



Leaders' Edge

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Certified Public Accountants

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Top Stories

[Talking with NASBA CEO David Costello](#)

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[IRS – Getting More Serious About Using QuickBooks Files in Small Business Audits](#)

Most small businesses in the United States have entered the electronic age—especially when it comes to using QuickBooks, Peachtree and other accounting software. No one is more aware of this trend than the Internal Revenue Service and its auditors. This article explores the IRS' legal authority and long-standing use of electronic records in audits and takes a closer look into the practices of the IRS and CPAs in requesting, providing and using electronic files.

[Navigator of the Profession - Tom Lesnau](#)

In 1978, the Detroit Lions went 7-9 under head coach Monte Clark. Defensive end Al "Bubba" Baker registered 32 sacks – a team record that still stands today. It's also the year that Tom Lesnau started his tenure with the Detroit Lions organization, beginning a career that would span more than three decades.

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Message from the
Chair of the Board

At a press conference today, Governor Rick Snyder, CPA revealed another layer of new initiatives to help Michigan's economy get back on track. These latest efforts, through the Pure Michigan Business Connect program, provide a unique forum for members of the MACPA to lend their specialized skills to contribute to the Governor's turnaround effort by helping new and emerging businesses.

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Top Stories

Talking with NASBA CEO David Costello

Counted among the most influential in the accounting profession, David Costello CPA will soon retire from his position as President and CEO of the National Association of State Boards of Accountancy (NASBA). Since taking the helm at NASBA in 1994, David has built the organization into a strong voice for boards of accountancy across the nation. Hallmarks of his tenure at NASBA include the transition to a computerized CPA exam and the successful adoption of CPA mobility provisions in nearly every state.

During a recent visit to Detroit, David Costello shared some thoughts with *Leaders' Edge*.



*David Costello, CPA
President & CEO,
NASBA*

Congratulations on your upcoming retirement. When is it happening, and what are your plans?

Costello: My official date of retirement is 12/31/11 and on January 1, 2012 I start "re-firing." I will devote a significant amount of my volunteer time to NASBA's Center for the Public Trust and will seek to spread its influence nationally and internationally. I'm looking at some roles I might play in the university setting. I'm also considering how I might be helpful to companies seeking help on their board of directors particularly with the audit committee. But very importantly, I'm not looking for a "job"—I had the best in the world as President of NASBA—but I do want to re-fire. And of course that includes a lot of time for family.

Tell us about some of the accomplishments that are most meaningful to you...

Costello: I am proud of the relationships that we have built with the AICPA, the state societies, the NSA, SEC, FAF, FASB, PCAOB and international institutes and regulators. Our relationships with the CPA societies and the AICPA have been constructive and very helpful to our boards of accountancy and to the public at large. The *Uniform Accountancy Act*, the computerized examination and mobility are great examples of the profession, state boards and NASBA working together to achieve monumental benefits for the public. And the NASBA Center for the Public Trust is a flickering light that will continue to grow and spread across the nation and throughout the world because its message is one of optimism, trust and recognizing that the good, honest, and decent will always win out in the long run.

What were the toughest challenges during your tenure at NASBA?

Costello: The challenge of computerizing the CPA Examination tested AICPA, Prometric and NASBA. The agreement we developed is still unique, singular and the most impressive working document for any high stakes professional examination in the world. But completing it was not easy. All parties worked long hours, debated fiercely, put aside egos and truly

worked for the public interest. We came out with a product that benefits the public, the exam candidates, academia, state boards, the profession, state societies, AICPA, Prometric and NASBA.

Another significant challenge has been and is to maintain and make more public the relevance and criticality of state boards of accountancy. Because of the tendency of some legislatures and governors to sweep surplus board funds into the general treasury, some boards are left with a shoestring to operate on. We abhor this in NASBA as I know many state societies do. The health of our profession depends on strong state societies, the AICPA, and a relevant, autonomous, well-funded board of accountancy.

What do you see as the biggest challenges NASBA will face going forward?

Costello: One of the challenges that seems to be ever present with us is keeping and improving the mobility of CPAs throughout each of our jurisdictions. Getting rid of petty rules or practices that inhibit true and effective mobility must ever be part of our focus. We have made great strides in mobility but we must not relax our efforts to make mobility as effective and efficient as it is set forth in the UAA.

The international influence is a significant but desirable challenge. It's not as simple as just resolving the IFRS adoption, convergence, "condorsement" or whatever. It's much more complicated than that. What will the IASB look like if we indeed get closer to integrating IFRS in the U.S? State laws make it abundantly clear that boards of accountancy play an authority role in the adoption of not only accounting standards but also over the standard setter. Sovereignty is a big issue to state boards and the current structure of the IASB must be addressed to begin to ease state concerns about this standard setter's reach into the U.S.

And the top challenge facing the accounting profession today?

Costello: Unfortunately, the most significant challenge to the profession and even to the regulators is that of TRUST. "Can I trust you?" is the key question on the hearts and minds of the general public. It doesn't take many instances of CPAs ignoring rules, laws, professional standards and ethics for the public to paint us all with the same brush of distrust. That's the reason NASBA created the Center for the Public Trust...to engage the public on behalf of the profession and corporations. The message is "you can trust us and let us show you the examples of trust."

You're recognized as one of the most influential people in the accounting profession. Who has been most influential in YOUR life?

Costello: Sally, my wife, is the most influential. She's at my side on all matters and is a great partner. She's bright, one of the best business people I've ever known, and she's beautiful. Others certainly include great chairs of NASBA and tremendous members of NASBA's board.

Share a little about the personal side of David Costello... What are you reading?

Colonel Roosevelt, Portrait of A Spy, Killing Lincoln, EntreLeadership, The Bible

Any hidden talents?

I enjoy doing a few magic illusions.

Favorite hobby?

I love playing golf and if my love were matched by my ability I'd be playing on Sundays professionally.

Favorite place?

I have several: Ireland (of course, County Mayo); the mountains; Banff Springs in Alberta Canada; Phoenix (golf); Naples Florida; Newport Beach and of course Music City USA, Nashville.

But did I tell you that I love family. Sally and I have five married children, 15 grandchildren and we adore our family. Lots of ball games, recitals, plays, and other stuff keep us busy and lovingly so.

Top Stories

MACPA Task Force Plays Vital Role in Michigan Reinvention

In a very early response to the election of Michigan's first CPA Governor, Rick Snyder, and his call for significant reforms, the Michigan Association of CPAs launched the MACPA Involvement in Michigan's Turnaround Task Force. Leveraging the unique expertise and extensive knowledge of Michigan's CPA profession, this new Task Force is effectively facilitating the involvement of Association members in the efforts of the Governor, the Legislature, and other organizations to restore Michigan to a state of fiscal stability and economic viability.

Jump-Start to a Citizen-Friendly CAFR

The Task Force sprung into quick action in the autumn of 2010 with their first project – providing the Snyder Administration, Business Leaders for Michigan and the Anderson Economic Group with recommendations on how to create a “citizen-friendly” version of the comprehensive annual financial report (CAFR) for the State of Michigan. Assembling some of the state's leading experts in governmental accounting and auditing, including financial professionals from local governmental units who have previously developed similar documents, the Task Force provided significant input that turned out to be fundamental to the Governor's January 2011 release of the [Citizen's Guide to Michigan's Financial Health](#).

