

Leaders' Edge

The newsletter of The Michigan Association of
Certified Public Accountants

January/February 2007



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[From the Chair of the Board On the 2007 Horizon](#)

Looking ahead into the New Year, I see several issues playing a significant role in our profession. Perhaps getting the lion's share of our attention in Michigan, replacement of our state's Single Business Tax has reached a pivotal point.



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Top Stories

Single Business Tax Replacement Debate...What's Next?

Despite strong lobbying efforts of the Granholm administration, including the Governor, state treasurer and other high-level officials, no action was taken on the proposed Michigan Business Tax (MBT) as the 2006 Legislative session came to a close.

Introduced late last fall, the MBT contains three tax components – gross receipts, assets and business income – and maintains the Governor's strongly-held belief that a new tax structure must maintain current revenue levels. A brief overview developed by the Governor's office, as well as the five pieces of legislation required by the legislation, are posted to the [MACPA's web site](#).

In addition to the Governor's proposal, the Detroit Regional Chamber of Commerce, the Grand Rapids Chamber of Commerce, the Michigan Chamber of Commerce and others continue to push their respective plans. A [brief summary](#) of these plans was printed in the November/December 2006 issue of *Leaders' Edge*.

While it is unlikely the Governor's proposal *as introduced* will become Michigan's new business tax structure, two significant events have taken place since November that make it considerably more likely the eventual structure will have the Governor's fingerprints on it.

First, the citizens of Michigan woke up on Wednesday, November 8, 2006 with some surprising election results. In the last few weeks of the gubernatorial campaign, it was clear to most that Governor Granholm would earn another four years in office over challenger Dick DeVos. However, very few could predict the 14-point landslide by which she won. Plus, in the surprise of the night, Democrats took control of the Michigan House of Representatives providing the Governor with her first "sympathetic" legislative chamber.

The second factor leading to the likely passage of a new tax plan, either introduced or approved by the Granholm administration, is her release of the proposed Michigan

Business Tax. The proposal may not be complete or perfect; but, it does address a significant portion of the criticism received by the Governor and the administration about the first SBT replacement recommendation of 2005, the *Michigan Jobs and Investment Act*.

The MACPA Subcommittee on Business Tax Restructuring has begun to analyze the MBT, and will be in regular communication with representatives from the Granholm administration and the Legislature as the debate continues.

Top Stories

Navigator of the Profession: Profile of Marshall Hunt



*Marshall Hunt,
Director of the Tax
Assistance
Program for the
Accounting Aid
Society*

For more than 20 years, Marshall Hunt has been a leader in community service by assisting those in dire need. As a Certified Public Accountant since 1972, he has served the IRS in tax administration, but his true passion has always been tax volunteer work. In April 2001, he joined the Accounting Aid Society as director of the Tax Assistance Program. In this capacity, Marshall directs a vital program that serves almost 7,000 low-income clients by enlisting the tax skills of about 700 volunteers. An active member of MACPA for several years, he was the recipient of the MACPA Outstanding CPA in Government Award in 1998.

1. What made you decide to go into the accounting profession?

I was originally planning to be an engineer and had no real exposure to the accounting profession. At Henry Ford Community College, I took an accounting course as an elective and I knew that was what I really wanted to do. My experience illustrates the importance of our outreach activities in the schools.

2. What makes your job great?

I've worked in the tax field during my entire professional work life. Because of the changing tax law and the many issues that I deal with, I learn something new almost every day. Also, by working for a nonprofit organization that assists low-income families, there is a tremendous satisfaction knowing that my work is making a difference to people who need my services.

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

Look at all the options available. Being a CPA can provide many career path options.

4. Describe how you have made a difference by being a CPA?

At Accounting Aid Society, we work with hundreds of volunteers in preparing tax returns and credit forms. We have been able to provide clients with millions of dollars of refunds they either wouldn't have received or would have had to pay to have received them. We also assist taxpayers who have controversies with the IRS and provide education to "English as a Second Language" clients about their tax rights and responsibilities. The tax skills that I have as a CPA, as well as the continuing education in the tax area, are critical to directing these programs. As a CPA, I've been a college-level instructor for 20 years, bringing practical experience to the classroom.

In my 34-year career at the IRS, I have dealt with many taxpayers and had the opportunity to improve tax compliance individually through audits, as well as through outreach to organizations.

5. What are your major professional accomplishments?

In 1995, while at IRS, I received Vice President Gore's National Performance Review Hammer Award for my work with what was then known as the Michigan Family Independence Agency. I established a wage reporting system to provide thousands of home help workers with social security coverage and income reporting. In 1998, I was the recipient of the MACPA Outstanding CPA in Government Award.

Upon retiring from the IRS, I joined the staff of the Accounting Aid Society. At that time, we were just beginning to think about filing our clients' tax returns electronically. With a dedicated staff, many volunteers and support from contributors, we were able to convert from a hand-preparation process to full computer preparation and, in most cases, electronic filing. Last season, we e-filed taxes for about 6,200 clients.

6. What interests or activities are you involved in?

With my work at Accounting Aid Society and teaching, there isn't a lot of extra time. I try to find time to work out at a local health club, but not as much as I should. Skiing has been a favorite sport, but there isn't much time for that when tax season approaches. I've been a beginning clarinet player for over 20 years. I'm still not good, but I would be better if I practiced. I also dabble in fixing up a 1976 Lancia Scorpion, a car that proves that rarity and value are not always related.

7. Are there any other interesting things about yourself or your career that you would like to share with other members, potential members and students?

Just that government and the nonprofit sectors can be viable career options. The

rewards are many, but are not always monetary.

