

December 2011

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Information for Growth

Big Changes for Lease Accounting

The Financial Accounting Standards Board (FASB) in the United States and the International Accounting Standards Board (IASB) are working together to align American and international accounting standards.



Jeff Zaye

As part of this effort, the FASB is working on a proposed accounting standards update that would change how leases are accounted for in our country.

This column, the first of two that will examine this change, deals with expected changes to the balance sheet and income statement. The second in January will address planning for and transition to the new standards.

Currently, most leasing is simply treated as an expense. Many organizations lease their space or equipment under "operating leases," which allow for only the current year's expenses to be recorded on the income statement with no impact to the balance sheet.

The proposed rules would largely eliminate this type of accounting, replacing the current straight-line rent expense reporting with balance-sheet reporting. The FASB and IASB believe that users of financial statements will have more useful information when operating leases are capitalized and included as assets and liabilities on an organization's balance sheet.

The primary challenge of this proposed standard to organizations issuing financial statements is that by grossing up both the assets and liabilities, financial ratios that are used by outside parties to evaluate the organization's health and strength may be significantly impacted.

New Balance Sheet Items

On the date a lease begins, the lessee's financial statements would recognize a right-of-use asset and a liability to make lease payments. A lessee would be required to measure:

- A liability to make lease payments at their present value, discounted using the lessee's incremental borrowing rate.

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InvestOhio Good for Investors and Small Businesses

State officials have worked out the details of a Kasich administration initiative that encourages investors to infuse capital into the state's small businesses.

Through the InvestOhio program, which was announced in June, Ohio taxpayers can get a 10 percent nonrefundable tax credit, in addition to the potential returns on their investment, while small businesses receive much-needed capital to grow and create jobs.

Both investors and businesses must meet certain requirements to qualify for the program.

The small business is required to reinvest that infusion of cash into one of five categories of allowable expenses within six months of its receipt. The investor must retain his or her ownership interest in the company for a two-year holding period before the tax credit may be claimed.

The small business must similarly retain the property that it purchased from the cash

infusion for the entire two-year holding period.

On November 14 the state began registering investors and the companies they will be investing in through the Ohio Business Gateway website. After providing some basic information, each registrant receives an InvestOhio user ID, a unique number that prevents parties from having to share sensitive information with proposed business partners.

In the second phase, which begins the week of December 5, one of the two parties – the investor or the company – needs to complete an application, again at the Ohio Business Gateway. The applicant must obtain the other party's InvestOhio User ID, and the two must reach an agreement on when the investment will take place and the amount of the investment.

This timing of this filing is critical, as credits will be awarded on a first-come, first-served basis. Once a party has completed an applica-

(Continued on back)

New Legislation Promotes Hiring Veterans

With bipartisan support, Congress has passed and the president has signed legislation that provides tax credits for hiring veterans and repeals a 3 percent tax withholding requirement on government contractors.

The bill, called the Vow to Hire Heroes Act, provides an expanded jobs credit to employers who hire out-of-work veterans. The provisions, which went into effect on November 21, are scheduled to expire at the end of 2012.

The legislation provides a \$5,600 tax credit for hiring long-term unemployed veterans who have been unemployed for six months or longer in the past year, and \$2,400 for hiring short-term unemployed veterans who have been unemployed for between four weeks and six months in the past year.

In addition, a tax credit of \$4,800 is available for service disabled veterans hired within one year of being discharged, and credits of up to \$9,600 for hiring veterans with service-related disabilities who have been unemployed for six months or longer in the past year.

The new law also expands a number of programs designed to assist returning veterans in seeking employment:

- Extends education and training programs targeted at veterans from earlier eras
- Requires the Department of Labor to find ways of improving acclimation to civilian life and translating skills learned in the military to the private sector
- Improves transition-assistance planning to returning troops
- Enables soldiers who have almost completed active duty to start applying for federal jobs
- Makes it easier for veterans to acquire certificates or licenses needed to function in the private sector

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Lease Accounting—continued

- A right-of-use asset at the amount of the liability to make lease payments, plus any initial direct costs incurred by the lessee.

When making these measurements, a lessee would need to include estimates for variable lease payments. For example, lease payments that are based on sales made at a leased retail property would need to be estimated and included in the asset and liability on the balance sheet.

Income Statement Changes

Rent expense would be replaced with interest expense and amortization of right-to-use assets.

- Lease payments would be recorded as interest expense and a reduction to the liability to make lease payments.
- Right-of-use assets would be amortized, on a straight line basis, over the lease term.

Lease term is defined as the non-cancellable period, plus any options where there is a significant economic incentive to extend or not terminate the lease.

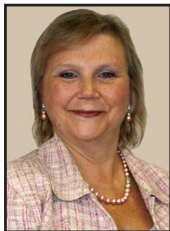
Examples of “economic incentives” include bargain renewal rates, penalty payments for cancellation or non-renewal, and economic penalties such as significant customization or installation costs.

Jeff Zaye has been manager of the audit department since 2007. In addition to assurance services, Jeff provides advice and guidance to clients in the areas of design and implementation of internal controls, development of budgets and interpretation of financial data.

