

## STAYING IN COMPLIANCE

During periods of economic change, it is a challenge for a business owner to respond quickly and effectively to limit adverse effects to their bottom line. Whether a company is taking a direct hit by the recession in the housing industry, addressing increased transportation costs due to rising fuel prices or facing increased pressure from their competition, it is important to sustain focus on compliance in various areas.

The process of retooling a business plan to stay competitive in a changing market requires research and supervision to deal with emerging compliance issues and anticipating the costs associated with them. Long-term business planning should consider incorporating a sustainability campaign within an organization before it becomes a requirement. Some standard areas of compliance which should be perpetually maintained are as follows:

### WITH THE BANK

Review loan covenants to make sure debt ratios, credit limits and other loan criteria are satisfied. Anticipate beforehand any potential violations of items contained in a loan agreement then seek advice on making a plan to correct the situation. Before requesting a renewal of a credit line, assess which requirements are difficult to satisfy. Request modifications to terms that can be more reasonably be met. Be prepared to discuss the obvious--how the debt will be serviced. Be proactive by keeping financial information on record at the bank current before they ask for it.

### WITH THE BONDING COMPANY

When greater bonding capacity is needed to compete for more lucrative contracts, seek financial advice on planning to meet all the requirements set forth by the surety company. A key component in obtaining adequate bonding is clear, concise and informative financial statements. Enhance internal control measures to promote accuracy within the financial records. Wrong information is more detrimental than no information.

### WITH INVESTORS

Investors are reading the same statistics in the business journals as everyone else and wondering how their investment is being protected. Some degree of anxiety can be avoided by regularly updating investors with strategies to address the market changes that introduce more risk. Incorporate the factors in the form of revised forecasts for the business. Make sure operating agreements are followed to the letter.

### WITH TAXING AUTHORITIES

When expanding into additional markets seek advice on various sales, use and franchise taxes in the new jurisdictions. If adding new products and services, learn the obligations that come with them in terms of required licensing, reporting, collection and payment of certain taxes. Knowing this before expanding may influence the decision to do so.

Carolyn Quinn

## 2007-Fourth Quarter

### Special Edition

### Financing, Credit & the Mortgage Mess

*Staying in Compliance*  
**Mortgage Mess Tax Consequences**  
*Federal Rate Reduction*  
**Fix Bad Credit**

### Bonus Section

**New Audit Standards & Effects**  
*401(k) Mistakes*  
**2008 Tax Tidbits**

## HLB Gross Collins, P.C Recognized as a Top CPA Firm in Atlanta and One of Atlanta's Fastest Growing

We are pleased that we have been named as one of **Atlanta's Top 25 CPA Firms**. Each year, the *Atlanta Business Chronicle* publishes a list of leaders in various industries in Atlanta and HLB Cross Collins, P.C. is consistently included on this list.

In addition to being one of Atlanta's Top 25 CPA Firms, we have been recognized as one of **Atlanta's Top 10 Fastest Growing CPA Firms**.

Our success and continued growth can be attributed to loyalty and longevity of the relationships we've built and we appreciate the continued support of our clients, contacts and employees.

# Mortgage Mess

## Unanticipated Tax Consequences For Homeowners

Homeowners who over-extended themselves with creative financing arrangements and exotic loan terms are now facing some unpleasant and unanticipated provisions of the Tax Code. Not only are homeowners confronted with the overwhelming possibility of losing their homes either voluntarily through selling at a loss or involuntarily through foreclosure, but many also must accept certain tax consequences for which they are totally unprepared.

**No Deduction or carryover basis.** There are no deductions available for taking a loss on the sale of one's primary residence. When the net sale price of the homeowner's home is less than his or her tax basis, the loss incurred on the sale is considered a nondeductible personal expense for federal income tax purposes. What's more, if a homeowner eventually purchases a second home and sells that property down the road at a taxable profit, previous losses cannot be used to offset that gain since basis is no longer carried over.

**Conversion.** One possibility for homeowners faced with taking a loss on the sale of their home: convert the home into an income-producing property, such as a rental, before an eventual sale. Losses incurred after the property is converted may be deductible as an ordinary loss. However, only the amount of loss incurred after the home becomes a business or investment property is deductible.

**Cancelled debt.** When a lender forecloses on property, sells the home for less than the borrower's outstanding mortgage and forgives part or all of the unpaid mortgage debt, the Tax Code considers the cancelled debt to be taxable income.

If a lender refuses to discharge the remaining debt, the homeowner is obligated to pay off the loan and there is no tax break or write-off for doing so. A borrower's "cancelled debt income" is taxable at ordinary rates. Few exceptions apply. For example, when borrowers are insolvent or involved in bankruptcy proceedings,

discharged debt is not taxable.