8. What is your most meaningful volunteer experience?

That's not a hard question for me. While I've done volunteer work for other organizations, I've thoroughly enjoyed my work with Accounting Aid Society. In 1981, I decided to try it for couple of Saturdays and ended up working almost every Saturday during tax season as a volunteer for 20 years. Eventually, it led to me joining the staff (I'm still working on Saturdays). I've also enjoyed my experience with the MACPA as a task force member and working with Junior Achievement.

9. How do you balance your personal and professional life?

That's not always easy during the tax season, but you need to make sure that your family is a priority. During tax season, I try to make sure that I relax a bit whenever possible.

10. What do CPAs need now to be successful in the future?

Continue to stress ethical decision-making and being flexible in a fast-changing environment.

Top Stories

Q&A: Changes to CPA Certificate Application

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LE: The experience form has changed. It used to require an indication of experience with audit and compilation and review in terms of preparation of work papers (Question #2) and planning the program of work (Question #3). What's required now?

Jolicoeur: While reviewing the experience requirement in the statute, the State Board determined the statute does not specifically require applicants to show they have had experience in the preparation of working papers and the planning of the program of work in the three different types of engagements: audits, reviews and compilations. What the statute does require is that an applicant have experience involving procedures *common to* audits, review and compilations. So, we no longer have separate check boxes on the experience verification form for audit, compilation and review.

LE: What's the other change to certification requirements?

Jolicoeur: The second change also relates to experience. The State Board determined at its November meeting that a CPA candidate fulfilling his/her experience requirement within a public accounting firm need only provide one client reference for participation in *one* financial audit.

LE: Why did the State Board make this change?

Jolicoeur: Since the Board of Accountancy's administrative rules no longer require experience to be obtained in three or more distinct lines of commercial or industrial business, the Board felt it was no longer necessary to require three client references. However, because the statute does require an applicant to have experience performing

a financial audit, it was determined that one client reference verifying participation in an audit will now be required.

LE: What about CPA candidates who are trying to fulfill experience requirements working for a government entity – has that changed?

Jolicoeur: No, The requirements remain the same for qualifying governmental experience.

Note: Download the Public Accounting Application Package from the [State Board web site](#).

Top Stories

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MACPA members, a brand new web site will be at your service on January 29. Advanced features will let you track your CPE, create and access your own personal e-mail account, and provide timely information to keep you on top of the profession.

Based on member feedback and changes in technology, the MACPA is creating the site with a new look, simple navigation and customized information for members.

MACPA focus group studies showed that members want interactive tools they can use for their business or personal use and that are accessible through the web site. Focus group participants have also requested easier access to critical news and information about the profession.

New Features

A new electronic tracking system called "My CPE Tracker" will let members store CPE transcripts online. MACPA CPE credits will automatically be stored on the system plus you can enter other continuing education credits you have earned. This tool will simplify CPE tracking for members by allowing them to track all of their credits in one, easily accessible location.

Communications will be as easy as using your new e-mail account on the MACPA web site. As a member, create your own e-mail address with the domain michiganpcpas.org. (For example, a member may choose johndoe for a user name and the e-mail address will then be johndoe@michiganpcpas.org.) Your e-mail will be accessible from any internet-equipped PC.

Timely News

Answering the request for an increased amount of timely news, the MACPA home page will feature expanded news items and feature articles. Access to news and information also will be found through the site's new link library, providing users with quick access to numerous professional resources.

The new MACPA web site also will feature special sections geared for the general public, including articles and tips, as well as easy access to the CPA Referral Program.

Access the New Site

Once the new web site is launched, reaching new features will be as easy as logging on. To logon you will need to know either your existing MACPA web site login or your member number. (Look to the top of the *Leaders' Edge* e-mail that was sent with this issue to learn your member number or call the MACPA at 248.267.3700.) The address of the MACPA web site will not change. Just type www.michcpa.org into your browser.

Be sure to check out the new site on January 29.

Message from the Chair of the Board

On the 2007 Horizon



Sean Keenan
2006-2007 MACPA
Chair of the Board

Looking ahead into the New Year, I see several issues playing a significant role in our profession.

Perhaps getting the lion's share of our attention in Michigan, replacement of our state's **Single Business Tax** has reached a pivotal point. Plaguing businesses, CPAs and politicians for some time, the SBT's December 2006 expiration date brought with it a firestorm of replacement proposals. An [article](#) in this issue of *Leaders' Edge* offers insight into the Governor's proposal; an [overview](#) of other proposals appeared in the November issue.

The MACPA Government Relations staff, in conjunction with our State and Local Tax Task Force and its sub-committee on Business Tax Restructuring chaired by Sam Hodges, will continue to follow the debate, offer unbiased analysis on all replacement proposals and provide advice as to the potential effects that a restructured business tax model might have on the Michigan economy.

Mobility is another issue at the forefront. In our dynamic marketplace, geographic boundaries have been erased, making it vital to both the business sector and to the profession, for CPAs to have the ability to work efficiently across state lines. It is an issue of importance to all CPAs, whether in business and industry or in public accounting.

The issue can be compared to a driver's license. Think about taking a trip to Florida. Imagine if, before you hop in the car and drive your way through several states, you are required to fill out a mound of paperwork and submit it to each state's Department of Motor Vehicles (along with a different fee for each, of course).

That's essentially how CPAs currently must approach interstate practice, i.e. complying with a multitude of different requirements from state to state. The situation creates an

artificial barrier to interstate practice, and hampers our ability to efficiently serve our clients.

