interest rates of the early 1980s. I am hopeful these challenging times shall also pass.

All of us at KSM remain steadfast in our commitment to serving as your trusted advisor. The role of trusted advisor has been a part of the KSM culture since our inception and as a firm we continually mentor and instill that mindset in every professional who joins KSM. It is a role and responsibility we do not take lightly. Many of our firm partners lead mentoring groups and discussions through our formalized training program, KSM University, to ensure the next generation of KSM leaders understands the importance of being a trusted advisor. At our semi-annual firm wide staff meetings, a significant amount of time is devoted to client service and being a sought-after trusted advisor. This year during our work group meetings we have allotted time to discuss the book *The Trusted Advisor* by David Maister, which we all have agreed to read.

At KSM, we stand ready to be your trusted advisor; be it as a sounding board, focused on a specific challenge, helping you to achieve your next success, or just simply to listen.

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

Proper Financial Planning During Challenging Times

By Peter Reist, CPA
KSM Capital Advisors, LLC

SUMMARY: Life's circumstances sometimes mandate a change in strategy regarding investment and financial plans. In addition, today's economic challenges make this an ideal time to reevaluate finances and explore options for improving your bottom line.

With the current tough economic environment it is important to review investment and financial plans and goals. KSM Capital Advisors, LLC (KSMCA) is available to assist in tax and financial planning as goals are redefined or circumstances change. Following are some suggested areas to review.

Mortgage Refinance - The recent decline in mortgage rates and the government's goal of keeping rates affordable to allow people to refinance their mortgage, means the time is right to review current mortgage terms. The most attractive rates are for homes that qualify for a non-jumbo loan. The current jumbo loan amount applies to loans above $417,000. However, if a first mortgage loan is coupled with a home equity loan the mortgage debt could be $517,000 at very attractive rates.

The main benefit from refinancing is the current monthly savings achieved by reducing the interest rate and thus the monthly payment. A second, longer term benefit will result from expected future inflation and higher interest rates. A favorable long-term mortgage rate will be locked in, and the debt will be paid back with cheaper future dollars. Inflation reduces the purchasing power of money. However, once the mortgage rate is fixed the risk of a future increase in the monthly payment is effectively removed. In addition, the debt is being repaid with dollars that are worth less than their value today.

"With the current tough economic environment it is important to review investment and financial plans and goals."

The determination of the amount of a mortgage versus having assets invested in fixed income and the projected rate of return on an after-tax basis should be considered. If excess cash is available, there could be a strong argument to use that cash to pay down the mortgage to delever a personal balance sheet. Of course, the first debt paid down should be loans with the highest nondeductible interest rates.

College Savings – The 20 percent tax credit offered by the Indiana College Savings plan is a dollar-for-dollar reduction in Indiana income tax liability. Contributing to an Indiana plan enables eligibility for a tax credit of 20 percent of the amount contributed in the calendar year up to a maximum state tax credit of $1,000. Effectively, this allows a $5,000 contribution for college expenses, which will grow income tax free if used for qualifying expenses, to have an out-of-pocket cash cost of only $4,000.

Retirement Planning – In 2010 everyone will be eligible to convert funds to a Roth IRA. Currently only taxpayers with an adjusted gross income of less than $100,000 qualify. The overwhelming benefit to a Roth IRA is distributions are not subject to income tax at the time of withdrawal. An additional benefit is Roth's do not require minimum distributions to begin at age 70 ½. With the likelihood that tax rates will be increasing, the benefit of having a source of non-taxable income at retirement is even more attractive.

An argument for continuing to add to retirement accounts through 401(k) and other savings vehicles can be illustrated as follows:

From the 1929 market peak there was a 25-year period, ending in 1954, until the market regained the 1929 peak value. However, if $10,000 had been invested at the market peak in 1929 and continued once each year thereafter through 1954, for a total investment of $260,000, an account with $1.7 million for an annualized 12 percent return would have been realized. There is significant benefit to dollar cost averaging from compounding and accumulating dividends generated by equities.

Please contact KSM Capital Advisors to help navigate these and other tax and financial issues. Proper planning and a thought out plan of action can provide peace of mind.