**Foreclosure and gain.** Moreover, if property is foreclosed and sold at auction for more than the home's tax basis, the sale produces taxable capital gain. In this case, however, the gain from a foreclosure sale of an individual's principal residence may be excluded to the extent of up to \$250,000 (\$500,000 for married homeowners filing jointly), depending on the length of homeownership. No exclusion, however, is given on vacation property that is not a principal residence.

**Short sales.** Lenders that allow homeowners to sell their property when the outstanding mortgage debt exceeds the net sale price of the home also create taxable ordinary income for the homeowner on the difference if the lender accepts proceeds from the sale as payment in full.

**Reporting obligations.** When a bank or other creditor forgives part or all of a borrower's unpaid mortgage balance, the lender is required to report the cancelled debt amount to the IRS on Form 1099-C (Cancellation of Debt), if the amount forgiven is \$600 or more. Since cancelled debt is income to the borrower, the amount must also be reported by the homeowner on his or her federal income tax return.

The President has proposed and Congress is considering legislation that would ensure that cancelled debt on a primary residence is not counted as income.

**Jake M. Bodenheimer**

## GrrrRATE Cut

After four years of increasing interest rates by the Federal Reserve, they caught some attention by announcing a **half point** federal fund rate reduction at their September 18<sup>th</sup> meeting. This can make a significant difference.

### Most borrowers are positively impacted on:

- **Business loans** tied to prime
- **Home equity lines** of credit and fixed-rate home-equity loans
- **Credit cards** with variable rates above 15%
- **Auto loans for used cars** from credit unions and banks
- **Student loans** with variable prime-based rates from private lenders

### Borrowers will receive negligible or no relief on:

- **Mortgages** that are 30-year fixed (driven more by 10-year Treasury's in the bond market) or LIBOR-based ARM's
- **New car loans**, particularly financed by the manufacturer

**Savers** will see skimpier returns on savings accounts and may anticipate shortened maturities on promotional rate CD's.

**As for the investor:** The Feds intended for this rate cut to benefit the broader economy to offset the weakening housing market. Investors see rate cuts as a strong positive for the economy.

**Carolyn Quinn**

# Can I Really Fix My Credit?

*Absolutely!* Bad credit is both stressful and costly, but you can take steps to repair it. Following are a few steps to follow:

**Stop Using your credit cards and don't apply for any new ones.** One of the worst things you can do is to continue accumulating more debt by using your credit cards or by applying for new ones. Put existing credit cards away until you have control of the situation. Any new applications may well be turned down and the decline will further reduce your score.

**Get and review a copy of your credit report.** You need to know exactly what you need to work on to begin repairing your credit. Highlight negative listings and rank them according to damage they are doing to your credit picture. Following is a list in order of damage to your credit:

- |                 |                      |                      |
|-----------------|----------------------|----------------------|
| a. Bankruptcy   | e. Court Judgments   | i. Credit rejections |
| b. Foreclosure  | f. Collections       | j. Credit inquiries  |
| c. Repossession | g. Past due payments |                      |
| d. Loan Default | h. Late payments     |                      |

Creditors are required to notify you of any negative information they have placed on your credit report. If you have not been notified you can pressure the creditor to remove the listing.

**Request corrections and challenge questionable items.** You can not legally remove accurate negative information from a credit report, but the law does allow you to request a reinvestigation of information in your file. However, you can legally challenge anything on your credit report. The key to the credit repair procedure is that if the credit bureaus cannot verify information on your credit report they must remove it. Specifically, if a credit bureau cannot contact a collection agency which is reporting a collection on your report, they cannot verify the information, and must delete the entry.

**Document your credit repair efforts.** Document every correspondence and send every correction or challenge by certified mail. Keep a file outlining everything that you do. The credit bureau has 30 days from your dispute letter to investigate the legitimacy of the negative listing. They are required to notify you in writing the results of the investigation within five days of its completion. Be persistent in making sure that this is done.

**Get current on delinquent accounts.** Remember that your credit history makes up about 35% of your credit score so getting current on your delinquent accounts will have a great impact on your credit.

**Be careful when closing credit cards.** You might be tempted to close out credit card accounts that have become delinquent, but don't. Before you close any account make sure that it won't negatively affect your credit. Some things to consider:

- **Don't close a credit card with a balance.** The available credit is lowered so it looks like you are maxed out.
- **Don't close your only credit card with available credit.** This decreases available credit thereby increasing credit utilization and lowering the score.
- **Don't close your only credit card.** You want to keep a credit card in the mix because you want different types of credit reflected which will increase your score.
- **Don't close your oldest account.** Your credit score is based on the length of your credit history so you want to keep the older cards open.
- **Don't close the credit card with the best terms.** Don't let a good one go. Keep this credit card for emergencies.

**Call your creditors.** Talk to your creditors about your situation. Many of them have temporary hardship programs that will reduce your monthly payment until you can get back on your feet.