The National Association of State Boards of Accountancy (NASBA) and the AICPA are promoting simplification. In fact, they've released a [proposal](#) for exposure. The MACPA Board is studying the issue, and I encourage *all* CPAs to learn more about it. Our upcoming Members Advisory Council Meeting (May 9) will include a forum on mobility. We'd love to have your feedback, so please plan to attend and participate in the discussion.

Briefly, there are two other important initiatives to keep in mind as we start the year. One is helping to build the **future of our profession** by attracting and retaining bright young people. The Michigan Accountancy Foundation [Fifth Year/Graduate Scholarship](#) is a key element – and many of you have supported this effort generously. The scholarship application deadline is January 31. Please reach out to eligible college students in your midst and encourage their application for the scholarship.

Finally, January is the time of year when many Americans are thinking about getting their financial “houses” in order. I urge you to get involved in **financial literacy** efforts in some way. You'll be hearing more about the AICPA's [Feed the Pig](#) campaign – perhaps that's where you might get involved. Or maybe you can participate in our [Tax Assistance Program](#). Whatever avenue you choose, reaching out in your community does make a difference!

I extend my best wishes for a happy, healthy and prosperous New Year!

Practice Management

Tips to Prevent Common Tax Claims

By Keith R. Lee

CPA firms might be able to reduce insurance claims by paying more attention to four key areas: estate tax returns, entity selection, form 5471 and 5472 tricky filing requirements and improperly documented client extensions. Based upon 20 years of claims experience, CAMICO Mutual Insurance Company has identified these frequent sources of tax claims and offers tips for CPAs.

Estate Tax Return Penalty Issues

Filing Penalties. The estate tax return's irregular filing due date, which is based on the decedent's date of death, is the primary reason for the missed estate tax return filings. Due to the high tax amounts reported on estate tax returns, the late filing penalties often exceed \$100,000.

CPAs caught by such claims usually: (1) did not have any sort of estate tax return due date calendaring system; or (2) did not pay enough attention to any system they did have implemented.

Consider the following recommendations:

- (1) Have one person in the office assume responsibility for tracking estate tax return filing deadlines (rather than each tax partner or tax manager tracking individual deadlines).
- (2) Have a due date tracking system for estate tax returns. The system can be extremely simple (such as a large paper calendar devoted solely to estate tax return due dates). A calendar is effective as long as it is posted in a conspicuous, frequently viewed area.
- (3) Continually review the estate tax return tracking system to ensure your firm meets any impending due dates.

Payment Penalties. CPAs also incur late payment penalties by not realizing an estate

tax payment extension request requires a separate section of federal form 4768 be completed. Also, the payment extension is not automatic (like the filing extension) and requires evidence demonstrating "reasonable cause." Additionally, the IRS can exercise discretion with respect to granting the payment extension (because of the "reasonable cause" requirement), so the payment extension should be completed well in advance of the estate tax due date in case the IRS denies the payment extension request.

Entity Selection Issues

Claims in this area arise because the CPA (not the client) chose the "best" entity for the client's new business, and because the CPA did not document the advice provided to the client.

The client must select the entity that he or she feels is the best fit for the new business – not the CPA. Each entity type has positive attributes and negative attributes, and the selected entity's type negative attributes could surface if certain unforeseen future events occur. The client will then be able to successfully assert a different entity type, which would have better addressed the unforeseen future event that occurred.

CPAs can provide a client with available entity alternatives and attributes and detriments for each. The client can then choose the entity which best complements his or her business. This helps insulate the CPA from liability if the client's choice does not prove to be "best," as long as the CPA can document the information provided to the client.

Federal Form 5471 and 5472 Penalty Issues

A \$10,000 penalty applies where either a form 5471 or 5472 was due but not filed. The penalty most often is triggered because a CPA was not aware of the form's filing requirements.

Both federal form 5471 and 5472 have extremely complex filing requirements that are beyond the scope of this article. However, your firm can use the following easy-to-memorize rules to help identify situations where a federal form 5471 or 5472 *might be* required:

(1) Is an individual client an officer or director of a foreign corporation, or is any client a shareholder in a foreign corporation where the share ownership equals 10 percent or more of a foreign corporation's stock? If so, your firm should consult the federal form 5471 instructions to determine whether your client must file the form.

(2) Is any corporation client a foreign corporation or owned 25 percent or more (directly or indirectly, by vote or value) by a foreign individual or entity? If so, your firm should consult the federal form 5472 instructions to determine whether your client must file the form. Note: several filing exceptions exist if the client did not have *reportable transactions* (see the "reportable transaction" definition in the federal form 5472 instructions).

The best way to be aware your client is a foreign corporation (form 5472), or owns foreign corporation stock, or is a foreign corporation's officer or director (form 5471) is to make sure your firm requests the applicable information from the client.

Improperly Documented Client Extensions

Another recurring claim involves income tax filing extension payment calculations. A typical scenario involves a CPA obtaining missing tax data over the phone from the client. The CPA calculates the due tax payment. The client mails the tax extension and payment prior to April 15.

Later in the year, though, when the CPA has the client's *actual* tax data, the client's previously provided oral estimates prove to be wildly off the mark. The actual amounts are much higher, and the client will owe a much greater tax amount (with accompanying late payment penalties). Once the client sees the late payment penalty amount, the client "forgets" the phone conversation on April 15 and now demands that the CPA pay the due penalty.

A written confirmation of the amounts used to calculate the extension payment should be sent to the client with the extension form. This gives the client an opportunity to review the information and to change any information that appears incorrect, prior to April 15. The confirmation also serves as a record of the client's representations in case the client incurs a late payment penalty and "forgets" the representations made in April.