This article was contributed by KSM Capital Advisors, LLC, a separate legal 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, call Karen Mersereau or Peter Reist, Managing Directors, at 317.580.3400.

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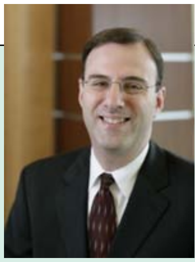
Current Environment Creates Estate Planning Opportunities



By Jay D. Benjamin, CPA, JD

SUMMARY: Changes in the law and current economic conditions have impacted estate planning. Decisions regarding the terms of one's will, trust, gifting, the division of assets and beneficiary designations may now need to be reconsidered.

Increase in Estate Tax Exemption

Effective January 1, 2009, the estate tax exemption was increased from $2 million to $3.5 million. A typical estate plan for a married couple calls for an amount equal to the "estate tax exemption amount" to pass to a "credit shelter trust," with the balance of the estate passing to the surviving spouse (or to a trust for the surviving spouse).

Now that the exemption is $3.5 million, this typical estate plan may no longer be desirable (i.e., the balance to the spouse under the typical estate plan may be insufficient depending on how large the estate is, how assets are divided, what the credit shelter trust terms are, etc.). If the Will/ Living Trust is not changed, the result may not be what was intended.

Economic Environment

With asset values depressed, now may be an appropriate time to consider making outright gifts and getting these assets out of a couple's estate for estate tax purposes. Each person may give away up to $1 million during his or her lifetime without incurring a gift tax. If it is believed that the assets will increase in value after making the gift, the increase in value will be out of the estate at no gift or estate tax cost.

Further, now is an excellent time to consider establishing and funding a Grantor Retained Annuity Trust (GRAT), given the low interest rate environment and potentially depressed asset values. A GRAT is an irrevocable trust funded with assets that have the potential for appreciation. The GRAT pays a certain dollar amount each year for a specified number of years, generally calculated as the amount required to zero-out the gift for tax purposes. After the term of years expires, whatever remains in the trust, if anything, passes gift tax free to the named beneficiaries. The donor must survive the term of the GRAT; otherwise, the GRAT assets will be included in the donor's estate.

For a GRAT to be successful, the gifted assets must appreciate at a rate in excess of the IRS interest rate, which is currently 2.8 percent (June rate). The best asset to gift would be one that has high potential for appreciation, can be discounted for gift tax purposes, and has cash flow. The GRAT must make the scheduled payments each year. If the GRAT does not have cash, then the payments must be made with property in kind.

Division of Assets

To minimize estate taxes, married couples need to carefully consider the division of their assets. In general, each spouse has a $3.5 million estate tax exemption to apply against his or her taxable estate (assuming he or she did not use any of the exemption during life through gifting). If a married couple does not divide their assets properly, then the exemption of the first spouse to die may be wasted, even if the estate planning documents are written correctly. Of course, there may be non-tax reasons to keep assets divided a certain way (e.g., in a second marriage, or in an instance where one spouse may not want to, or cannot, transfer certain assets to the other spouse). However, there are often techniques available to accomplish the couple's goals and minimize potential tax.

Beneficiary Designations

Certain assets such as life insurance, retirement plans and IRAs pass by beneficiary designation, and not by Will. Naming a beneficiary has important income and estate tax consequences, which may be in conflict. It is important to make sure to properly designate a beneficiary or beneficiaries for these types of assets. For retirement plans and IRAs, tax consequences following the death of the owner are determined based on the named beneficiary. Careful consideration must be given to naming a trust as a beneficiary, if this is desired, as income tax traps exist for the unwary.

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What is the Impact of IFRS?

By Ron Smith, CPA

SUMMARY: During the past few years business owners have been hearing more about International Financial Reporting Standards (IFRS). Owners may be unclear on what the standards entail and how they may impact their company.

A movement toward adoption of a single set of global accounting standards for use by entities around the world has been underway for many years. In the United States, this movement began gaining momentum in 2002, when the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) issued the Norwalk Agreement. In the agreement the two organizations committed to developing a common set of compatible accounting standards. Since that time, the two standard-setting bodies have been working toward these accounting standards by a process referred to as "convergence."