Holding a Summit to Help Local Governments

In the Spring of 2011, shortly after the passage of the State's fiscal year 2011-2012 budget, it was clear that Michigan's local governments would be met with a new reality with regard to revenue and budgeting – and again, the MACPA Involvement in Michigan's Turnaround Task Force went to work. In partnership with the Michigan Association of Counties, the Michigan Township Association and the Michigan Municipal League, a subcommittee of Task Force members developed an educational forum for local government financial managers and policy makers. Scheduled for Thursday, December 1 in Lansing, the [Local Government Leadership Summit on Financial Matters](#) promises to provide tangible, applicable knowledge and best practices for change management and financial reform for local units. Read more about MACPA's involvement in the creation of this important Summit in this [article](#).

Seven Workgroups Forge Ahead on Other Issues

Task Force and MACPA leadership met with Snyder Administration officials to identify specific topic-areas and initiatives in which the profession's expertise would add value. This meeting resulted in the development of seven additional topic-area workgroups.

Workgroup on Form Consolidation/Elimination – developed to work with the Department of Treasury with regard to the request for input on the potential consolidation and elimination of some of the approximately 4,600 forms.

Workgroup on Revenue Sharing Formula – developed to work with Snyder Administration

officials in examining the formula for revenue sharing to local governmental units.

Workgroup on Consolidation of Local Units and Segments – developed to work with Snyder Administration officials on the potential development of templates for use in consolidation of local governmental units and segments.

Workgroup on Transportation Funding Formula – developed to work with Snyder Administration officials in examining the formula for transportation funding (*Public Act 51*).

Workgroup on MEDC Audit Process Review – developed to work with the MEDC to review and comment on the MEGA audit process.

Workgroup on MEDC Economic Gardening – developed to work with the MEDC to assist with efforts on economic gardening through the Pure Michigan Business Connect and other programs.

The final workgroup, on **Local Government Financial Forecasting**, recently completed their work in providing the Department of Treasury with an advisory letter regarding the potential design and implementation of a tool for local units to provide basic financial forecasting data to the State.

Different workgroups are at different stages of their initiatives, some awaiting direction from the Snyder Administration and/or the Legislature, others having taken significant steps – but all armed, ready, able and willing to volunteer their knowledge and expertise in adding the MACPA's mark on Michigan's turnaround.

Top Stories

IRS – Getting More Serious About Using QuickBooks Files in Small Business Audits

By Jim Buttonow, CPA, IRS Practice & Procedure Expert
New River Innovation Cofounder and VP of Product Development

Most small businesses in the United States have entered the electronic age—especially when it comes to using QuickBooks, Peachtree and other accounting software. No one is more aware of this trend than the Internal Revenue Service and its auditors.

A long-standing debate in many audits has centered on records—and the preferred format of those records—that taxpayers and practitioners make available. Tax practitioners have tried to limit the records they provide to the IRS in an audit to control the depth of the IRS inquiry. IRS agents are now starting to request client back-up files from QuickBooks and Peachtree software, and many practitioners are alarmed about how much information the IRS is requesting, and how the IRS is using the information.

Editor's Note: Read this [Ethics – IRS Tax Audits, Accounting Software and Client Confidentiality](#) in this issue of Leaders' Edge to learn about practitioner ethics considerations related to providing electronic files.

This article explores the IRS' legal authority and long-standing use of electronic records in audits and takes a closer look into the practices of the IRS and CPAs in requesting, providing and using electronic files. It offers tips for practitioners in responding to IRS requests for small business accounting files and for their clients in adjusting bookkeeping practices to minimize undue IRS inquiry during a small business audit.

Background

For years, the IRS has used taxpayer electronic files when auditing large and mid-sized businesses that used proprietary electronic accounting systems. Computerized records became the standard in the 1970s, creating the need for the IRS to establish methods to audit electronic records. The IRS employed computer audit specialists, who were large business auditors trained in extracting and examining data files most often obtained from proprietary accounting systems. They streamlined IRS audit processes by creating sophisticated queries and programs that extract and analyze the most relevant data.

As smaller organizations and businesses began to use electronic accounting systems, the need for computerized audit techniques increased. Many small businesses use off-the-shelf accounting software, with reportedly more than 85% using QuickBooks. With electronic recordkeeping becoming the norm, the IRS needed to change with the times. This change brought the opportunity to make IRS audits more efficient by accessing and using the most common programs.

In October 2010, partially at the request of tax practitioners during IRS focus groups, the IRS announced it was expanding its audit capabilities by training a cadre of agents to be proficient in auditing QuickBooks and Peachtree accounting files. The IRS said it wasn't favoring any particular software, but QuickBooks and Peachtree were logical choices for the initiative because they were predominant in the small business market and relatively simple to use. According to the IRS, it has trained 1,100 revenue agents and has given them copies of the software to become proficient in using them and other programs in the future. It also encouraged agents to start requesting electronic files from taxpayers and practitioners.

In a March letter to Christopher Wagner, former commissioner of the IRS Small Business/Self-Employed (SB/SE) division, the American Institute of CPAs (AICPA) expressed concerns about the presumption of efficiency in using computer files to audit small business taxpayers. Patricia Thompson, chair of the AICPA Tax Executive Committee, cautioned in the letter that electronic records from large and small businesses are not comparable.

"The large (business) taxpayer undergoing an IRS examination is routinely represented by tax professionals, and the data being turned over in electronic format does not contain extraneous information unrelated to the LB&I (Large Business and International) examination involved," Thompson stated. "By contrast, because the small-business taxpayer often maintains his own accounting software file and is not a trained bookkeeper or accountant, the data in the software file is not necessarily directly relevant to the IRS examination."

IRS Authority to Request Electronic Records

It's clear in IRS regulations and precedent that electronic records can be requested and used in audits.

Internal Revenue Code section 6001, Treasury Regulation 1.6001-1(a), and Revenue Procedures 71-20 and 98-25 provide the IRS with broad authority to examine electronic records to establish the taxpayer's correct tax liability. Regulation 1.6001-1(e) requires the taxpayer to make these records "at all times available for inspection by authorized internal revenue officers or employees, and shall be retained so long as the contents thereof may become material in the administration of any internal revenue law."

Revenue Procedure 98-25 allows for a small business exception (\$10 million and less in assets) to the recordkeeping requirements. But the exception does not apply if "all or part of the information required by section 6001 is not in the taxpayer's hardcopy books and records, but is available in machine-sensible records (electronic books and records)." Because most small businesses store all or part of their information electronically, the exception is obsolete.

The IRS set precedent for requesting and using these files in 1971 with Revenue Procedure 71-20. Revenue Procedure 98-25 removed any confusion about whether the IRS has a right to electronic records. If these records exist, the taxpayer must provide them upon request. These administrative precedents for electronic files in audits have been consistent for the past 40 years.