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About the Author

Keith Lee, JD, CPA is staff tax counsel/tax services manager with CAMICO Mutual Insurance Company (www.camico.com). He works internally with the CAMICO claims department to resolve tax claims and provides CAMICO's policyholders with information regarding corporate income, gift and estate tax transactions. He also serves as a resource for several national publications

Practice Management

Pitfalls of Preparing Tax Returns for Potential Criminal Defendants

By Neal Nusholtz

Illegal profit making activities are not exempt from tax.

Taxpayers who engage in illegal activities have a problem filing their tax returns. If their activities are not yet known to the government, filing a return could trigger an investigation and be used to convict them. Preparers of tax returns for those individuals have three objectives: (1) compliance with the tax laws; (2) not damaging the client; and (3) not damaging themselves.

Compliance with the tax law is actually simple. All you need is a document signed under penalties of perjury with sufficient information to compute the tax. Satisfying the other two objectives at the same time is a much more difficult task.

For example, an illegal activity can be omitted from a valid tax return, but sometimes nothing means something. Prosecutors have argued to juries that, in conjunction with large income and other evidence of crime, only an illegal activity could explain the omission. The same inference, for one court, has been drawn from not filing at all:

...the evidence of a lack of federal tax filing (or underreporting) in combination with proof of valuable tangible possession or extravagant purchases creates the inference that the defendant does not possess a legitimate source of income to report his affluent lifestyle, and therefore, the income must originate from narcotics operations.

Asserting a "Fifth Amendment privilege against incrimination" on the tax return might avoid judicial inferences of concealed activity, but that assertion would likely cause an investigation. In 1973, an attorney filed an anonymous lawsuit in a Richmond, Virginia Federal District Court. His client had late 1970 and 1971 tax returns to file but was, "fearful of filing same upon the ground that the returns will be used and admitted as evidence against him in a non-filing charge."

The attorney sought an order preventing the government from using his client's filed tax returns as evidence against the client in a criminal action. The court denied the

request. The Court of Appeals for the Fourth Circuit affirmed saying:

In the event of any subsequent criminal prosecution, the taxpayer may then assert what Fifth Amendment rights, if any, he may have against the prosecution's use of any return he may have filed.

The Fifth Amendment appears to offer no protection because disclosure of an illegal business on a tax return is not compulsory and the Fifth Amendment only applies to compelled disclosures. In *Garner v. U.S.*, the Supreme Court held that disclosure on the tax return of the taxpayer as a gambler was voluntary. Therefore, it was admissible as evidence of illegal gambling.

Suppose a taxpayer were to report illegal income on the front page of the 1040 form under "miscellaneous income." This was suggested as a solution in the case of *U.S. v. Johnson*. It didn't work. In the case of *U.S. v. Barnes*, a prosecutor successfully argued to a jury, over defense counsel's objection, that large amounts of income reported under "miscellaneous," can only be explained by an illegal source of drug income.

Once the client discloses an illegal activity to the preparer, the genie can't be put back in the bottle. No federal accountant-client privilege exists in criminal matters. Statements made to an attorney or an accountant in the course of preparing tax returns are not protected by any privilege and can be obtained by the government from the preparer.

Worse, if a tax preparer conceals an illegal activity on a tax return, he or she is exposed to being accused of committing or conspiring to commit any one of the following crimes:

- Money laundering;
- Engaging in financial transactions with the proceeds of specified unlawful activities;
- A conspiracy to defraud the federal government;
- Corruptly impeding the administration of the Internal Revenue Code; and
- Willfully aiding or assisting in the preparation of any fraudulent or false document relative to any matter arising under the revenue laws.

Under certain circumstances, concealment of an illegal activity can occur when the return and the source of income are truthful and complete. This happened in a criminal case against an Atlanta tax attorney named Gerald Popkin. In March of 1985, Popkin got a call from a former client, Stephen Musick. Musick had served a prison sentence

for drug dealing. While in prison, Musick made a deal with government agents to set up a sting on Popkin.

Musick met with Popkin wearing a wire and told Popkin he had made around \$200,000 selling cocaine in prison in 1983 and 1984. The money, according to Musick, was then held in an offshore account by a company called Mid-American Financial. Musick wanted to show the unreported cocaine money.

Popkin recommended that Musick: (1) form a corporation to hold the money; (2) have Mid American transfer the \$200,000 to the corporation in exchange for corporate stock; (3) buy the corporate stock from Mid American for \$3,000 - \$10,000; and then (4) liquidate the corporation in the year of his choosing to retrieve the money. Under the plan, Musick could report the income in the year of liquidation as capital gains from the sale of stock without having to mention the money was from cocaine.

Popkin was convicted in the lower court for corruptly impeding the administration of the Internal Revenue Code under IRC §7212. The case was affirmed on appeal. In the absence of a money laundering statute, the issue was whether the term "corruptly" covered Popkin's conduct. The Court said that corruptly "[forbids] those acts done with the intent to secure an unlawful benefit either for oneself or for another." The Court of Appeals said:

The effect of all these maneuvers would be more than just to disguise the source of the money thus repatriated. It would also place in Musick's wholly-owned corporation the power to determine when, if ever, the \$200,000 earned in 1983 and 1984 would be reported for income tax purposes. The income tax laws require annual reporting of all income in the year earned. The entire system is built on the basis of annual reporting, and any arrangement that permits a taxable entity to avoid reporting income in the taxable year when earned has the effect of skewing the system and thus impeding or obstructing the due administration of the tax laws.