"Due to the convergence projects that have already been completed between the IASB and FASB, the number of differences between IFRS and U.S. GAAP (Generally Accepted Accounting Principles) has been shrinking."

The IASB is an independent accounting standard-setting body, based in London that issues the IFRS. Almost 100 countries require or allow the use of IFRS by publicly traded companies, and more are planning to follow in the near future. Many of those countries also allow or require IFRS to be utilized by private companies or non-issuers. Whether IFRS will be adopted in the United States has yet to be determined. In 2008, the SEC published a proposed roadmap that could eventually require public companies to adopt IFRS. In the current business and economic environment, it is hard to say what changes will be made to the roadmap. If adoption for public companies occurs, it may only take a short time thereafter for the adoption to have a major impact on privately-held companies in the U.S.

Due to the convergence projects that have already been completed between the IASB and FASB, the number of differences between IFRS and U.S. GAAP (Generally Accepted Accounting Principles) has been shrinking. One of the most recent convergence projects completed was related to business combinations. This resulted in the issuance of Statements of Financial Accounting Standards (SFAS) 141(R): Business Combinations by the FASB. One of the current projects the FASB and IASB are working on deals with financial statement presentation, which, if issued as currently outlined, will have a major impact on how financial statements are presented.

Below is a list of major differences that still exist:

- IFRS does not permit the last-in, first-out (LIFO) method.
- IFRS uses a single-step method for impairment write-downs rather than a two-step method used in U.S. GAAP, making write-downs more likely.
- IFRS has a different probability threshold and measurement objective for contingencies.
- IFRS does not permit curing debt covenant violations after year-end.

Continued on page 10. See "IFRS."

Research Credit Extended

By Alyson Lurker, CPA, JD

SUMMARY: On October 3, 2008, President Bush signed the Emergency Economic Stabilization Act of 2008 (The Act). Among other important provisions, The Act extended the research credit to include research expenses paid through December 31, 2009.

Congress believes it is appropriate to extend the research credit because research is the basis of new products, new services, new industries, and new jobs for the U.S. economy. The Act also modifies the two alternative credit calculations for calendar year 2009.

The research credit is available for incremental increases in qualified research. In general, taxpayers may claim a research credit equal to 20 percent of the amount that qualified research expenses for the year exceed the year's base amount.

The base amount is computed by multiplying the taxpayer's fixed base percentage by the average gross receipts for the four preceding years. If a taxpayer incurred qualified research expense and also had gross receipts during each of at least three years (1984-1988), the fixed-base percentage is a ratio of total qualified research expenses for 1984-1988 to the total gross receipts for that period. All other taxpayers (i.e. start-up firms) are generally assigned a fixed-base percentage of three percent. A taxpayer's base amount cannot be less than 50 percent of the current year's qualified research expenses.

For tax years 2008 and 2009, taxpayers may choose from two alternative methods of calculating the research credit in lieu of the above calculation. The Alternative Incremental Research Credit assigns a three-tiered, fixed-base percentage between one and five percent that is generally lower than the fixed-base percentage otherwise applicable, and the credit rate likewise is reduced.

Another alternative method introduced for 2007, the Alternative Simplified Credit, calculates a credit equal to 12 percent of qualified research expenses that exceed 50 percent of the average qualified research expenses for the three preceding years. The rate is reduced to six percent if a taxpayer has no qualified research expenses in any one of the three preceding tax years. Effective for tax year 2009, The Act prevents the use of the Alternative Incremental Research Credit for that year, while increasing the Alternative Simplified Research Credit rate to 14 percent.

The Housing Assistance Act of 2008 provides a way for corporations to accelerate the use of research credit carryovers in 2008. Through this legislation, corporations can elect to forego bonus depreciation on eligible property placed in service after March 31, 2008, and increase the regular tax limit on the use of research credit carryovers. The increase in the allowable credit is treated as refundable and, upon election, the depreciation for qualified property is calculated using the straight-line method. The regular tax limitation can be increased by 20 percent of any excess of:

- Total depreciation allowed if bonus depreciation rules applied; over
- Total depreciation allowed if bonus depreciation rules do not apply.

