

Client LINE

WD&W

Walthall, Drake
& Wallace LLP

CERTIFIED PUBLIC ACCOUNTANTS

Cleveland (216) 573-2330

Mentor (440) 255-4300

www.walthall.com

Understanding Unclaimed Property

You're reviewing your latest bank statement, and you notice that a payroll check issued six months ago still has not been cashed. The employee no longer works for you, and all attempts to contact her have been unsuccessful. Can you void the check and adjust your account balance?

You shouldn't. Any time your business is holding money or another tangible financial asset because the owner cannot be located, you should treat it as unclaimed or "abandoned" property. Examples include payroll and vendor checks that haven't been cashed, unredeemed gift certificates, shareholder dividends, and accounts receivable credit balances. Most businesses have unclaimed property.

States Stake Their Claim

Businesses are not permitted to hold on to unclaimed property indefinitely. After a certain period, the property must be reported as abandoned and turned over to the appropriate state agency for safekeeping until the owner comes forward. The rules for reporting and remitting unclaimed property vary from state to state.

Unclaimed property represents a significant revenue source for states. And there's plenty of room for growth. According to estimates, only 10% to 15% of companies currently remit unclaimed property. With tax revenues falling, states are likely to ramp up auditing and enforcement efforts as they search for noncompliant businesses.

Compliance Pays Off

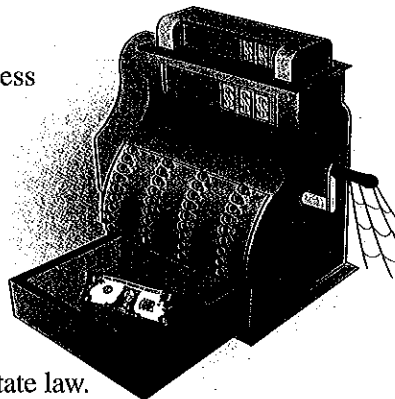
The cost of noncompliance can be high. In addition to possible penalties and interest charges, if you do not have reliable records, an auditor may estimate your company's liability. That could result in an exaggerated assessment and higher fines.

If you haven't already taken steps to make sure your business is in compliance, the following steps are recommended:

- Put someone in charge of handling your business's unclaimed property.
- Keep accurate records.
- File all required reports of unclaimed property with the appropriate state agency.
- Promptly turn over any unclaimed property according to state law.

On the Receiving End

While it's true that states use unclaimed property to boost revenues, each state also has a program to help owners reclaim their property. The procedures vary from one state to another, but a simple Internet search will provide all the necessary information and, in many cases, a searchable online database. ♦



Ed.D. but No Deduction

Are you thinking about going back to school to brush up on work-related skills or pursue an advanced degree? In certain situations, educational expenses are tax deductible.

To qualify for a deduction, the classes you take must (1) be required for your present job or (2) maintain or improve the skills you need for the work you currently do. You cannot deduct the cost of taking courses that are necessary to meet the minimum educational requirements of your current job or that qualify you for a new trade or business.

In a recent case, the Tax Court considered whether a human resources specialist should be allowed to deduct expenses related to earning a doctorate of education. Although the education had improved the taxpayer's professional skills, it also qualified her to pursue a new trade or business. As a result, the court disallowed the deduction.

Client LINE ITEMS

Federal employment-tax returns are the target of a new IRS audit program expected to launch in late 2009 and continue for three years. Hot-button issues include worker classification (employee vs. independent contractor), officer's compensation, fringe benefits, and reimbursed expenses.



The average debt level among college students graduating with loans in 2007 was approximately \$22,000, according to a report prepared by the Project on Student Debt, an initiative of nonprofit organization Institute for College Access & Success.



Enacted on May 22, 2009, the Credit Card Accountability, Responsibility, and Disclosure Act of 2009 mandates a variety of consumer protections, including an end to retroactive rate increases on existing balances due to "universal default" or "any time, any reason" clauses.