Be Careful What You Ask For

According to the IRS, the push to start using small business accounting files in audits originated with feedback from tax practitioners in 2008 focus groups. Practitioners indicated they wanted the IRS to be more efficient in examining records and reduce the volume of paper involved in audits. The IRS saw this as a win in making audits more efficient for its agents. Also, IRS auditors prefer reviewing and assessing the original books of entry—not translated or interpreted versions—to evaluate audit trails and the reliability of records.

The push for more electronic records in the hands of IRS agents has not been entirely driven by CPAs and tax practitioners. On May 27, the IRS modified its Internal Revenue Manual (IRM) to provide guidance and rules on how revenue agents should evaluate taxpayers' electronic books and records. The IRS description of electronic books and records also includes taxpayer websites, e-commerce activities and web marketing material, which the IRS finds useful for audit trails in tracing income, such as e-payments.

The recent IRM update also provides insight into how the IRS views electronic records. In the IRM 4.10.4.3.7.5(6), the IRS expresses some skepticism about the reliability of electronic records and provides guidance to agents on what to look for in evaluating these records.

"Electronic records are, in general, considered less reliable than paper counterparts due to the ease at which they can be manipulated," the IRM states. "Software may include features to create a second set of books and records, or allow manipulation of sales by reducing and/or deleting of sales transactions entirely."

This IRS perception is feeding practitioner concerns about how the IRS will review taxpayers' electronic records. Many practitioners question how, if the IRS is skeptical of small business electronic records, the records could make IRS audits more efficient.

CPA Jason K. Hamilton of the firm Decosimo, CPAs, in Knoxville, Tenn., points out this concern. "SaaS applications like QuickBooks and Peachtree have taken the bookkeeper out of the process – and business owners do not necessarily make good bookkeepers," he said.

Hamilton pointed out that he has to correct many entries made by business owners who try to keep their own records. "As a result, the QuickBooks file looks like the client is a poor record keeper or is trying to change what actually happened when, in fact, they just did not understand how to account correctly for some transactions," he said. Hamilton is concerned that the IRS will jump to conclusions by perceiving these errors as clients attempting to manipulate books and records.

F. Whit Addicks, a CPA in the firm of Addicks CPA, has received an IRS request for QuickBooks records in a small business audit. He said his firm wants to supply the IRS agent with the information needed, but that he shares the concern of many practitioners about providing the entire back-up file to the IRS. In response to IRS Information Document Requests, Addicks said that he has provided only summaries of information that was outside the year under audit. "We explained what we gave to the agent and how we summarized the prior year information, and the IRS appeared to be OK with it," he said.

The IRS has commented publically about taxpayers providing redacted prior year files. On April 20, Wagner addressed the redaction issue in a letter to the AICPA. In the letter, Wagner

confirmed the long-standing position of the IRS to have original documentation in an audit.

“It is important an exact copy of the original electronic data file be provided to the examiner and not an altered version. Only an exact copy of the original file includes the unaltered metadata which allows examiners to properly consider the integrity and veracity of the electronic files through use of such means as reports generated by the software program that may help to identify deleted or altered entries. For example, the original data file may provide the date a transaction was originally created, dates of subsequent changes, what changes were made, and the username of the person who entered or changed that transaction. This type of information is directly relevant to the evaluation of the taxpayer's internal controls.”

Wagner said that it's acceptable for practitioners to “condense” prior year information “as long as the condensed data does not include transactions created or changed for time periods under audit, or for transactions from prior years that have an effect on the years under audit.” That is exactly what Addicks did, he said. “We gave the auditor condensed versions of the prior years' data, and they seemed fine with it,” Addicks said.

Wagner also noted a software limitation best solved by software companies – allowing single-year files in the back-up process. Wagner suggested that before a long-term solution is found, taxpayers and practitioners should consider making their own back-up files for individual years.

CPA Danny Snow, who chairs the AICPA IRS Practice and Procedure Committee, eagerly awaits the IRS position on redacted files. “We are aware that CPAs are providing selective data using vendors such as QB or not QB, Inc.,” he said. “We are waiting to see if the Service challenges the altered files because critical audit trails may be deleted when providing the selective data.” Snow said that the IRS has used restraint so far and that the new SB/SE Commissioner Faris Fink appears to want to work closely with the AICPA on this issue.

Hamilton, who sits on the Tennessee Society of CPAs Federal Tax Committee, said that some Tennessee CPAs have been hiring firms to parse only the data needed for the year in question. “It costs about \$300 to have it done, but it comes down to a liability issue for the CPA,” he said. Hamilton said that if CPAs disclose more than necessary in an examination, they could expose themselves to professional liability.

In fact, practitioners have raised that concern with the IRS. In the IRS Issue Management Resolution System (IMRS), IRS stakeholder liaisons have been pondering the malpractice question from practitioners. In March, as a result of inquiries by practitioners, the IRS posted [IMRS Issue 11-0001433](#), Disclosure of excess information when QuickBooks provided during audit.

Specifically, the IRS liaisons were asked to comment on the question of practitioner liability when turning over electronic records, and whether practitioners can obtain assurances that the IRS will not use or view other years' information. But the IRS has made no comment. In the June 2011 IMRS Quarterly Review, released July 5, the IRS did not comment on or address the QuickBooks issue—nor was it listed as a “hot” issue topic.

The IRS in Training?

For most IRS revenue agents, using electronic records in small business audits is a relatively new approach, becoming increasingly prevalent since October 2010. The IRS has more than 14,000 agents, and only 1,100 have been trained in the use of QuickBooks and Peachtree. Clearly, this IRS audit technique is in its infancy. There's evidence in current audits that the IRS is still learning how to use these electronic files and, as a result, has not established a standard operating procedure.

Some CPAs are optimistic that using electronic files could streamline the audit process. Hamilton is optimistic, but proceeds with caution for his clients. "If the IRS uses discretion and understands that the QuickBooks data may not be complete, then use of these files may actually make a more efficient audit," he said. "However, until CPAs are assured that the IRS will not make premature judgments and look at more than the year under audit, we must take precautions for our clients." Hamilton advocates written communication with the auditor to be clear about which electronic records are being delivered to the IRS and the scope to which the IRS is going to use them.

Other IRS audit activity also suggests that the IRS is still training on the issue. Most of the requests for electronic files have been informal requests or on Information Document Requests. Neither Addicks nor Hamilton is aware of the IRS pursuing QuickBooks files via summons. However, neither is aware of CPAs denying the IRS access to these files. Hamilton said that it appears the IRS and CPAs are trying to feel each other out on the details.

"We are trying to comply. Our goal is the same as the IRS: Get the audit done as efficiently as possible," Addicks said. He said that auditors are reconciling the electronic files to the tax return, but they have also recognized that other records are necessary to fully explain the tax return. "My clients may only use QuickBooks for payables – the IRS needs to understand that this electronic file does not make up the entirety of my client's books and records," he said.

In North Carolina, CPA Susan Allen has experienced an IRS learning curve with her small business clients who have had audits. "We cannot tell how the agents have been using the files. There appears to be no changes to their current procedures yet. The process appears new to them, and the agents I have dealt with appear to be using restraint in how they are using the records," Allen said. "I do not think the IRS will push the issue unless they have some indication of wrongdoing and want to get the entire picture, such as unreported income."

That's good news for now. Still, some CPAs want to proceed with caution when it comes to electronic records in audits.