What Popkin did was create a second tax liability in a different year with a different source of income. This created the appearance of a decoy year that could be used as evidence that Musick had reported \$200,000 of income from a legitimate source (capital gains from liquidation of a corporation). This would be like taking any year, reporting \$200,000 from whatever and saying, "There is the income. It's not from cocaine."

From a practitioner's standpoint, Popkin was not getting his client in compliance by

having Musick report his income in the correct years.

The courts seem to have it both ways. In tax cases when a criminal defendant claims he should be exempt from filing because of compelled incrimination, the claim is rejected, yet in non-tax cases, the returns are always allowed in as incriminating evidence. This creates an ethical dilemma and a technical challenge for the tax practitioners who want their clients in compliance with the law. In one way, the issue is not complicated. Returns must be prepared with an eye toward their admission in court.

About the Author

Neal Nusholtz has a broad tax, estate and corporate practice. He has represented hundreds of taxpayers in disputes with the IRS. In 1999, Corp! Magazine listed Mr. Nusholtz as one of the Top Ten Business attorneys in Southeastern Michigan.

Tax Tidbits

Help Those in Need: Volunteer for the 2007 Tax Assistance Program

Would you like to lend your valuable tax skills to a worthy cause? The MACPA is seeking volunteers for the 2007 Tax Assistance Program (TAP), a Communications Task Force initiative in partnership with the Accounting Aid Society (AAS).

Each year, MACPA partners with AAS for two Saturdays in February at Focus:HOPE in Detroit to complete tax returns for low-income families and individuals. By volunteering, you can help to bring more than \$100,000 back into the Detroit community in tax credits.

According to Marshall Hunt, director of the Tax Assistance Program, "We help a lot of clients receive refunds from credits they didn't know about before they came to our tax sites. It is very satisfying when we can assist someone in filing prior year returns to recover refunds they might otherwise have lost, especially if those refunds can provide an opportunity for asset-building."

Jaime Finrock is currently an accounting student at Schoolcraft College in Livonia, as well as a past volunteer. She thoroughly enjoys giving her time because she sees the grateful look on every client's face. "I really enjoy volunteering for the Tax Assistance Program," said Finrock. "I feel like I'm making a difference in the lives of people in my community in a way that most people would never think of, through taxes. I have also 'walked in the clients' shoes being from a financially disadvantaged family myself. When I found out about the TAP through the MACPA last year, I jumped at the chance to volunteer with such an admirable organization. I will continue to volunteer as long as they let me."

MACPA welcomes volunteers of all experience levels – from long-time professionals to new professionals to accounting students. The event will be held on February 10th and February 17th. You can choose to volunteer for one or both days. **Please Note: All volunteers must attend a training session that explains the software used, typical client situations and tax updates.** Complimentary CPE credit will be offered for volunteers attending these training sessions.

To volunteer or for more information, please contact Wendi Salmons at 248.267.3709 or via e-mail at wsalmons@michcpa.org.

Tax Tidbits

Update on E-Filing for Partnerships

While partnerships with more than 100 partners (Schedules K-1) must file their tax returns electronically, the IRS encourages all partnerships to e-file. Beginning with tax year 2006 for returns filed after January 7, 2007, the mandated partnerships have a choice of filing under the existing 1065 e-file platform, or the new Modernized e-File (MeF) platform. Next year, however, for TY2007, those partnerships with more than 100 partners will be mandated to e-file using MeF, as the 1065 platform will not be available after 2007.

Partnerships with 100 or less partners may voluntarily file their return under either program – legacy or MeF.

Form 1065-B

Form 1065-B, U.S. Return of Income for Electing Large Partnerships, filers are encouraged to e-file TY2006 returns, too, but they must use the MeF platform since the 1065 platform is not available for 1065-B e-filing.

Further guidance is available on the IRS web page, [Modernized e-file \(MeF\) for Partnerships](#).

Tax Tidbits

Federal Tax Task Force Seeks Members

"Participation on this Task Force is one of the most professionally rewarding volunteer activities with which I am involved," explains Donna Smith, CPA. "I receive first-hand knowledge and can offer input as federal tax issues are developing."

Donna currently chairs the MACPA Federal Tax Task Force – a task force that is currently seeking new members.

What does the Federal Tax Task Force do? The Task Force's role is to plan and conduct meetings of the Association related to federal taxation subjects. They also consider and recommend material on federal taxation prepared by task force members or others for publication by the Association.

So what does that mean? More specifically, the 2006-2007 Goals and Objectives include continuing to develop and maintain conduits of communication with public office holders, such as members of U.S. Congress, IRS officials and other practitioner groups. The MACPA Federal Tax Task Force also serves as a membership liaison to the IRS on a multitude of issues, holding regular meetings and mutually beneficial exchanges of information.

Additionally, the Task Force provides knowledge and advice to the MACPA for development of specialized instruction in areas of interest to tax practitioners. In 2006, or example, they developed a new conference, the Advanced Tax Forum.

If you are interested in more information about the Federal Tax Task Force, contact Andrew Kokoczka, Task Force staff coordinator at akokoczka@michcpa.org or 248.267.3735.

Tax Tidbits

Michigan Tax Form CD-ROM Discontinued

Beginning with the 2006 Tax Year, the Michigan Department of Treasury will no longer produce the Tax Form CD-ROM. However, all Michigan tax forms, instructions and related materials are readily available on Treasury's web site, www.michigan.gov/treasury, which is accessible 24/7 and offers a variety of services designed to assist both tax professionals and the public.

Tax professionals will be receiving a letter from the Department within the next month or so, detailing this change.