The Investment Company Institute reports that 40.5% of all U.S. households owned one or more individual retirement accounts (IRAs) in 2008. Although traditional IRAs are the most prevalent type, ownership of Roth IRAs has increased at an average annual rate of 8.3% since 2000. In all, 47.3 million households owned some type of IRA in 2008. ♦

The general information in this publication is not intended to be nor should it be treated as tax, legal, or accounting advice. Additional issues could exist that would affect the tax treatment of a specific transaction and, therefore, taxpayers should seek advice from an independent tax advisor based on their particular circumstances before acting on any information presented. This information is not intended to be nor can it be used by any taxpayer for the purpose of avoiding tax penalties.

Have You Factored Long-term Care into Your Financial Plan?

Almost everyone knows someone who lives in a nursing home or an assisted living facility or is receiving some other form of long-term care. Still, it can be hard to picture ourselves in need of such care — and equally difficult to convince ourselves that we should plan for that possibility. Given the financial realities, however, it's smart to take a proactive approach to planning.

Long-term Care Is Expensive

A survey of long-term care providers nationwide conducted for the MetLife Mature Market Institute® reports that:

- The average national rate for a semi-private room in a nursing home was \$191 a day in 2008 (\$69,715 annually).
- A private room cost an average of \$212 daily (\$77,380 annually).
- Assisted living communities were less expensive but still costly (\$36,372 annually).



Many families would be hard pressed to come up with the funds necessary to pay such large expenses for very long.

Won't Medicare Pay?

A common misconception is that Medicare pays for long-term care. In reality, Medicare only covers skilled care to some extent for up to 100 days after a qualifying hospital stay and generally does not pay for long-term care. Most private health insurance plans follow Medicare guidelines and provide coverage only for medical care.

Medicaid Is a Needs-based Program

Medicaid does help with long-term care expenses, but eligibility is restricted to individuals who have extremely limited assets and very little income. A few years ago, the Medicaid eligibility rules were tightened to further restrict people from qualifying for Medicaid if they've transferred assets for less than fair market value (e.g., by making gifts to children). Very generally, the rules impose a penalty period of Medicaid ineligibility relating to any gifts made during a 60-month "lookback period." The lookback period is measured from the date an otherwise-eligible person applies for Medicaid.

Bottom Line

To help ensure that quality care can be secured and paid for if and when it is needed, individuals should have a financial plan in place well in advance. Although not appropriate in all situations, long-term care insurance is one option that is worth exploring. ♦

Teach Your Children Well

If you have a teenager starting college and you haven't had a talk about personal fiscal responsibility, don't wait any longer. Help prepare your student to manage money with confidence by spending some time together going over financial matters.

Examine expenses. Even if your teen has been earning money and making financial decisions for a while, life at college will be different. Before you leave your freshman at the dorm, make sure you've discussed which expenses you will cover and which ones you won't. Suggest that your teen prepare a preliminary budget that the two of you can review.

Set up accounts. If your child doesn't already have checking and savings accounts, now's the time for those, too. Make sure your child understands how banking works. Check out the bank's website and online features together.

Consider credit cards. Should your teen have a credit card? A card can be helpful in a financial emergency. On the other hand, you might worry about

overspending. Talk it over with your teen. No matter what you decide, be sure your child understands how credit cards work and the potential pitfalls involved.

Discuss dangers. Make sure your child knows as much as possible about identity theft — how it can occur and how to prevent it — and Internet dangers, such as e-mail scams and phishing. ♦

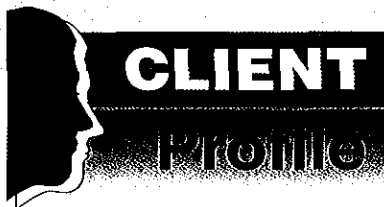
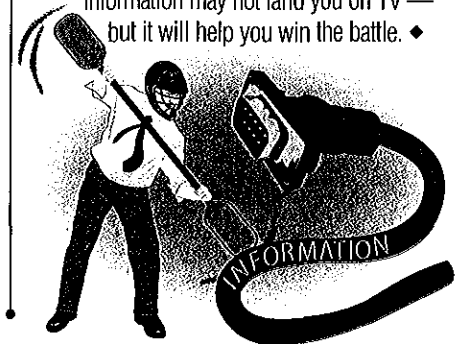


E-merge Victorious

Picture this: A television reality show starring business people in a battle against information overload. Here are some strategies the contestants might use.