"We have not heard of agents abusing their discretion on this issue – but currently there is no way to tell if they are reviewing records besides the year under audit," Snow said.

Representing Your Small Business Clients

The 2001 tax gap study concluded that the non-farm small business compliance rate was only 43%, and that small business underreporting of income contributed \$109 billion annually to

the US Treasury shortfall. As a result, practitioners can expect their small business clients to encounter more IRS scrutiny, especially in the form of audits.

To protect clients from unnecessary inquiry and audit depth, here are some tips:

- Provide the IRS only the data needed for the year under audit by condensing transactions in non-audit years. In the future, create separate back-up files for each year. Be clear when responding to the IRS Information Document Request about exactly what data you are providing and not providing. If you use QuickBooks utility programs such as QB or not QB to remove prior year data, explain exactly what you did, in writing, to the agent when you provide the file.
- If your client is a poor bookkeeper, request that he or she relinquish that duty to someone who is more qualified. You can encourage your client by explaining that the IRS may review every right, wrong or erroneous keystroke in an audit. Legitimate errors may cause undue scrutiny. Follow a good, old-fashioned cliché: "Measure the transaction twice, post the entry once." This also makes the CPA year-end audit easier.
- If possible, consider consolidating your client's electronic systems into one complete system. Use of several systems confuses the IRS and adds complexity in an audit. One system to record revenue and another to record payables is confusing for everyone. Consolidate them.
- If the electronic file cannot be provided in a format limited to the year and transactions under audit or the electronic records do not provide a clear financial picture, ask the IRS agent whether he or she will accept an alternative, such as printouts of accounts with detailed explanations. Before 2010, that was the method used in most SB/SE audits. Explain to the agent why it is a better approach; after all, it is how the return was prepared.
- Snow said practitioners call him with the same concerns: "What should I do and what can I do?" Snow said there's not much that can be done, given the IRS' summons powers, but he suggested that practitioners visit with the IRS group manager to discuss the need for the electronic files, and if your client is adamant about not turning over the files – meet with the territory manager. If your client authorizes providing the electronic files, Snow suggested noting the authorization in the engagement letter. "If you're representing a client who does not want to turn software files over to the IRS, be sure you don't violate Circular 230," Snow said.

Among other things, the AICPA is monitoring the program and how agents are applying it in the field. If a CPA has reached a loggerhead with an agent, or thinks the agent has stepped outside of the rules of the program and thinks the AICPA would benefit from having knowledge of the issues, he or she can contact Benson Goldstein at bgoldstein@aicpa.org.

As the IRS use of small business electronic records evolves, the standards for how to represent our clients will become clearer. Currently, it appears the IRS is using restraint in how it examines electronic files. However, practitioners should always exercise caution in representing their clients. As audits on small businesses continue to increase, practitioners

will need to closely monitor entries on their clients' books and records to protect them from unnecessary inquiry by IRS agents. Practitioners should also carefully observe how the IRS uses these files as agents become more comfortable using electronic records in small business audits.

About the Author

Jim Buttonow, CPA, cofounder & VP of Product Development, New River Innovation, serves as chief architect of Beyond415™ (Beyond415.com), a Web-based application that enables tax professionals to manage their clients' post-filing compliance. Jim is a 19-year IRS veteran with expertise in IRS practice and procedure. While with the IRS, Jim led multifunctional teams stationed across the US in the areas of examination, collection, filing, and appeals. Entries from his popular blog, [IRSMind](http://IRSMind.com), which provides practical solutions to IRS matters, have appeared in the Wall Street Journal. Contact Jim at jbuttonow@NewRiverInnovation.com.

Top Stories

Navigator of the Profession – Tom Lesnau

In 1978, the Detroit Lions went 7-9 under head coach Monte Clark. Defensive end Al “Bubba” Baker registered 32 sacks – a team record that still stands today. It’s also the year that Tom Lesnau started his tenure with the Detroit Lions organization, beginning a career that would span more than three decades.

Tom began the process of semi-retiring this year, although he will continue to work with the team as a consultant. As the Lions continue the best season they’ve had in years, Tom talked with the *Leaders’ Edge* about his years with Honolulu Blue.



*Tom Lesnau
Senior Advisor,
Detroit Lions*

Q. How would you describe a typical day on the job?

The days in professional sports are always interesting since the industry changes so rapidly. There are always new challenges from financing to new facilities, new contract structures to new labor agreement provisions and other nuances that pop up. During the season, the days are measured by a corporate culture perspective that’s based on team performance – whether the team won or lost as opposed to quantifiable statistics as to profit or loss.

Q. What makes your job great?

No two years, no two seasons, and generally very few days are totally the same. There are always new situations that change the organization’s focus on a daily basis. Whether it is finding a replacement player following an injury, finding new ways to market tickets or coming up with new ways to generate revenue with the resources you have available.

Q. You’re involved with several local charities; why is community service important to you?

The team and the Ford family are very focused on trying to give back to the community. In 1990, we set up our own charitable organization and have contributed millions of dollars back to various organizations and causes in the local community. My own involvement with three other charitable organizations, mostly serving as Treasurer, grew out of my community involvement that started with the Detroit Lions Charities organization.

Q. You’ve been with the Lions organization for quite some time. Tell us about your history with the team.

Originally I only planned on staying with the organization for a short time to get some experience after public accounting. The organization was comprised mostly of younger employees and I thought I would get some experience and move on. I ended up staying, and was performing most of the functions of a CFO for about six years before I received the title.

When I finally received the title in 1996 it was very gratifying.

Q. What are your major professional accomplishments?

I would probably say that my biggest accomplishment relates to the construction of the new stadium in downtown Detroit. Previously, controlling and operating a stadium were not part of our operations, and there were significant learning opportunities surrounding the financing, operation, and staffing issues related to the new entity and structure.

Q. What interests or activities are you involved in outside of work?

Besides working with charitable organizations, I am a huge MSU football and basketball fan. I have a motor home and am looking forward to using it and travelling more now that I will have more free time. I also have a few classic cars, and am looking forward to spending some additional time working on them and enjoying them in the summer months.

Q. What advice would you have for those considering entering the CPA profession?

I really think it is a fantastic and rewarding career. It is going through tremendous change at the present time, and it will continue to challenge you with new pronouncements and the change to IFRS. I placed my license in registered status while I was in industry, and have recently finished all of the CPE requirements necessary to activate it again. I have not decided what I want to do yet, but it is very exciting to see how the profession has changed so significantly in the last 30 years.

Q. Are you reading any books right now?

I am currently reading the new Steve Jobs biography, and also working on John Grisham's "The Litigators."

Q. What's your biggest pet peeve?

It would have to be drivers who insist on texting or reading and sending e-mails while they are driving in traffic.

Message from the Chair of the Board

Michigan CPAs Are Knee-Deep in Michigan's Turnaround Effort



*John Pridnia, CPA,
2011-2012 MACPA
Chair of the Board*

At a press conference today, Governor Rick Snyder, CPA revealed another layer of new initiatives to help Michigan's economy get back on track. These latest efforts, through the Pure Michigan Business Connect program, provide a unique forum for members of the MACPA to lend their specialized skills to contribute to the Governor's turnaround effort by helping new and emerging businesses.