Tax Tidbits

State Debuts New Tax Administration Platform; Still Open for Suggestions

Information regarding Michigan's new tax administration system under development is available on the Department of Treasury's [web site](#). As previously published, the Michigan Department of Treasury has been working on this new system for some time.

The system – the Michigan Integrated Tax Administration System (MIITAS) – is set up to administer sales, use and withholding taxes, but is built on a platform which will accommodate future enhancements.

Three MACPA members, Bob Wagner, Joe Tomczyk and Brad Danton, are serving in an advisory capacity to Treasury on the system's design. All MACPA members are encouraged to review the MIITAS information on the Department of Treasury's [web site](#) and provide further feedback. The web site includes an opportunity to provide comments and suggestions to the MIITAS design and implementation team via e-mail. MACPA members also may provide input and suggestions through the MACPA Government Relations Department via [e-mail](#) or phone, 248.267.3700.

Tax Tidbits

Michigan Adds 1120/1065 to E-File

More than 2.94 million Michigan individual income tax returns were filed electronically last year, ranking Michigan third in the nation in the number of e-filed returns. New in 2007, Michigan will participate in the Fed/State 1120/1065 e-file program.

Michigan will also continue to offer the Single Business Tax (SBT) Direct e-file. Check with your software provider to see if they support either of these programs.

Over the last decade, the popularity of e-filing has grown significantly, with nearly 60 percent of all Michigan income tax returns filed electronically in 2006. Much of the success of e-file in Michigan can be attributed to tax professionals, including members of the MACPA.

Accounting & Auditing

PCAOB Proposes Revised Auditing Standard on Internal Control over Financial Reporting

In late December, the Public Company Accounting Oversight Board (PCAOB) voted unanimously to propose for public comment a [new standard on auditing internal control](#) over financial reporting and other related proposals. The proposed standard would replace the Board's existing internal control standard, Auditing Standard No. 2.

Two annual financial reporting cycles have been completed since public company auditors began applying AS No. 2 to audits of the largest public companies. During this time, the PCAOB has closely monitored implementation of the standard and the progress auditors have made in complying with its requirements.

The proposed new standard on internal control is a principles-based standard designed to focus the auditor on the most important matters, increasing the likelihood that material weaknesses will be found before they cause material misstatement of the financial statements. The proposed standard also eliminates audit requirements that are unnecessary to achieve the intended benefits, provides direction on how to scale the audit for a smaller and less complex company, and simplifies and significantly shortens the text of the standard.

"(The) proposal is the result of the PCAOB's experience with the first two years of auditors' implementation of the internal control provisions of the *Sarbanes-Oxley Act*," said PCAOB Chairman Mark Olson. "The Board's goal has been to apply the feedback we've received and our observations of implementation to create an auditing standard that preserves the intended benefits without resulting in unnecessary effort and costs. We believe the new standard will result in audits that are more efficient, risk-based and scaled to the size and complexity of each company. We look forward to comments on the proposal."

The PCAOB says the audit of internal control over financial reporting has produced significant benefits. Issuers and auditors have described a focus on corporate governance that had not existed in the past, as well as improvements in the quality

and efficiency of important corporate processes and controls. Corporate board members have noted an improvement in audit committee oversight, while investors have found public company financial reporting to be of higher quality and enhanced transparency.

However, these benefits have come with significant cost. Over the last two years, the Board has heard a consistent message that compliance with the internal control provisions of the *Act* has required greater effort and resulted in higher costs than expected.

Additional Proposal on Work of Others

In addition to the proposed internal control standard, the Board also proposed for public comment a new auditing standard on considering and using the work performed by internal auditors, management and others in an integrated audit of financial statements and internal control, or in an audit of financial statements only. This proposed standard is intended to further clarify how and to what extent an independent auditor may use that work to reduce the work the auditor otherwise would have to perform. In addition, the Board proposed to revise the independence requirement that currently is embedded in the text of AS No. 2, which requires the auditor to seek specific pre-approval by the audit committee of any internal control related service. Finally, the Board also proposed certain changes to its other standards to conform to the changes being brought about by this rulemaking.

The proposed standard and related documents are available on the Board's web site under Rulemaking Docket 21. The Board is seeking comments until February 26, 2007. Any final standard adopted will be submitted to the Securities and Exchange Commission for approval.

In the meantime, the SEC provided further relief from the Section 404 requirements for smaller companies by adopting extensions to compliance dates. Read more in the SEC's [press release](#), which includes a table outlining compliance deadlines.

Legislative & Regulatory

MACPA Membership Terminated

At a hearing of the AICPA's Joint Trial Board, conducted in accordance with the AICPA and MACPA Joint Ethics Enforcement Program, in regard to the conduct of Phyllis B.C. Kramer, CPA, the Joint Trial Board found Ms. Kramer in violation of **Rule 501 - Acts Discreditable** of the AICPA/MACPA *Code of Professional Conduct*. As a result, Ms. Kramer's membership within the AICPA and MACPA is immediately terminated.

Continuing Education

Workshop Clarifies Revenue Cycle for Healthcare Clients

While many CPAs produce income statements for healthcare clients, they rarely get to see and understand the whole revenue cycle and all the critical issues affecting it. Developed to help CPAs better serve physician clients and possibly expand their scope of service, the upcoming Healthcare Morning Workshop will provide a clear picture of the healthcare revenue cycle.

The idea for the Healthcare Morning Workshop came from attendees at the Annual Spring Healthcare Conference. CPA David Speicher, host of the new workshop, says most CPAs produce income statements for their healthcare clients, but rarely get to see and understand the whole revenue cycle.