- Sort incoming e-mails by sender to enhance prioritization and improve efficiency.
- Promptly delete all read messages when no additional attention is necessary.
- Respond only to e-mails that require a reply.
- Tag or highlight important e-mails or move them to a separate "action" folder.
- Compose short, concise messages with clear, unambiguous subject lines.
- Avoid interruptions by turning off desktop e-mail alerts and checking messages on a set schedule.
- Use keywords and phrases to aggregate news alerts and RSS feeds, and direct incoming information to subject-specific folders.

Learning to direct and control the onslaught of information may not land you on TV — but it will help you win the battle. ♦



Susan's employer recently discovered that it has not been withholding 401(k) loan payments from her paycheck. If the mistake is not corrected, Susan will be required to report the outstanding balance of the loan as income and pay taxes on that amount.

Under the IRS's Employee Plans Compliance Resolution System, employers can take advantage of one

of three programs offered to fix compliance problems. Problems with loans generally may be corrected by utilizing the Voluntary Correction Program. In Susan's employer's case, for a fee, the IRS will review the proposed loan correction the company has submitted and decide whether or not to give written consent to make the correction.

A mistake that is made in the operation of a plan may be corrected by an employer under the Self-Correction Program. An employer who identifies such a mistake does not have to pay a fee or notify the IRS in order to make the correction.

The Audit Closing Agreement Program is only used by the IRS when it finds plan violations during an audit. If an employer agrees to pay a negotiated monetary sanction and correct the errors, the plan will not be disqualified or lose its tax benefits.

Administering a tax-qualified plan can be challenging. If you discover a problem with your plan, it may be appropriate to use one of the IRS's correction programs. Let us know if we can be of assistance. ♦

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you. Talk to us before taking any action.

Focusing on Loan Covenants

You'll find them buried in the fine print of your company's loan agreements. Loan covenants are the requirements and restrictions lenders impose as a condition of extending credit to your business. In the current environment, expect lenders to take any and all loan covenants very seriously.

Do's and Don'ts

The list of possible loan covenants is long. Typically, your company will be required to maintain various financial ratios related to working capital, net worth, profitability, and cash flow. There may be requirements to maintain life insurance on key employees and keep tax payments current. And you may need to obtain your lender's approval before selling equipment, merging with another business, or obtaining additional credit from another source.

What To Expect

Lenders monitor compliance with loan covenants by reviewing financial statements, tax filings, and other reports. If provided for under the terms of your loan agreement, your lender also may conduct periodic on-site field audits to verify the assets serving as collateral for your loan.

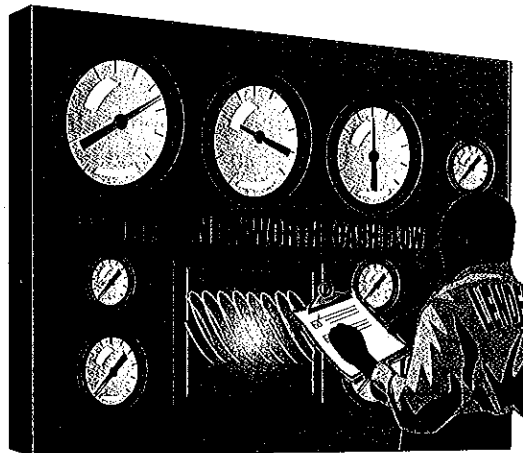
Consequences of Noncompliance

If you violate a covenant, your loan technically will be in default. The lender will be in a position to call the loan, take the collateral securing the loan, or require substantive modifications in the terms of your agreement. In some cases, there may be a brief period during which you'll have an opportunity to "cure" the problem before the lender takes action against you.