Eligible qualified property is generally bonus depreciation property that had its original use, purchase, and date placed in service after March 31, 2008 and before January 1, 2009. The American Recovery and Reinvestment Act of 2009 extended this provision for one year. Eligible qualified property now includes property placed in service after December 31, 2008 and before January 1, 2010. Finally, the increase in the regular tax limit amount is limited to the lesser of $30 million or 6 percent of the total research credit carry forwards from tax years prior to 2006.

Continued on page 10. See "Research Credit."

Keeping Top Talent: The Value of Employee Retention

By Mark Barnhart, CPC

SUMMARY: Today's employers may be focused on trimming their workforce as a means of cutting costs and remaining competitive. However, as baby boomers retire, leading management consultants accentuate the importance of retaining valued employees as a means of offsetting a shrinking talent pool.

Beginning in 2010 available jobs will outnumber available workers by 10 million. That is according to the book, *Impending Crisis: Too Many Jobs, Too Few People*, which decrees the need for employers to keep their top talent and minimize turnover.

Today's tumultuous economic climate has many employers focused on trimming their workforce to offset deteriorating financial conditions. Yet the book's authors – management consultants Roger Herman, Tom Olivo and Joyce Gioia – point out that 70 million baby boomers are poised to retire in 2010, while only some 30 million new hires from Generation Y will be available to negate that exodus.

How do employers keep high performers on staff or maintain what "Impending Crisis" refers to as "tenure equity?" The authors contend that "not all turnover is equal." They challenge employers to find ways to keep the workers that the company has invested the most time, money, resources and training in – the employees with "tenure equity."

Retaining Valued Employees

The following practices are recommended to keep top talent within an organization and avoid loss through turnover.

- **Acknowledge Achievements**
  Everyone takes pride in personal accomplishments and achievements. Therefore, receiving recognition for a job well done is always appreciated. Let individuals know they are doing well, and showcase those achievements within the company for others to see (i.e. newsletters, bulletin boards, Intranets, meetings).
- **Challenge Employees**
  Recruiters witness first-hand the reasons people change jobs. A lack of challenge usually outweighs issues such as money, title and professional growth. Top candidates thrive on challenge and will consistently strive to surpass goals and expectations. Providing new projects and responsibilities to the best employees will keep those individuals engaged and enthusiastic about their role within the organization.
- **Define Career Paths**
  As employees grow within the organization, top performers want to know where they are headed, what is next for them in the company, and what new duties and responsibilities await. If those associates do not see their next promotion at the company, another employer – possibly a competitor – will eagerly lay out a path that extends beyond the current doors.

- **Solidify the Work Environment**
  Make certain employees are given the proper tools to effectively do their job. Investing in technology and support is an investment that will be recognized. Simply ask, what they need to succeed?
- **Provide Flexibility**
  Cellular technology and the Internet have made work from remote offices more commonplace. Allow high performers the flexibility and freedom to complete projects while also caring for family matters or taking

Continued on page 11. See "Top Talent."

Considerations of Physician Buy-Sell Agreements

By Brad Reay

SUMMARY: Physicians face a multitude of challenges in their careers; regulatory compliance, insurance reimbursement and student loans to name a few. With all of the challenges faced by practicing physicians, shouldn't joining a medical practice be relatively straightforward? Not so. In fact, structuring the agreement to join a medical practice might be one of the most important business decisions of a physician's career.

Comparing buy-sell agreements might best be described as comparing fingerprints. No two agreements are the same. Following are 10 of the top considerations which should be addressed when structuring a buy-sell agreement:

- Most buy-sell agreements are structured so that the methodology of calculating the buy-in and the buy-out mirror each other. This creates an equitable transaction as well as creating consistency of cash flow for the practice. At a minimum, a physician wants to know that the methodology utilized to calculate his buy-in is consistent with the methodology that will be used to calculate his buy-out. While the resulting dollar amount may be different, the methodology should be the same.

- Open communication is imperative. An annual review of the practice's buy-sell methods, calculations and communication helps to ensure that all parties understand and agree to the methodology. Preliminary calculations of an upcoming buy-in/out are also useful in communicating the calculation methodology and preliminary expectations.