Speicher encourages any CPA who works with physicians or healthcare clients to attend this workshop. Some of the topics that will be discussed at the workshop are denial management, process controls, budget development and staff performance assessment. The [Healthcare Morning Workshop](#) is offered on January 25 in Auburn Hills. Please visit the Michigan Association of CPAs [web site](#) to register or for more information.

Continuing Education

Learn How to Make the Michigan Economy Work for You

Foreign competition, market competition and legislation, such as item pricing laws, are examples of the many factors affecting small businesses in the State of Michigan. Chris Holman, small business advocate with the Michigan Economic Development Corp., says small businesses often can turn negative factors into positives.

Holman is a featured presenter at the upcoming Industry Professionals Conference. He said although the Michigan economy is bad, it's not an excuse for allowing a business to fail. "It just means you have to work harder," stresses Holman. At the upcoming conference, he'll share ideas for succeeding in this tough economic climate.

Slated for January 23, 2007, the conference is designed to help small business owners revitalize their businesses in spite of the negative factors.

"Small businesses are the backbone of American society...as they grow they hire more people and in turn bring up the economy," Holman stated. He encourages small business owners, or anyone working with small businesses, to attend this conference. He added, "People should attend because we will give them ways to make the negative factors work to their benefit."

The [Industry Professionals Conference](#) will be held on January 23, 2007 in Novi. To register or to get more information about the Conference please visit the [MACPA web site](#).

Continuing Education

Dilly's Seminars Prepare CPAs for 2006 Tax Preparation

Before signing off on any tax returns, CPAs will need to brush up on changes to tax law and more than three dozen extensions of existing tax provisions incorporated in the *Tax Relief and Health Care Act of 2006*, passed by Congress in late December.

How does this new piece of legislation affect accounting professionals? Tax expert Steve Dilley is hosting two seminars, one in Livonia and one in Grand Rapids, to help CPAs get up-to-date with the *Tax Relief and Health Care Act of 2006*.

Dilley said these courses focus on new tax forms, with examples to illustrate the impact of new developments, as well as provide practical solutions and planning approaches to problems encountered by the general practitioner.

Dilley said, "All practitioners needing 'final' preparation for the upcoming tax preparation season should attend this course."

To attend the [Tax Season Update with Steve Dilley in Livonia](#) or the [Tax Season Update with Steve Dilley in Grand Rapids](#) please register on the Michigan Association of CPA [web site](#). An optional afternoon ethics session is offered following both seminars. In Livonia attend [Optional Afternoon Ethics: Ethical Issues in Record Retention](#), or in Grand Rapids attend [Optional Afternoon Ethics: Ethics Update a View of the Horizon](#).

Marketing

CPA Web Sites: Do You Really Need One?

By Kristi Stangeland

It's ironic. CPAs work every day to help clients get the highest returns on their investments as possible. When it comes to CPA web sites, however, that philosophy is often pushed to the side.

Most CPAs who opt to create a web site do so with no vision, no goals and no plan. They simply decide a web presence would benefit their firms. They hire a web development company and offer the instructions, "Make us look professional." Using this method to create a web site will generally cause nothing more than a great deal of expense and tremendous waste of time. In order to make a qualified decision about whether a web presence is a logical addition to your firm, you need to give due consideration to several questions.

Why Do You Want A Web Site?

Do you feel you need a web site because other firms are establishing sites? Are you looking for ways to expand your practice? Are you hoping to generate more leads via your site? While having a web site certainly won't do your practice any harm, just putting one up for the sake of having an Internet presence can be costly and offer little or no return.

What Goals Do You Have For Your Site?

What do you want your site to do? Are you aiming for top search engine placement so you can easily be found online by prospects? Is it your goal to have your web site automate certain tasks? Do you hope your site will shorten your sales cycle by turning leads into clients more quickly?

Web sites can pay for themselves and generate revenue for your firm within a relatively short period of time if they are developed correctly. In order to ensure they accomplish what you're after, you'll want to have clearly defined goals in mind.

How Do You Plan To Use Web Technology to Improve Your Business?

Web-based technology can do amazing things for CPAs. For instance, did you know your site could operate in the following ways?

A visitor searches on Google for "Miami CPA" and finds your firm. While at your web site, the prospect reads about your firm's history, current clients and rates. They like what they read, but require additional information so they use the contact form on your site to request a company profile.

Providing their name, company, address and phone number, this prospect completes the request form and checks a box indicating they would like to subscribe to your monthly e-mail newsletter.

Within seconds, your site recognizes the request for a brochure and automatically sends a reply to the prospect's message. The e-mail says the company profile has been mailed, but the prospect can also view it online. A web site link is provided and the lead quickly clicks to the correct page to read more about your firm.

A few hours later, the latest edition of your e-mail newsletter arrives in the lead's inbox and they begin reading about the newest changes regarding travel expenses. The topic hits home so they decide to call and arrange for an interview with your firm.

A one-time web development expense and the savvy use of Internet-based technology just landed you a client who might otherwise have never known you existed. You did nothing. You commissioned a site then sat back and let it work on your behalf.

What Else Can Web Sites Do for Your Firm?

A web site can automatically update your clients about changes in firm policies, changes in tax laws, etc. Your site can offer automated information of various types to partners, employees or clients, including forms. You can also create password protected, secure areas in which partners and/or clients can review/share information.

Web sites can shorten your sales cycle and save time and money with client development. As depicted in the example above, the prospect did all the work. They searched on the Internet. They clicked to your site. They read the information and completed your "contact us" form. They phoned your office for an appointment.