Members of our MACPA Involvement in Michigan's Turnaround Task Force are working with the Michigan Economic Development Corporation on the Pure Michigan Business Connect program. They have identified **four key ways MACPA members and the Association can help** including:

1. developing metrics to gauge effectiveness of MEDC programs;
2. creating a template for small businesses to use in developing a business plan to include a financial forecast;
3. communicating and promoting opportunities for CPAs to provide pro-bono services to emerging companies; and
4. informing members about MEDC resources available to their employers and clients.

Being on the front lines of these "economic gardening" efforts is an exciting opportunity for CPAs to expand upon their role in Michigan's reinvention!

Our Task Force is making a significant impact in many other areas as well, including launching a conference in December designed to help local units of government sort through financial challenges. I encourage you to read the articles in this issue of Leaders' Edge that further describe this important [conference](#) and the full scope of initiatives being undertaken by our [Turnaround Task Force](#).

In addition to the efforts of our Task Force, a high level of CPA involvement in many community organizations is helping people around the state. At this time of year, with tax season just around the corner, one of the ways we help most is through tax assistance programs. If you haven't had a chance to volunteer for one of these programs in the past, I urge you to consider it this year. It's very rewarding to help bring money back into households that can really use it. Read more about MACPA's programs for low-income and military families [here](#).

There's no shortage of challenges – and I know there's no shortage of CPAs willing to help. I'm proud to be part of this profession, which is contributing in substantial ways to the rebuilding of our great State of Michigan!

A handwritten signature in black ink, appearing to read "John P. Pridnia". The signature is fluid and cursive, with the first name "John" being the most prominent part.

John P. Pridnia

Of Interest

Putting it to the Test:

Deducting Reasonable Compensation

By Melanie G. McCoskey, PhD, CPA, University of Tennessee at Chattanooga

Now may be a good time to meet with clients or shareholder-employees to review their compensation plans to ensure that amounts paid as deductible compensation are not reclassified as nondeductible dividends by the government. While the recent favorable tax rate on qualified dividends has reduced the incentive to try to restructure nondeductible dividends as deductible compensation, that incentive has not been fully eliminated. The shareholder-employee of a closely held corporation still benefits when the tax rate applied to corporate earnings is taxed once at the individual tax rates as compensation to the shareholder, versus being taxed twice when distributed as a dividend.

Per IRC Section 162(a)(1), the deduction for compensation is limited to "a reasonable allowance for salaries or other compensation for personal services actually rendered." The reasonable compensation issue generally arises in closely held corporations with amounts in excess of reasonable compensation generally reclassified as dividends. In *The John Harsch Bronze & Foundry Co., TC Memo1958-125*, the Tax Court describes the issue perfectly:

"Where those whose compensation is at issue for tax purposes own the controlling stock of the employer-corporation, it is necessary to examine the facts carefully in order to determine whether dividends are in fact being distributed under the guise of compensation for services."

Although the regulations list two tests that must be satisfied in order for a business to deduct compensation expense, most of the authority on this issue has been developed judicially. In *Alpha Medical Inc. v Comm, 83 AFTR 2d 99-1922*, the Appeals Court stated, "Inherently, there is a natural tension between (1) shareholder/employees who feel that they are entitled to be paid from a corporation's profit an amount that reflects their skills and efforts, and (2) a provision in the tax law that conditions the deductibility of compensation on the concept of reasonableness. What is reasonable to the entrepreneur/employee often may not be reasonable to the tax collector. Accordingly, courts are asked to examine the relevant facts and circumstances of the business and the underlying employment relationship in order to render an opinion as to whether the compensation paid was reasonable."

The Sixth Circuit, which is comprised of Michigan, Kentucky, Ohio and Tennessee, has been one of the most influential courts in developing the judicial framework for determining deductible amounts of reasonable compensation. Furthermore, the Sixth Circuit has been generous to taxpayers in determining reasonable compensation.

Regulation 1.162-7(a) states that two tests must be satisfied in order for compensation to be deductible by the corporation: the compensation must be both intended as compensation and reasonable in amount. Per language in *Mayson Manufacturing Co. v Comm., 38 AFTR 1028*,

whether these two tests are met is determined based upon the facts and circumstances of each individual case.

Amount Test

Most reasonable compensation cases focus on the amount of the compensation payment to determine if it is reasonable. Generally, all 12 circuits rely on a multi-factor test to determine the amount of reasonable compensation.

Mayson, heard by the U.S. Court of Appeals for the Sixth Circuit in 1949, is probably the most-used case in determining whether or not compensation is reasonable. Of the 12 circuits, seven use the multiple factors identified in *Mayson*. The Sixth Circuit Court of Appeals generated a list of nine criteria in *Mayson* to be used in evaluating compensation and noted that no single factor is decisive. See [Exhibit 1](#) for a list of these factors. A single-factor – independent investor standard test identified by the Seventh Circuit in *Exacto Springs Corp. v Comm*, 84 AFTR 2d 99-6977 – has been largely dismissed. Rather, Courts generally analyze the multi-factor tests through the lens of an independent investor.

Intent Test

Regulation 1.162-7(b)(1) states that where a corporation has few shareholders and those shareholders receive salaries “in excess of those ordinarily paid for similar services and the excessive payments correspond or bear a close relationship to the stockholdings of the officers or employees, it would seem likely that the salaries are not paid *wholly* for services rendered, but that the excessive payments are a distribution of earnings upon the stock.” (Emphasis added). Accordingly, any payment can be characterized as partly for services and partly as a dividend.

With the multi-factor test, courts have some basis on which to determine reasonableness. Intent, on the other hand, is hard to quantify. Consistent with this sentiment, courts rarely focus on the intent test, mentioning it only as an aside. (See, for example, *East Tenn. Motor Co. v US*, 29 AFTR 2d 72-313.)

The exception is where it is obvious that the intent of the payment was to pay out earnings. For example, in *W.C. Hudlow, Jr. v Comm*, TC Memo 1971-218, the shareholders-employees would sit down at the end of the year, determine how much profit they had made for that year, and then split those profits in direct proportion to their stock ownership.

All transactions between the corporation and the employee-shareholder should be documented so that intent for each payment is clear. For example, if the shareholder-employee has loans to the corporation, those loans should pay sufficient interest so that compensation payments will not be reclassified as interest payments. Also, paying out more than a nominal amount of dividends to shareholders will provide at least some indication that salary payments should not be reclassified as disguised dividends.

Summarized Recommendations

If the government questions a client's compensation deduction, it is important to provide the courts with convincing evidence regarding the reasonableness of the salary. There are several steps the taxpayer can take to ensure that the compensation amount is upheld.