- Memorializing the definitions and formulas in an agreement not only requires sign off by the owners, but also requires a team of specialized consultants. An attorney and a CPA are invaluable in drafting appropriate language that is explicit and clear.

- Provisions for termination, and the financial ramifications thereof, need to be spelled out very clearly in the buy-sell agreement. This includes the financial ramifications of termination events including death, disability, retirement, voluntary termination and involuntary termination with and without cause. Required notice periods for each type of termination, and the financial ramifications of not meeting the notice requirement, should be specified in detail in the agreement.

- Non-compete provisions are an important component of a buy-sell agreement. Such provisions typically specify a predefined geographic area and a time period during which a departing physician is prohibited from practicing in said geographic area. A buy-sell agreement could include a formula to calculate a penalty, and/or the legal recourse available to the practice in the event the non-compete provision is violated.

"Provisions for termination, and the financial ramifications thereof, need to be spelled out very clearly in the buy-sell agreement."

- Buy-sell agreements often provide the time period before which the physician can become an owner in the practice. This time period typically ranges from two to three years for the physician to reach certain production levels, and for both the physician and the practice to determine if any long-term conflicts in style or philosophy exist.

- A buy-sell agreement should clearly describe the components of the buy-in and buy-out calculation. Typical practice assets include accounts receivable and fixed assets. Goodwill is not usually a consideration for the purpose of buy-in and buy-out calculations.

- The buy-sell agreement should clearly define the method of calculating the value of the ownership interest. Common methods include using a fixed formula or engaging an independent appraiser. When using a fixed formula to value fixed assets, a common approach is to value the assets at the greater of book value or a predetermined floor (e.g. 25 percent of original cost) to account for the actual fair market value of assets that are fully depreciated. Exclusions for certain short-lived computer software and hardware, and other high-tech equipment could be a consideration. Determination of financial statement book value often excludes accounts receivable and should account for any cash.

- Terms should be clearly defined in the buy-sell agreement. If the buy-in/out price is not paid in a lump sum, the agreement should provide the number of months during which the buy-in/out is to be paid and whether interest is paid.

- Tax consequences and cash flow implications exist for incoming, outgoing and existing owners. Upon buy-in, it is important to distinguish whether the shares of ownership are being purchased from the practice as new shares, or if they are being purchased from the existing owners. Purchasing shares from the existing owners may trigger a taxable gain or loss for those members. Purchasing new shares from the practice may generate cash flow without creating taxable income for the practice. Upon the buyout of a practice, the stock portion of the transaction is usually treated as a capital transaction, whereas the pay-out of accounts receivable is usually treated as earned income.

While these 10 considerations are not all-inclusive, they certainly provide a framework for discussions and creation of a legal agreement. Potential pitfalls exist if guidelines are not established and followed, including ill-will between owners, legal disputes and a loss of patient base, all of which can lead to cash flow issues for the practice.

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IRS Encourages Disclosure of Offshore Accounts

By Aimee Trost, CPA

SUMMARY: A NEW VOLUNTARY DISCLOSURE PROGRAM REGARDING OFFSHORE ACCOUNTS HAS BEEN LAUNCHED BY THE INTERNAL REVENUE SERVICE. IT IS DIRECTED AT CURBING NON-COMPLIANCE AMONG TAXPAYERS THROUGH REDUCED CIVIL PENALTIES AND THE ELIMINATION OF CRIMINAL CHARGES.

U.S. law requires its citizens to pay tax on their worldwide income. Additionally, citizens are required to disclose the existence of bank accounts in which they have certain ownership or signatory interests.

Reporting offshore financial accounts and foreign entities has historically been an area of significant non-compliance among U.S. taxpayers. The Internal Revenue Service (IRS) has recently increased its enforcement efforts in this area and launched a new voluntary disclosure program. The disclosure program allows taxpayers to come forward with information before they are caught in a position of non-compliance.

Voluntary Disclosure Process

Time is of the essence. The IRS voluntary disclosure program is only available until September 23, 2009. Taxpayers who fully disclose their offshore income and activities can take advantage of reduced civil penalties. In addition, those who fully disclose will avoid any criminal penalties that the IRS might otherwise pursue. The reduced civil penalties apply to the failure to report income, as well as the failure to file information returns.