Pay Attention

When applying for a new loan, carefully review the covenants that are slated to become part of your agreement. Evaluate whether your company can realistically comply with them in view of your current business situation and future prospects. Some terms may be negotiable.

And be sure to tread carefully with existing loans. Monitor covenants and take all possible steps to comply. ♦



QA

Q. A coworker told me he had to pay "use tax." What kind of tax was he referring to?

A. Use tax is basically a substitute for sales tax. It serves to compensate a state for the sales-tax revenue that is lost when residents of the state buy items out of state (in person, online, by mail order, etc.) for use within the state. Many states have a line for use tax on their state income-tax forms; others have separate forms for reporting and remitting the tax.

Q. My husband and I intend to file separate income-tax returns this year. If he itemizes his deductions, may I claim the standard deduction?

A. Under the federal tax law, the standard deduction of a married taxpayer who files a separate return is zero if his or her spouse itemizes deductions. So you generally would need to itemize your deductions as well. However, if you have dependent children and are eligible to file as a head of household, you could claim a full standard deduction even if your husband itemizes. ♦

Who's News

Summertime at the WDW offices is anything but boring!

Tom Scharf was elected to The Hermit Club's Board of Directors, **Doris Seifert-Day** became a member of Cleveland State University's Planned Giving Advisory Council, and **John Kromar** was elected chairman of the Lake County Yacht Club's annual Fun Day for The Society for Rehabilitation. The yacht club hosted its clients and families to boat rides and a picnic lunch.

Jean Pavlin spent time volunteering at the 19th annual Parma Rib 'N Rock, which took place at Parmatown Mall. Parma Rib 'N Rock helps raise funds for many organizations and scholarships and was a huge success this year.

Love is in the air! **Melanie Hosey** and Joshua Vickerman were married on July 4th, **Rick Nagy** and his wife, Marsha, celebrated their 32nd wedding anniversary July 9th, and **John Veres ("JV")** and his wife, Joan, celebrated their 50th wedding anniversary June 27th! Also worthy of congratulations are retired partner **Tom DeMinico** and his wife Marie who celebrated their 62nd wedding anniversary on July 3rd.

Making Lemonade out of Lemons with Timely Gifts

By Tom Scharf, CPA/ABV, CVA, Partner

There is no better time to make gifts to family members of business ownership interests than right now. With a sluggish economy and vast swings in publicly traded securities which are selling at much lower values and multiples of earnings, the valuations of many privately owned businesses may be at an all-time low. This can allow taxpayers to efficiently transfer business interest to family members for estate planning purposes, getting the most out of their one million dollar gift exclusion or \$12,000 annual gift exclusion.

These difficult and uncertain economic times lend themselves to lower expectations of future earnings. In addition to lower earnings estimates, the inherent risk in investing in a small business is also higher, resulting in lower earnings multiples. In other words, we are suggesting that for many companies their income is much lower than in prior years and the prospects of future earning are also much lower. These projected lower earnings and increased risk reduce value. The value of underlying assets owned by businesses may also be much lower with real estate, manufacturing equipment and inventories also currently selling at significantly lower values than two years ago.

Adding to this perfect storm, is the prospect that Congress may pass new legislation that would disallow discounts for a minority ownership interest or lack of marketability for family-owned businesses. If so this will instantly increase the value of gifts of these business interests by 20% to 45%.

Our Business Valuation Group has seen an increase in requests to value business interests for succession planning or estate planning purposes. For more information on how our Business Valuation Group can assist you, please contact your engagement services partner or Tom Scharf, Rick Nagy or Paul Weisinger in our Business Valuation Department. We would be happy to discuss this with you.

Business Valuation Practice Group

Richard Nagy, Partner
Tom Scharf, Partner
Paul Weisinger

Wage Compensation for S Corporation Officers

As you know, an S corporation is a pass-through entity that is treated very much like a partnership for federal income tax purposes. As a result, all income is passed through to the shareholders and taxed at their individual rates.