First, the taxpayer should create, document, and follow a compensation formula. See *Boca Construction, Inc. v Comm.*, *TC Memo 1995-005*. That compensation formula should neither pay out all taxable income as compensation nor pay bonuses only to shareholder-employees, at least not in proportion to their stock ownership. The compensation policy should be followed each year, even when it yields low compensation. It should not be changed in a year when it would otherwise yield low compensation. Even if the government has previously audited the business and found no faults with the compensation plan, the compensation can still be questioned on the reasonableness issue in a later year. See *Alpha Medical Inc. v Comm.*

When the salary increases dramatically from one year to the next without a proportionate increase in duties, the increased salary may be denied. As such, if compensation increases dramatically, document increased duties that the shareholder-employee performs. However, this is one area in which the Sixth Circuit is especially taxpayer-friendly, because in *Alpha*, the Court allowed an increase in the president's salary from \$400,000 to \$4.4 million. See also *Law Offices of Richard Ashare P.C. v Comm.*, *TC Memo 1999-282*, where the Tax Court allowed \$1,750,000 salary expense to sole shareholder based on prior under-compensation, even though sole shareholder had to loan almost \$1 million to company and the company had to liquidate assets in order for the corporation to make the salary payment. Also note that this salary expense *Ashare* generated an NOL of almost \$2 million that the corporation was allowed to carry back and use to recover previously paid taxes.

If the shareholder-employee has been paid a lower salary in earlier years, make sure that previous under-compensation and the amount of current make-up compensation has been documented. The Supreme Court has addressed payment of prior under-compensation as the only issue regarding reasonable compensation in *Lucas v Ox Fibre Brush Co.*, *50 S. Ct. 273*.

If a client owns more than one business and works for each of them, the salary from each business should be adjusted annually in order to reflect the amount of time the shareholder-employee worked for each. See *Geraldine C. Medina*, *TC Memo 1983-253*.

It may be wise to consider paying some dividends if it seems like the taxpayer's compensation may be scrutinized. Almost all cases that examine taxpayers that have not paid any dividends cite the lack of dividends as an unfavorable factor to the taxpayer.

The courts can weigh the testimony of witnesses based upon their credibility. However, courts often do not accept the testimony of experts. There are, of course, exceptions where the Tax Court accepted the petitioner's expert witness calculation. However, when defending a reasonable compensation case, consideration should be given to the cost of the expert witness against the likelihood that the testimony will be accepted.

Lastly, in almost all of these reasonable compensation cases, the government argues that the deductible compensation expense is too high. However, if the corporation happens to be an S-Corporation where the incentive is to pay lower wages than average in order to minimize Social Security taxes, the government can argue that salaries are too low. (See, for example, *Joly v Comr.*, *85 AFTR 2d 2000-1234*.)

Download a more detailed [version](#) of this article by Dr. Melanie McCoskey.

About the Author

Melanie McCoskey, PhD, CPA teaches tax classes at the University of Tennessee at Chattanooga, where she is the Brice Holland Associate Professor of Taxation. A licensed CPA in Georgia, McCoskey is a member of the American Accounting Association and a past president of her local chapter of American Society of Women Accountants. She can be contacted at Melanie-McCoskey@utc.edu.

Exhibit 1 - Mayson Manufacturing Factors

In 1949, the Appeals Court for the Sixth Circuit listed the following factors that are relevant in determining reasonable compensation:

1. Employee's qualifications
2. Nature, extent, and scope of the employee's work
3. Size and complexity of the business
4. Comparison of salaries paid with the gross income and net income
5. Prevailing general economic conditions
6. Comparison of salaries with distributions to stockholders
7. Prevailing rates of compensation for comparable positions in comparable concerns
8. Salary policy of taxpayer as to all employees
9. Amount of compensation paid to the employee in prior years (for small corporations with a limited number of officers)

No single factor is decisive.

Of Interest

MACPA Members Give Back

Stories of CPAs Making a Difference in their Communities

Editor's Note:

CPAs are trusted advisors to businesses, organizations and individuals, helping them make sound financial decisions. But, Michigan CPAs go much further than that. Our members are an extremely dedicated group of volunteers who spend countless hours devoted to causes and organizations within their communities. They know there are real people and real problems behind the numbers. Our members' tremendous level of volunteerism and personal commitment in their communities is extraordinary. For that reason, we are proud to highlight the CPA profession's important contributions to Michigan citizens and communities. The following is the sixth in a seventh of articles.

When Volunteering Is a Good Fit, You'll Know It

For Walt Koziol, finding a good "fit" for volunteering with a non-profit organization is simple. His advice: "Start small. Volunteer on the finance committee or help with a project. You'll get a good feel for the organization. If it's right – it'll grab you."

That's what happened when he began working with Hospice of Michigan. And Sweet Dreamzzz; and Ronald McDonald House; and the Chamber Music Society; and others before that.

The key, he says, is to think about what you're most interested in. There's likely an organization related to that interest.



Walt Koziol, CPA, and his wife Jeannie at the 2011 Hospice of Michigan (HOM) Crystal Rose Ball. Walt serves on the HOM Board of Trustees.

Retired from BDO and a past Chair of the Board of the MACPA, Walt has remained active in the MACPA and other professional activities. He also currently lends his professional expertise to charitable groups, including serving on numerous boards and committees with Hospice of Michigan (HOM) and on the advisory board of Sweet Dreamzzz, an organization devoted to providing sleep education and bedtime essentials for at-risk school children.

Walt's involvement with Hospice of Michigan began a few years ago, when he learned about the organization through contacts at the MACPA.

He started small, he explained, by serving on HOM's Southeast Michigan Advisory Board, which met just a few times per year. Because of his CPA background, he began asking

questions about finances, so they asked him to serve on the finance and audit committee.

"Same thing happened with investments," he laughed. "Then I became chair of the Southeast Michigan Advisory Committee, which automatically put me on the board of trustees of the entire organization."

As his role with Hospice evolved, Walt's involvement also became very personal. He and his family used HOM services for two family members during their final days. This first-hand experience with HOM solidified Walt's commitment to the mission and purpose of the organization.

"We were so impressed with the genuine care and concern for our family, and the range of services they provide," he said. "Their mission is to provide for quality of life, comfort and peace for the patients; and support for their families. They were wonderful with helping us to understand the process of dying and what to expect."

"When you believe strongly in an organization, it feels good to be part of it," he said.

If you are giving back to the community, the MACPA wants to know! Submit your story to publications@michcpa.org to be considered for an upcoming issue of *Leaders' Edge*.

Of Interest

Top Ten iPad Apps

Val Steed, CPA.CITP, founder and shareholder of technology training company, K2 Enterprises, shares his favorite iPad apps. K2 will present two technology programs for MACPA in December – [Advanced Excel](#) on Dec. 1 and [Tech Tools for Preventing and Detecting Fraud](#) on Dec. 2.

1. GoodReader

GoodReader is a well-known document reader. I prefer GoodReader to any other, as it is cheap, fast and easy to use. I can easily annotate a PDF and store the annotations in the file or as a separate file.

2. Dropbox

Free for up to 2GB, Dropbox is probably the best synchronization tool I have ever used. I have it loaded on my iPad, laptop and desktop. All files sync in seconds and are available across all systems. Be sure to have strong Windows passwords and invoke the security keys on the iPad. In seconds, I can create a file on my desk system, access it in Dropbox on my iPad, and then open it in GoodReader.

3. Speed Test – Ookla

This is a free speed test. There are many speed test apps so be sure to get the right one. Only the one from Ookla is this good with great graphics and reliable results. You would be surprised at how often the speed of your Internet connection changes.