Internet technology can keep you in constant contact with clients so they remember your firm when they have a need. Through e-mail updates or newsletters, your database of contacts is kept abreast of the latest information, which is critical to their

personal and/or professional success.

So, the answer to the original question, "Do you need a web site?" is "yes." You do need a web site, but only if you adequately plan for its development and proper use so it can offer a valid return on your investment. Otherwise, a site will be an expense that provides little value.

Before delving into the World Wide Web, take some time to review your business processes. With a little planning, you can easily partner with a professional who will create a site designed for performance.

About the Author

Kristi Stangeland is a licensed CPA formerly with PricewaterhouseCoopers and Salomon Smith Barney. She possesses a background in accounting, technology, business strategy and the arts and authored Effective Websites for CPAs: Grow Your Practice and Profits. She can be contacted online at www.KLSWebSolutions.com or via telephone at 914.478.8480. Kristi Stangeland © 2006, All Rights Reserved

Association Briefs

MAF Scholarship Application Deadline Fast Approaching: Apply Today!

Do you want to help students reach their CPA career goals without the stress of paying for an added year of school? Encourage the CPAs of the future to apply for the Michigan Accountancy Foundation's (MAF) Fifth/Graduate Year Scholarship.

As you know, a fifth year of education is required for CPA licensure. With yearly tuition increases and a flagging economy, financing that fifth year can be difficult. Since 2003, the MAF Scholarship has assisted 66 students with their final year of tuition bills.

The MAF Scholarship has made a profound difference to students such as Mersiha Cunmulaj, a 2006 scholarship recipient. "Before being awarded this scholarship, I wasn't exactly sure how I was going to receive funds to attend graduate school," Cunmulaj stated. "I am very humbled and appreciative."

You can make a difference today for the CPAs of tomorrow. The application deadline is January 31, 2007. Visit the application [criteria](#) and [form](#) web page for scholarship requirements. For more information, please contact Michelle DiDomenico at 248.267.3714 or [e-mail](#).

Association Briefs

In Memoriam

[Daniel R. Bauer](#)

November 10, 2006

Clearwater, FL

Joined MACPA: 03/31/1986

Certified: 11/01/1985

L. Leroy Benson

September 12, 2006

Lake Odessa, MI

Joined MACPA: 01/31/1954

Certified: 07/29/1953

[Erwin H. Graham](#)

September 25, 2006

Grosse Pointe Shores, MI

Joined MACPA: 12/16/1949

Certified: 08/09/1949

[William R. Greene](#)

October 11, 2006

Traverse City, MI

Joined MACPA: 10/27/1952

Certified: 02/04/1952

Robert D. Miskill

August 16, 2006

Saint Joseph, MI

Joined MACPA: 05/31/1953

Certified: 01/22/1953

[Gerald M. Pasternak](#)

October 10, 2006

Petoskey, MI

Joined MACPA: 08/31/1972

Certified: 04/20/1972

[Susan D. Garr](#)

December 8, 2006

Grosse Pointe, MI

Joined MACPA: 07/31/1983

Certified: 05/18/1983

[M. Edward Denny](#)

November 23, 2006

Big Rapids, MI

Joined MACPA: 10/19/1951

Certified: 07/25/1951

[Leo J. Ouellette](#)

December 11, 2006

Dearborn, MI

Joined MACPA: 03/31/1960

Certified: 11/19/1959

Association Briefs

Education Brought to Your Company's Doorstep

It's no secret that investing in your employee's professional growth is the key to staff retention and increased business. By utilizing the free services of MACPA's professional education planning staff, you can offer high-quality, results-oriented training targeted to your organization's needs.

"Once we determine the type of training you desire, MACPA staff will take care of all the details," explained Jean Jernigan, MACPA Member Solutions & Business Development Assistant Director. "As experts in continuing education program planning, we extend our expertise to members, helping bring quality education directly to their employees."

An MACPA continuing education staff specialist will meet with a member organization to learn about the unique educational needs of his or her organization. Once program needs are determined, the MACPA staff will coordinate the program from beginning to end. The member chooses the date, time and location, and MACPA staff will access an extensive network of resources to find the best instructor, consultant or speaker for the engagement.

A wide variety of topic ideas includes Accounting, Tax, Ethics, Business Management, Communication Skills, Leadership Development, Sarbanes-Oxley Compliance and more.

"The best part is," Jernigan said, "the program planning is offered free to our members. It's a huge advantage to companies that want to enjoy the personalized advantages of in-house CPE programs, but don't have the staff resources to plan them."

Offering in-house programs can result in significant savings, allowing a company to get more out of a limited training budget. Program costs will vary, depending upon the program's length, speaker, location, materials, etc., noted Jernigan. "Members can save up to 50 percent off public seminar rates for groups of 10 or more," said Jernigan, "and we offer satisfaction-guaranteed programs."

For more information on how MACPA can tailor courses to your company's unique needs and experience levels, contact Jean Jernigan at 248.267.3706 or jjernigan@michcpa.org.

Association Briefs

Join the MACPA in the Race for the Cure®

It is almost time again to Race for the Cure®. [The 16th Annual Komen Detroit Race for the Cure®](#) will be held on Saturday, June 16, 2007 at Comerica Park in Detroit. For the past four years, the MACPA's New Professionals Task Force has spearheaded the MACPA's involvement in the Race. We hope you will join us in this fun and rewarding event.

To participate and help the MACPA increase participation in the Race for 2007, please contact Nicole Shepard at 248.267.3705 or e-mail nshepard@michcpa.org. MACPA team members can include colleagues, friends and family. We look forward to seeing you there!