However, the nature of the shareholders' income is subject to IRS scrutiny, especially if they provide more than minor services to the corporation. Shareholders who receive or are entitled to receive payment are considered employees whose compensation is subject to federal employment taxes. This becomes problematic if shareholders have not received "reasonable compensation" for services rendered to the corporation, but have received significant corporate distributions of cash and property, or loans.

There are numerous factors that are considered when determining "reasonable compensation," including time and effort devoted to the business, duties and responsibilities, training and experience, payments to non-shareholder employees, and what comparable businesses pay for similar services.

We can help you determine the range of reasonable compensation for your business, and where shareholders' compensation should fall within that range, by evaluating your current compensation practices and other pertinent data. In addition, we can review your employee fringe benefits package and discuss the impact of those benefits on more than 2% shareholders. Please call our office to arrange an appointment at your earliest convenience.

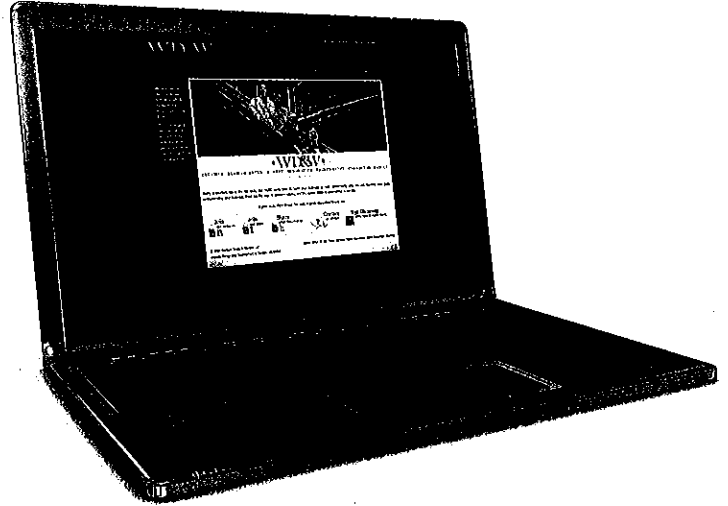
Ta-dah! The New Web Site is Here!

If you've read either of the last two newsletters, you know WDW has been involved in the process of redesigning its website, and now (we are very pleased to announce) the new web site is completed! We've consulted with designers, rewritten content, added pictures, and even included a \$50 giveaway! The employee bios now include "fun" information, web users can submit resumés through the web, and we even have client testimonials.

Our intent is not only to be informative, but also to convey the primary characteristic that makes WDW stand miles above its competitors — **personal** working relationships. "Creative, Honest, Team-Oriented, Innovative, Trustworthy, Connected....Family." Having taken the time to discover who you are, learn your goals, and understand your business, we have gained the keys to provide advice tailored to your specific needs.

Are you starting a business? Do you need advice on how to prepare for a business transition 10 years from now? Need help navigating through this difficult and challenging economy? What measures would best protect your business from fraud? How can gift planning be set up to ensure that your beneficiaries (not the government) come out ahead?

We're very proud of our accounting knowledge, and we're very proud of having 65 years' experience partnering with entrepreneurs in various industries and in numerous tax services, but combining that expertise with your goals is the reason our services are unparalleled. www.walthall.com



Tax Credit Available for Home Improvement Projects

Many clients are interested in the tax benefits associated with residential energy expenditures. Tax credits are available at 30% of the cost of expenditures, up to a maximum credit of \$1,500 in 2009 and 2010 (for existing homes only). Here is a brief overview on which home improvements are eligible:

- Qualifying improvements
- Insulation materials
- Exterior windows (including skylights)
- Exterior doors
- Central air conditioners
- Natural gas, propane and oil water heaters or furnaces
- Hot water boilers
- Electric heat pump water heaters
- Certain metal roofs and stoves
- Advanced main air circulating fans

If you have any questions, please call us to discuss how this credit may impact your taxes.

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- Strategic Planning
- Succession Planning
- Income Tax Planning
- Estate Planning
- Financial Forecasts and Projections
- Information Technology Planning
- Litigation Support
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