U.S. taxpayers are required to report and pay taxes with respect to their entire worldwide income. To the extent that taxpayers have unreported foreign income from prior years, the IRS will assess taxes and interest going back six years. In addition, the government will levy an accuracy or delinquency penalty for those years. However, the IRS will waive the 75 percent fraud penalty for all years.

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Recovery Act *(Continued from page 1)*

(INDOT), and $198 million will be directed through local agencies including 14 metropolitan planning organizations for larger communities. Governor Daniels has placed particular emphasis on "shovel ready" infrastructure projects, or projects for which architecture and engineering have been completed, but for which funding is still required.

While it is difficult to project the impact of ARRA on specific companies, this legislation is the most ambitious effort to stimulate the economy in our nation's history and will have a significant impact on Indiana business in the years to come. ARRA has been described as "design build," meaning the funds will start being spent before the process for distribution and even promulgation of the Federal or State rules is complete.

To learn more about how Indiana will manage its share of funds from the American Recovery and Reinvestment Act visit www.INvest.in.gov.

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Research Credit *(Continued from page 6)*

Recently the IRS has increased its focus on the research credit by making it a Tier I audit issue due to its high strategic importance. In addition, the IRS has released a series of Audit Technique Guides in recent years. Care should be taken to ensure research activities meet the definition of "qualified research," while also having contemporaneous documentation available to support the research activities. Although the IRS has placed extra scrutiny on credit claims, Congress clearly wants to encourage research activities by including an extension of research credit as one of the important provisions of the Act.

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IFRS *(Continued from page 5)*

These are only some of the major differences, and some that many see as roadblocks to a complete convergence or adoption. Beyond these specific differences, the major difference between IFRS and U.S. GAAP is the following:

- IFRS is principles-based with limited application guidance and industry specific guidance in the standards.
- U.S. GAAP is rules-based with specific application and industry guidance in the standards.

In hard copy, IFRS standards are approximately 20 percent of the thickness of U.S. GAAP. Principles-based standards require more time spent determining how to apply specific accounting principles, as well as additional disclosures in the financial statements.

The continued convergence of IFRS and U.S. GAAP will not result in a single set of standards. The expectation is there will be fewer differences remaining when and if the U.S. adopts IFRS. Adoption is not just around the corner (speculation is from 2016 to 2018 for privately-held companies). In the meantime, expect continued convergence projects and resulting changes in U.S. GAAP.

To learn more about the convergence projects and movement towards IFRS, visit the American Institute of Certified Public Accountants' Web site at www.ifrs.com.

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Top Talent *(Continued from page 7)*

care of personal business. Top performers will not abuse such privileges, but instead will work harder and smarter.

- **Compensate Top Performers**
  As already mentioned, money is not normally the main factor leading to a decision to change careers. However, if pay is a factor, it cannot be addressed after the fact. Do not take employees for granted, and do not wait for competition to offer a salary increase. Keep compensation surveys current, and hold employee performance and salary reviews regularly. In addition, consider other compensation methods. Bonuses, benefits, time-off, and other perks go a long way in maintaining loyal employees.

The talent pool is shrinking. The U.S. Department of Labor's rule of thumb puts replacement cost as equating to 33 percent of the annual salary of the individual being replaced. As employers continue to combat today's financial pressures, the high cost of turnover should remain at the forefront in planning and training for future needs.

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Offshore *(Continued from page 9)*

Failure to comply can lead to cumulative penalties that could exceed the total value of foreign assets. In lieu of these penalties, the IRS has agreed, under the voluntary disclosure program, to assess a single penalty equal to 20 percent of the highest foreign financial account or entity value during the prior six-year period. The penalty may be reduced to 5 percent under special circumstances.

Automatic FBAR Extension

U.S. taxpayers must file certain information returns with respect to their foreign activities. The most common of these is the Report of Foreign Bank and Financial Accounts (FBAR). This information return is required for all taxpayers having a financial interest in, or authority over, foreign financial accounts with aggregate values exceeding $10,000.