**Pay off your debts.** You will have to start paying off your debts to improve your credit situation. Concentrate on the highest interest rate card and get it paid off. Then move on to the next one. Create a plan and outline how you will do it. Then stick to the plan.

Repairing your credit can be a time consuming task. Typically it will take 6 months to get all of the adjustments made in your credit report. However, the payoff at the end is well worth the effort so don't let the time concern you. Be patient and don't expect to improve your credit over night.

**Pauline D. Reynolds**

# STRICTLY PERSONAL

## And Baby Makes Three...

Congratulations to Christeen Alligood and her husband Jason on the birth of their son. Mark Jackson Alligood was born July 1st. He weighed 9lbs 3 oz and measured 21-1/4 inches long.

Upon performing the audit, Christeen assessed Mark Jackson as a perfect addition to their family. Mom, Dad and baby are all doing great.

## Congratulations Alligoods!

*Mark Jackson Alligood*

### Meet HLBGC's Newest Team Member

Welcome to our newest team member, Maryia Stanislaus. Maryia earned her Master's degree in accounting from Kennesaw State University in May 2007. She also holds a bachelor's degree in Russian Literature and Language, which she obtained in her home country, Belarus. She and her husband moved to the United States in 2002.

Maryia, known by friends as Masha, worked as a bookkeeper while living in Belarus, and worked as an accounting intern here in Atlanta. She grows orchids and hopes some of them will bloom this year, and she is also interested in architecture origami pop-up cards but has limited time to spend on this hobby.

Maryia and her husband, who is also Belarusian, recently adopted a dog and are enjoying training their new addition.

## Wedding Bells Ringing

Congratulations to Brandi Popham, now Brandi Gillies, who was married on May 26, 2007. The celebration took place in Blackshear, Georgia, where the couple exchanged vows out on a dock at sunset. They were joined by friends and family, and married by two ministers including one who married Brandi's parents 35 years ago.

Brandi and her husband, Tony, met while they were both working at a CPA firm in Charleston, South Carolina. By her own admission, Brandi and her husband are ruled by their pet—a cat named Molly. Brandi, Tony and Molly all enjoy college football, are fans of the Georgia Bulldogs and each have their own jersey to wear in support of the team.

## Stay Tuned...

### Lane Bassham to be Hall of Fame Inductee

As this issue is heading to press, our very own **Lane Bassham** is heading off to her alma matter, the University of Alabama where she will be inducted into the Athletic Hall of Fame.

Our next issue will provide a photo and details of Lane's diving history and the honor she is receiving. We are very proud of Lane and know she truly deserves this recognition.


## Richard B. Taylor—Member in Good Standing AICPA & Georgia Society of CPAs

Ever wonder what's in a name? **Richard B. Taylor**, principal and shareholder of HLB Gross Collins, P.C. has been receiving calls from clients ever since a similarly named CPA was suspended from the AICPA and GSCPA. The AICPA and GSCPA have suspended Richard K. Taylor, for reasons unknown to us. Suspended CPA, Richard K. Taylor, is not related to **Richard B. Taylor** nor does he have any connection with HLB Gross Collins, P.C.

Richard B. Taylor of HLB Gross Collins, P.C. is a member in good standing of the AICPA and the GSCPA.

*This newsletter provides business, financial planning and tax information to clients and friends of our firm. None of this general information should be acted on without first determining its application to your specific situation. For more information, call the author, Pauline Reynolds or Richard Taylor.*

## Local In Touch ... Global In Reach

HLB Gross Collins, P.C. is a member of  International.  
A worldwide organization of accounting firms and business advisors.

**HLB Gross Collins, P.C.**  
2625 Cumberland Pkwy, Suite 400  
Atlanta, Georgia 30339  
770-433-1711  
www.grosscollins.com

# How Will the New Auditing Standards Affect You?

The American Institute of Certified Public Accountants has issued new risk assessment auditing standards that are effective for December 31, 2007 yearend audits. These standards constitute the most significant changes in auditing standards in over two decades. The new standards require a comprehensive risk-based approach which continually reevaluates the risk of misstatement as evidence is gathered during the audit process and adapts the audit procedures to address the identified risks.

## Effect Of The New Standards

These standards will increase the number and type of procedures performed during the financial statement audit and the amount of documentation retained in the workpaper file. The effect of the new standards on each audit engagement will differ, but in general your organization should expect the following changes:

- More work will be performed to gather information and document our understanding of the business and its environment;
- More in-depth procedures will be performed to evaluate and document internal controls related to key risk areas;
- More controls may be tested to determine if they can be relied upon to reduce detailed testing;
- Work performed related to understanding the business and its environment and its internal control will most likely be performed in advance of the fiscal year-end;
- Different types of financial and non-financial data may be requested to assist in the evaluation of audit risk;
- Updating of certain procedures between the fieldwork completion date and the report release date.