4. FaceTime

No doubt, FaceTime is one of the best communication tools ever invented. The only issue is that the person on the other end of FaceTime must have an iPad or iPhone 4 or newer. Despite the fact this is an Apple app, and comes with your iPad, do not overlook its power and capabilities.

5. Photobucket

This photo storage app offers 2GB of free cloud storage and an interface that works great across all devices. The key to Photobucket is that it becomes your library of photos and videos that you can easily link to for Facebook, LinkedIn or any other website posting.

6. MLB.com

I am a baseball fan so this ranks high on my list despite the fact that you have to buy an annual subscription to the service each year for around \$15. You get to see any game, not blocked by blackouts, in HD (Internet connection permitting).

7. Intellicast HD Weather

Truth is, I love weather and especially like to know what I am headed for when

traveling. This is the best of the weather apps to date as it gives you HD radar. Try zooming in/out and you can examine the world in detail, even ocean beds!

8. Keynote

Not free, Keynote is the Apple app that serves as the PowerPoint of the Apple line. If you want to do presentations from your iPad, this is the tool. Create the presentation in PowerPoint on your PC, transfer the file with Dropbox, open with Keynote, and present. Voila, it is that easy... but it will cost you \$9.99.

9. Dragon Dictation

Dragon is free and the best voice recognition app to date. You talk, it types; this can help with email responses, especially when they become lengthy, on the iPad.

10. Concur

The app is free; the account with Concur will not be free. You can get a personal free account by signing up for the Concur Accountants program. See <http://www.cpfirmssoftware.com/cpaprograms.html> click on the Concur Accountants Program and join. Then you can use this app on your iPad to help track and report expenses. We have our entire company signed up and this is a great tool.

Legislative & Regulatory

Time to Renew: CPA Licenses & PTIN

The Michigan Department of Licensing and Regulatory Affairs (LARA) and the IRS are both up and running with online renewal options for CPAs.

License Renewal – Current CPA licensees may begin the annual renewal process online on this [webpage](#). You will need to enter your License/Permanent ID number. If you wish to change your address, or if you do not know your license number, you will need to sign on to the full MyLicense site by picking your profession at the Michigan [MyLicense homepage](#). If you have forgotten your login, simply reregister on the website to create a new login and password. Licenses must be renewed before they expire on December 31, 2011.

PTIN – More than 738,000 tax return preparers who have Preparer Tax Identification Numbers (PTINs) can now renew their PTINs for the 2012 filing season. PTINs for 2012 must be renewed by Dec. 31, 2011. The renewal fee is \$63.

Return preparers who obtained their PTINs by creating an online account should renew their PTINs at www.irs.gov/ptin.

Preparers who used paper applications to receive their 2011 PTINs will receive an activation code in the mail from the IRS, which they can use to create an online account and convert to an electronic renewal for 2012.

The IRS reported a slight mix-up with those letters. Some of the letters were mailed containing the wrong introductory paragraph. The erroneous letter begins with "You recently placed a call to the PTIN Information Line..." even though you did not contact the IRS. The letter should have said, "Online renewal for your (PTIN) is available." Despite the letter, the online activation code in the letter is still valid for creating an online PTIN account and renewing online.

Individuals can also renew using a paper Form W-12, IRS Paid Preparer Tax Identification Number Application, but renewing electronically avoids a four to six week wait for processing the renewal request.

Some changes to the PTIN application and renewal process include:

- Return preparers must self-identify if they are supervised preparers or non-1040 preparers.
- Supervised preparers will need to provide a supervisor's PTIN when applying for or renewing their PTINs.
- Credentialed preparers (CPAs, attorneys and Enrolled Agents) must provide the expiration date for their licenses when they apply for or renew their PTINs.
- Supervised preparers are individuals who don't sign the returns they prepare or help

prepare; work at a firm at least 80 percent owned by a CPA, an attorney or an Enrolled Agent; and prepare returns that are signed by a supervisor who is a CPA, attorney or Enrolled Agent.

- Non-1040 preparers are people who do not prepare any individual income tax returns for compensation. For this purpose, preparers of Form 1040-PR and Form 1040-SS are considered non-1040 preparers.

Supervised preparers and non-1040 preparers must identify themselves when they apply for or renew their PTINs to be exempted from testing and continuing education requirements; CPAs, attorneys and Enrolled Agents are also exempt from testing and continuing education requirements.

Legislative & Regulatory

Legislative Update

MACPA's legislative team, including the Legislative Advisory Group, lobbyists and staff, are hard at work in both the regulatory and legislative arenas. Top priorities include technical fixes to the MBT and administrative rules changes governing the profession. The following provides a brief summary of current key initiatives.

Licensing & Regulatory Issues

Adoption of CPA license mobility and changes to experience requirements for original CPA certification have necessitated modifications to the **Administrative Rules** promulgated by the State of Michigan, under the umbrella of the *Michigan Occupational Code*. The MACPA is working closely with members of the State Board of Accountancy and the Licensing Bureau to appropriately revise the Administrative Rules. A comprehensive draft is complete and discussions with Licensing Bureau staff have begun.

The "privity" statute (MCL 600.2962), enacted largely due to the work of the MACPA and effective since 1996, was intended to provide a "bright line" test in regard to third-party reliance on CPA services and associated liability. Recent court decisions have challenged the reliability of the language in this portion of Michigan law, calling for an effort to clarify the original intent. The MACPA Legislative Advisory Group and MACPA Legal Counsel developed a legislative solution encompassed by [Senate Bill 783](#). Introduced by State Senator Tonya Schuitmaker (R-Lawton), SB 783 will be addressed in a Senate Judiciary Committee hearing in December.

State Tax Issues

Leading experts on the Michigan Business Tax (MBT) from MACPA's State & Local Tax Task Force and Business Tax Restructuring Subcommittee have been laboring on legislative measures to correct some of the more glaring MBT technical issues and unintended consequences. A 10-page report encompassing 17 issues was finalized in late 2010. Senate Bills [368](#) and [369](#), introduced by Senate Finance Committee Chair Jack Brandenburg in May 2011, have passed the Senate and are likely to face a hearing before the House Tax Policy Committee in December. The two bills address four of the 17 issues – most significantly clarification regarding the Single Business Tax (SBT) and MBT treatment of personal investment income. Work continues on the development of legislation encompassing other changes included in the 2010 report, as well as negotiations with the Snyder Administration and the Legislature.

The MACPA is always tracking policy proposals that may impact CPAs, working diligently to protect the profession's interests. Efforts undoubtedly remain afoot here in Michigan to create a licensing or regulatory structure for paid tax preparers, a proposal that flies in the face of MACPA's mission to protect both the public and the CPA profession. Initiatives have also surfaced in recent years to require audit partner and/or firm rotations for specific sectors (i.e. school districts, area agencies on aging, etc.) The MACPA remains committed to defeating any

such proposals.

For more information on the MACPA's efforts in the legislative arena, contact the Government Relations Department at legislation@michcpa.org.

Legislative & Regulatory

Ethics

IRS Tax Audits, Accounting Software and Client Confidentiality

In late October, Gary Leeman, CPA received numerous inquiries pertaining to client confidentiality related to IRS tax audits. A member of MACPA's Professional Ethics Task Force, Leeman researched the issue with the Task Force, as well as through contact with the AICPA Tax Division in Washington, D.C.