The FBAR is filed for each calendar year and is generally due by June 30 of the succeeding year. However, the IRS has provided an extension of time to file delinquent FBARs for taxpayers who reported and paid tax on all their taxable income but only recently learned of their FBAR filing obligation. The IRS will not impose a penalty for the failure to file the FBARs if the delinquent FBARs are filed pursuant to the extension process by September 23, 2009. Taxpayers should file delinquent FBARs pursuant to this extension process for all applicable years from 2003 through 2008.

Offshore Hedge Funds

The IRS has recently provided informal guidance indicating that an offshore hedge fund is a "foreign financial account." Therefore, every U.S. investor in an offshore hedge fund should file an FBAR. This applies where the U.S. person invests directly in the foreign fund. If the U.S. person invests in a U.S. domiciled entity, the FBAR will not apply unless the U.S. person owns more than 50% of the U.S. entity even though the U.S. entity may be invested in foreign funds (the U.S. entity would have the FBAR obligation).

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Indianapolis, IN 46240-0857

In The Firm News

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

ANIRVAN CHOUDHURY, RJ FORBES, NATHAN GRIFFITTS-COHEN, ADAM GRISSOM, DEREK HAMMOND, DAN LARSON, BRENT LAY, BEN LYON, ZEESHAN MALIK, BRAD McGAHA, DANIEL TRITCH AND STEPHANIE WHITE

Acknowledgements:

Katz, Sapper & Miller
Received an unmodified opinion from the Private Companies Practice Section of the American Institute of Certified Public Accountants (AICPA) on its most recently completed peer review, which demonstrates the firm's commitment to quality and achieving high standards.

Tim Almack and Scott Brown
Elected to Conexus Indiana's Logistics Executive Committee

Donna Blackmon
Elected to the board of INROADS Indiana

Libby Bozarth
Elected Treasurer of Indy Runners

Christopher Bradburn
Joined the Indiana Chapter of the U.S. Green Building Council

Chris Felger
Elected to the Central Indiana chapter of APICS (The Association for Operations Management) board as the Vice President of Finance

David Resnick
Elected to the board of the Arts Council of Indianapolis

Matt Snively
Elected to the board of Flanner House of Indianapolis

Casse Tate
Joined *Profitable Solutions for Nonprofits* National Editorial Board

Jeff Taylor
Selected by the Catholic Youth Organization (CYO) board of directors as a recipient of the 2009 St. John Bosco Medal for his outstanding volunteer efforts on behalf of the youth at his parish and the CYO

Welcome to the following new staff members:

JESSICA BOICOURT, JASON HEMAN, BRITTANI JENNINGS, KATHLEEN KIEFFER, ERIC LAND, JENNIFER MOORE, STEPHANIE MOORE, TIM MUSHOLT, MONICA PROSSER, ELISE RABATIN, TIMOTHY READ, DAVID RUPP AND TINA WILKINSON

Congratulations to the following staff members who recently passed Exams:

JOHN HENNE, CERTIFIED FRAUD EXAM

GWEN PARKER, CERTIFIED PERSONAL CONSULTANT (CPC) EXAM

MATT SNIVELY, CERTIFIED INTERNAL AUDITOR EXAM

STEPHEN UPSHAW, OFFENSIVE SECURITY CERTIFIED (OSCP) PROFESSIONAL EXAM

Speeches/Presentations:

JoDee Curtis and Justin Hayes
Presented at the Indiana CPAs Society's 2009 Solutions Summit: It's All About People. JoDee presented on "Mentoring and Reverse Mentoring" and Justin presented on "Retiring the Generation Gap."

Mike Heaton
Presented a summary of trends and relevant issues at the Neurosurgery Executives' Resource Value and Education Society (NERVES) Annual Meeting in San Diego

Bill Leach
Conducted two presentations on "Accounting Firm Management" at the 2009 National Practice Management Conference sponsored by the Association for Accounting Administration

Andy Manchir
Presented "Basic Valuation" at The ESOP Association's National Conference in Washington, DC

The Advisor Editorial Committee:
MARK FLINCHUM, ROSANNE AMMIRATI, DONNA BLACKMON, CHRIS BRADBURN, KATHY KIEFFER, JENNIFER MOORE, RON SMITH, ANNE WHISLER

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

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