Compliance with these new standards will increase the cost of performing a financial statement audit. Firms across the country are estimating 15% to 25% increases in audit fees as a result of these standards. We will be working with our audit clients in the upcoming months in an effort to find ways to mitigate these costs. There are basic things the organization can do help control the amount of the increase.

## Planning And Preparation Are The Keys

Proper planning and preparation have always been the keys to completing the audit in an efficient and timely manner. Planning and preparation will be even more important this year for both the entity and the auditor. In certain instances, the work related to understanding your organization, its environment and its internal controls will need to be performed in advance of your year-end. Here are some suggestions to help your organization prepare for this year's audit:

- Document the organization's processes;
- Document internal controls in a detailed narrative or flowchart;
- Identify and assess risks that could affect the accuracy of the financial statements;
- Review compliance with controls over authorization of transactions;
- Define and document individual duties and responsibilities;
- Review individual responsibilities for proper segregation of duties;
- Consider departments outside of accounting (sales, operations, IT, HR, etc.) that could have an impact on the accuracy of the financial statements;
- Stress the importance of internal control and compliance with procedures.

## How Will You Benefit?

The goal of these new standards is to provide a more effective audit process which may in turn strengthen the integrity and credibility of the financial statements to the users. The most important benefit could be derived from the renewed focus on the organization's internal controls. Internal controls not only help ensure the accuracy of financial reporting but can help an organization achieve its performance and profitability goals and prevent loss of resources.

**J. Keith Moody**

# What NOT To Do With Your 401(k)

As we've discussed in previous issues of *Money Watch*, millions of Americans are not saving the right amount for retirement—most people just aren't saving enough. But what about those who think they are saving what they should, but find out as retirement approaches that they've made poor investment decisions? Recent studies have shown that many people are doing exactly that.

Common investment errors can cost you hundreds of thousands of dollars if you aren't aware of them and keep making the same mistakes year after year throughout your career. Take a look at this checklist and ask yourself the following questions. If you find yourself answering "yes" to any of the questions, you may be making big blunders where it comes to investing and it is time to reassess your retirement savings strategy.

## Are you loading up on your own employer's stock?

Twenty percent of investors have half or more of their balance in their employers stock. Most often, this is the case because people feel they know their company and therefore this option seems less risky. However, a single stock is typically many times as risky as a diversified portfolio. Cases like Enron would go to prove that putting too much stock in your company (or any one investment option for that matter) comes with a high risk. If you own any employer stock in your 401(k) - think about selling it or at least limiting it to a small percentage of your portfolio.

## Are you being too conservative?

Don't put too much of your money into low risk choices like stable value, bond and money funds. Of course, these offer some protection from market setbacks, but they lack the growth potential you need to end up with adequate income at retirement. Instead, create a blend of stocks and bonds that allows for sufficient gains, but also provides some cushion from drops in the market. You'll need a sizeable nest egg, and conservative choices with little risk will not pay off.

## Are you dividing your money evenly like a pie?

Some people think diversifying means putting equal amounts into all the options. However, that approach will not balance your portfolio adequately. Depending on your plan's options, you could end up with too many bonds or other investments that won't help you achieve your goals. Go to [www.morningstar.com](http://www.morningstar.com) and plug in your choices to see how your portfolio breaks down the asset classes—large and small stocks, bonds and foreign shares. Next, you will want to compare your current mix to the one the Asset Allocator suggests. This will give you an idea of whether you should rebalance your 401(k).

Navigating retirement savings can be a complicated task and there are many forces that can get you off track — not saving enough for retirement, or simply making bad choices where it comes to investing. Avoiding the common errors above won't guarantee that you will have a giant nest egg, but it will help make sure you are making the most of everything you are putting aside for retirement.

**Richard B. Taylor**

## Phase-out of the Phase-outs

Starting in 2006, the phaseouts of the personal exemption and itemized deductions began to be phased out. For 2006 and 2007, only 2/3 of the amount that is phased out under current law reduced personal exemptions and itemized deductions. For 2008, only 1/3 of the amount is phased out.

## 2008 Personal Exemption

The personal exemption amount for 2008 rises from \$3,400 to \$3,500.

## Personal Exemption Phaseout

For 2008 the phaseout of personal exemptions begins after the following threshold adjusted gross income (AGI) amounts:

Joint returns or surviving spouse .....	\$239,950
Head of Household .....	\$199,950
Unmarried (not surviving spouse or head of household) .....	\$159,950
Married, filing separate return .....	\$119,975

## Itemized Deduction Limitation

Certain itemized deductions are reduced by 3 percent of the amount by which adjusted gross income (AGI) exceeds a threshold amount, with a maximum reduction of 80 percent of otherwise allowable itemized deductions. For 2008, the threshold AGI is increased to \$159,950 (\$79,975 for married persons filing separately).