Leeman reports that during income tax audits, IRS field agents are requesting discs or USB drives that contain complete information of the accounting system of the business undergoing a tax audit. These files often include information for more than one tax year. Additionally, the software used by the company being audited provides an audit trail within the information system. The IRS is attempting to determine if the audit trail indicates any abnormalities.

Editor's Note: Read [IRS – Getting More Serious About Using Quickbooks Files in Small Business Audits](#) in this issue of Leaders' Edge to learn more about the IRS's legal authority and long-standing use of electronic records in audits, plus five tips on responding to their requests for small business accounting files.

With more than one tax year on a disc, the potential is created for an IRS agent to look at a tax year that is not under audit, be it an open year or not.

The IRS has stated that field auditors are not necessarily going through the data. Rather, an IT person would most likely do so, since the auditor isn't the individual doing the data mining.

The IRS is not backing off from the program, despite concerns expressed by the profession including the AICPA Tax Division. It also appears that agents are being educated on software programs such as Quickbooks, said Leeman.

Accounting software companies have been contacted, with the intention of establishing a forum to encourage the development and marketing of software that lawfully limits the span of data under scrutiny.

CPAs Role

How does a CPA meet the ethical requirements of the profession so as not to violate the rules of confidentiality?

Part of the answer rests with the IRS's ability to subpoena the information. At this point in time, there has been no court case challenging the IRS's right to obtain the discs.

CPAs should explain to their clients the potential ramifications of not providing a disc containing either multiple year or available audit trail data. As in other non-attest

engagements, the client will make a decision based upon the information provided by the CPA. The potential difference in this situation is that the client could wind up in court as a result of the IRS pursuing its right to subpoena the information.

The CPA should also explain to the client that if the client voluntarily provides the information requested, additional years other than the tax year being audited could be reviewed. In addition, the company's software audit trail would be subject to scrutiny for any abnormality.

This issue is still evolving. However, until each year is completely on its own, and the audit trail issue is lawfully eliminated, potential problems from this situation could continue into the year 2015 based upon tax return due dates for the year ending Dec. 31, 2011.

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Association Briefs

State of "Emergency"

Avoiding Emergency Financial Manager is the Focus of Local Government Summit

For the past two years, one of MACPA's major initiatives has been getting CPAs involved in Michigan's economic turnaround. Earlier this year, MACPA received a request from Michael Finney, president and CEO of the Michigan Economic Development Corporation, to help local governments and elected officials avoid the need for a state-appointed emergency financial manager (EFM).

Given the "new reality" of revenue and policy in Michigan, the Association's goal was to provide these governments with tools and best practices for budgeting and making other financial decisions in today's economy.

To best respond to this unique request, the MACPA Involvement in Michigan's Turnaround Task Force created the "Reality Education" Conference Planning Subcommittee. The subcommittee worked quickly, and on December 1, less than a year after Finney's request, government leaders from across the state will come together at the [Local Government Leadership Summit on Financial Matters](#) in Lansing.

Presented in partnership by the MACPA, Michigan Association of Counties, Michigan Municipal League and the Michigan Townships Association, this Summit aims to help cities, counties, school districts and other government entities implement change without an EFM. Summit attendees will hear from Michigan Treasurer Andy Dillon, along with government officials from across the state sharing their own budgeting experiences.

"Our whole focus is equipping elected officials with the tools and information necessary to avoid an (EFM)," Subcommittee Chair Jon Anibal said. "One of the key factors is making financial information more usable for elected officials who are making decisions on behalf of their government. We need to create more communication between the people preparing the data and those using the data to make more informed decisions."

This effort to "bridge the gap" between elected officials and their finance department is reflected in the conference's breakout sessions, which are divided into separate tracks for each group of people. Finance department staff will learn to make financial statements and other reports more understandable for non-financial professionals, while elected officials will learn how to better use the information presented to them by the finance department.

"A lot of our speakers are government officials that have 'been there and done that' in terms of addressing these new realities of budgeting," Anibal said. "They'll be discussing their experiences with reorganization and downsizing, and sharing what worked for them and what didn't. We hope that attendees will be able to take those practical ideas and incorporate them into their budgeting process."

Other topics covered at the Summit include Cost Controls, Change Management, Managing the Employment Budget Line Item and Debt Management in a Leveraged Age, among others.

Registrations for the Local Government Leadership Summit on Financial Matters are still being accepted. To learn more or to sign up, visit this [webpage](#) or view the [program brochure](#). You can also get more information by calling the MACPA at 855.594.4273.

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Association Briefs

Tax Assistance Programs

Use Your Expertise to Make a Difference this Winter

We know tax season is a busy time of year for MACPA members, but it's also a great time to give back by putting your skills and expertise to work for some folks who really deserve it. The MACPA has two ways you can get involved:

The **Tax Assistance Program** is a partnership between MACPA and the Accounting Aid Society where volunteers complete tax returns for low-income households in Detroit. The event takes place on three Saturdays (Jan. 28, Feb. 4 and Feb. 11) at Focus: HOPE in Detroit, and runs from approximately 8 am – 3:30 pm each day. You can choose to volunteer for one, two or all three days. To volunteer, or for more information, please contact [Michelle Gimbutis](#).

MACPA is also looking for volunteers for its **Military Tax Assistance Program**, which provides free tax return preparation for members of the U.S. military. The program will take place on Feb. 11, Feb. 18 and Feb. 25, and alternates between Selfridge Air National Guard Base in Harrison Township and the MACPA office in Troy. Clients are accepted by appointment only, so the time for each Saturday may vary. Similar to the general Tax Assistance Program, you can volunteer for one, two or all three program dates. Contact [Lindsay Weismiller](#) for more information or to volunteer.

Please note that each Tax Assistance program requires volunteers to attend a brief training session that explains the software used, typical client situations and tax updates. CPAs can receive CPE credit for training time.

Association Briefs

In Memoriam

Paul Anderson
February 28, 2011
Windsor, Ontario
Joined MACPA: November 30, 1986

Myron H. Bordman
September 12, 2011
West Bloomfield, MI
Joined MACPA: August 31, 1969
Certified: July 1, 1969

James E. Fitch
September 22, 2011
Chesterland, OH
Joined MACPA: May 31, 1995
Certified: October 8, 1982

Michael F. Garms
September 9, 2011
Farmington Hills, MI
Joined MACPA: September 30, 1973
Certified: July 26, 1973

Gary P. Mutnick
September 18, 2011
West Bloomfield, MI
Joined MACPA: May 31, 1989
Certified: February 9, 1989

Lloyd I. Ruby
June 21, 2011
Adventura, FL
Joined MACPA: December 31, 1966
Certified: July 24, 1961

Robert W. Schellenberg Sr.
September 24, 2011
Jenison, MI
Joined MACPA: October 21, 1949
Certified: August 9, 1949

Richard R. Sidnam

September 7, 2011

Kalamazoo, MI

Joined MACPA: March 31, 1954

Certified: January 28, 1954

James F. Wallis

July 20, 2011

Waterford, MI

Joined MACPA: December 31, 1965

Certified: February 1, 1965