Veterans—continued

The new law also repealed a 3 percent withholding requirement that had been placed on government contractors and others providing goods and services to federal, state and local government entities in order to discourage tax evasion by government contractors. The withholding requirement had been scheduled to go into effect in 2013. 🐦

Client & Firm Happenings



Partner **Laura Wojciechowski** was one of four presenters at the Cashing In or Buying In seminar held by the

Columbus Bar Association in December. The half-day program covered new rules and other considerations when purchasing or selling a law practice. Laura's session was entitled “Calculating a Fair Value & Tax Planning.” Joining her on the seminar presenting team were: Bert Nester, Advisors Pension Services; Tom Bonasera, Dinsmore & Shohl; and Richard Bringardner, Wiles, Boyle, Burkholder & Bringardner. 🐦

Congratulations are in order for two of the firm's clients that have been honored by Business First as among the top 35 Best Places to Work in Central Ohio in 2011. Categorized based on the number of full-time employees, they are: **Portfolio Creative LLC**, a creative staffing

and recruiting firm (Micro Companies); and **Quantum Health**, a health-plan management business (Medium Companies). 🐦

And there's more news about **Portfolio Creative**. In November the company's co-owners Kristen Harris and Catherine Lang-Cline were named winners of the Columbus Chamber of Commerce's Small Business Leader Awards in the “Adapt & Innovate” category. The award is presented for achieving success in spite of challenges. Portfolio Creative connects clients with creative

talent in all areas of design, marketing, communications and advertising. It also provides executive recruiting, payroll and direct-hire services. 🐦

Also recognized by the Columbus Chamber for diversity leadership was Farah Majidzadeh, chairperson and CEO of **Resource International Inc. (RII)**.



The award is presented to a minority or woman-owned business leader who has made a direct impact on the marketplace and promotes inclusion in the workplace and within the community. RII is a Columbus-based, full-service consulting firm with more than 150 employees operating in offices throughout Ohio and the Midwest. The company specializes in providing creative solutions in planning, design, construction management and information technology for private- and public-sector clients. 🐦

Office Hours Adjusted for the Holidays

The partners and members of the firm extend their best wishes to clients for the holiday season and New Year.

In December the office will observe regular hours of operation from 8 a.m. to 5 p.m., Monday through Thursday, and from 8 a.m. to 3 p.m., Fridays, with the following exceptions: Dec. 16, closed at noon; Dec. 23 and 26, closed; and January 2, closed.

InvestOhio—continued

tion, the individual will be given an InvestOhio Transaction ID number, which will determine the priority for that transaction.

The Director of Development is authorized to award up to \$100 million in tax credits from the start of the program through June 30, 2013. It is difficult to predict how long the tax credit pool will be available so individuals who are considering applying for the credit should act as soon as possible.

Tax Services Staff Manager Karen Botti says that interested parties may complete the application process on their own. In addition, the firm's tax professionals are ready to assist clients with the application process to ensure that the steps are properly followed and both parties qualify for the tax credit.

InvestOhio is administered by the Ohio Department of Development in collaboration with the Ohio Department of Taxation. The program is expected to generate at least \$1 billion in new private investment in Ohio small businesses by 2013. 🐦

The firm's special **Year-End Tax Planning Report** has been mailed to all clients. The publication contains strategy suggestions and other tips related to individual, business and financial tax planning. This timely resource is also available on the firm's website, www.whalencpa.com. For additional copies, contact Tracy Ceritelli at 396-4200 or tcritell@whalencpa.com.

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YEAR-END TAXPLANNING NOVEMBER 2011

PLANNING FOR INDIVIDUALS

CHARITABLE DONATIONS

Not only does giving to charity allow you to do a good deed, but it also can be one of the most flexible tax-saving tools available to you because you have complete control over when and how much you give.

You can give more in years where you need to maximize your deductions, less in years where you don't. But take care: Many rules and limits apply that can affect the size of your deduction.

- **Cash Donations**—Outright gifts of cash, which include gifts made via check, credit card and payroll deduction, are the easiest. But be careful to abide by the substantiation requirements.
- **Stock Donations**—Donating publicly traded stock and other securities that you've held more than one year can be a great charitable gift because you can deduct the current fair market value and avoid the capital gains.

Also, keep in mind that donations of long-term capital gains property are subject to tighter deduction limits — 30 percent for gifts to public charities and 20 percent for gifts to non-operating private foundations.

In some cases it may be better to deduct your tax basis rather than the fair market value, because it allows you to take advantage of the higher AGI limits that apply to donations of cash and ordinary-income property, such as stock.

• **Distribution of IRA Funds to Charity**—If you're age 70-1/2 or older, you can distribute up to \$100,000 from your Roth or traditional IRA directly to charity. Although no charitable deduction is allowed for any amount that would otherwise have been taxable, you will save the tax you would otherwise have owed. A donation from your traditional IRA can be used to help satisfy your required minimum distribution.

TIP: Don't donate stock that's worth less than your basis. Instead, sell the stock so you can deduct the loss and then donate the cash proceeds to charity.

Dear Clients and Friends:

In these difficult times, tax planning is more complicated than ever. This is especially true as the end of 2011 approaches.

First, the “Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010,” signed late last year, creates a slew of new tax incentives for individual and business taxpayers. It also extends several tax breaks and provides estate and gift tax planning opportunities. However, certain provisions in this new law will expire in the near future.

Second, other recent laws — including the health care law formally known as the Patient Protection and Affordable Care Act of 2010 — may have an impact on your situation. Year-end tax planning may also be affected by new directives and guidelines issued by the IRS.

Third, the impact of possible tax reform creates an uncertain environment. If Congress enacts tax legislation at the end of 2011, it could require some last-minute scrambling.

Keeping these key points in mind, we have prepared the following 2011 Year-End Tax Planning Letter. Throughout this letter, take note of various tax actions that may be available. For your convenience, the letter has been divided into the following three sections:

- Individual Tax Planning
- Financial Tax Planning
- Business Tax Planning

Be aware that the year-end planning ideas discussed within this letter are general in nature and are intended only to provide an overview. We suggest that you review your situation with your Whalen & Company tax professional before you take any action.

In addition, we encourage you to consider the value of developing a year-end projection to determine estimated tax liability and potential tax-minimizing opportunities.