



Money Watch

\$700 Billion Bank Bailout – What Does It Mean to You?

Sonya D. Coates

On October 3, the U.S. government passed legislation approving a bank bailout of historic proportion. The Emergency Economic Stabilization Act of 2008 authorizes the United States Secretary of the Treasury to spend up to \$700 billion to give banks a fresh injection of liquidity to help recover from the subprime mortgage crisis. The bailout is the biggest government intervention in the financial markets since the Great Depression and is aimed at helping the nation's economy withstand the financial turmoil and avoid falling further into recession. Here's how it will affect you:

- The bailout could help home builders and mortgage lenders but is unlikely to bring fast relief to you if you are trying to buy or sell a house.
- Most analysts predict that house prices still have further to fall and must hit bottom before demand will pick up. Houses on the market may take longer to sell.
- Credit markets will hopefully be improving within the next few weeks as banks become more comfortable in lending again. If you have good credit you will probably still be able to get money, but those with less than great credit will have a difficult time for the foreseeable future. Down payments for all types of loans will be increasingly important now for individuals as well as small businesses.
- If you have fallen behind on your home mortgage the bailout will do very little for you right now. The law directs the Treasury to "maximize assistance for homeowners" and write monthly progress reports but says little else.
- If you own a small business the new law provides two valuable tax breaks. The amount of deductible Section 179 expense for 2008 nearly doubles, and bonus depreciation is allowed. Under the new law, a business can expense up to \$250,000 of the cost of qualifying property and the old \$510,000 ceiling is raised to \$800,000. In addition, the new law provides qualifying taxpayers with 50% first-year bonus depreciation of the adjusted basis of qualifying property.
- If you or your small business is fortunate to have a lot of cash on hand, the bill will make it easier for you to keep your money at a single institution. The prior \$100,000 limit on deposit insurance was increased to \$250,000 per depositor through December 31, 2009.
- Whether your taxes will go up as a result of the bill will depend on what the next president does. The government will borrow money to fund the asset purchases from the banks. These initial loans will add \$2,300 in government debt for every American.
- If you were hit hard by the recent stock market plunges, it will take time to recoup your losses. Exercise caution if you are considering making changes to your portfolio when there is this much volatility in the market.
- You may need to relearn a basic concept: *spend less than you make.*

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The Impact of the Stock Market on Your 401(k)

Richard B. Taylor

The U.S. financial markets crisis reached a critical stage during September 2008 when the global credit markets experienced severe contracted liquidity after the bankruptcy of investment house Lehman Brothers and the \$85 billion government bailout of insurer American International Group on September 16.

With the credit crisis taking out some of Wall Street's biggest players, it had yet to really affect Main Street America until September 29 when the House of Representatives rejected the original \$700 billion bank bailout package proposed by President Bush. This rejection triggered a 777 point drop in the Dow Jones Industrial Average, the largest decline in history. Over \$1 trillion worth of stock market value was wiped off the books in a matter of minutes. And the stocks belonged to those on Main Street, who suddenly had a tangible stake in getting a bailout bill passed that would hopefully shore up the American financial system.

If you are one of the ordinary Americans who saw your stock funds and the value of your 401(k) plan evaporating before your eyes, you are probably wondering whether you should keep contributing to your 401(k) plan. Your best bet, even in these uncertain times, is to continue to contribute each pay period on a consistent basis. Keep in mind that when you are contributing during a down market you are buying everything at lower prices. If you are tempted to stop contributing during a bad market, think about continuing to contribute but allowing your new money to go into the money market account. More importantly, remain calm. You may be tempted to act rashly, but please remember, this too shall pass.

Like every other financial crisis our markets have faced, this situation is part of the cycle that has allowed so many investors to generate great wealth in the markets. Warren Buffett and his teacher, Benjamin Graham, are right: over time, the market is a weighing machine. Companies cannot make poor financial decisions without eventually having to deal with the consequences. During the next few weeks, the markets promise to be extremely volatile. The response from Wall Street and the financial press will range from euphoric to despondent, and much of the advice you hear will be emotional and short-term in focus.

We also recognize the very real risks in the market today. More companies are sure to struggle. But at the same time, we urge you not to panic or react in haste. If we retain our wits, we can't help but make better decisions than the majority of investors.

Extended Due Dates Changing

Jennifer L. Harrison

The IRS announced that the extended due date for partnerships, fiduciary returns, and partnership withholding returns has changed. The new due date is September 15th. This makes the extension period 5 months instead of 6. The new date is in effect for returns due after January 1, 2009 and applies to entities with a taxable year ending after September 30, 2008.

The original due date for partnership and individual returns is still April 15th.

Year-End Contributions to Charity Be sure you substantiate your donation.

Rick Hamilton

A recent Tax Court case reaffirms the need to substantiate donations. Taxpayers indisputably wrote checks to a church as contributions and provided the cancelled checks. However, they had not received the contemporaneous acknowledgment from the church, and the court held that the IRS had no latitude to allow the deduction.

Substantiation is required. No deduction is allowed for any cash contribution unless the taxpayer maintains a bank record or a written communication from the receiving organization showing its name, the date, and the amount of the contribution. There is no exception for substantiating small cash donations. **Therefore, if you put cash in the Salvation Army kettles or in a church offering plate and do not receive an acknowledgment, no deduction will be allowed.**

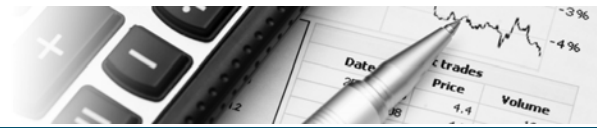
For contributions of \$250 or more, no deduction is allowed unless the taxpayer receives written acknowledgment from the recipient, including the amount of cash and a description of any non-cash property contributed, and a statement on whether the recipient provided goods or services in consideration for the contribution.

Generally, for noncash contributions in excess of \$5,000, the taxpayer must obtain a "qualified appraisal" and attach Section B of Form 8283 to the tax return. This requirement does not apply to publicly traded stock. In some cases the taxpayer may be required to also attach a copy of the appraisal to his/her tax return.

Business Builders

HLB Gross Collins, P.C. has played an integral role in sponsoring Business Builders Team, LLC. This program has grown into a valuable resource and learning opportunity for Atlanta businesses. Recently, we introduced the program to the Columbus, Ohio market where Steve Gross was the keynote speaker at the Consumers' Choice Award breakfast. Similar plans are in the works for introducing Business Builders in Dallas, Texas.

For more information and a schedule of upcoming events, visit the Business Builders website at www.businessbuildersteam.org or email klaconi@grosscollins.com.



Fuel & Electricity Exemption For Georgia Manufacturers

Jake M. Bodenheimer

There is a temporary, partial exemption from state sales tax for the sale or use of natural or artificial gas, No. 2 fuel oil, No. 6 fuel oil, propane, petroleum coke, or coal that is used directly or indirectly in the manufacture or processing of tangible personal property primarily for resale within Georgia. The exemption also applies to the fuel cost recovery component of retail electric rates for electricity used directly or indirectly in the manufacturing or processing of tangible personal property primarily for resale.

The exemption applies to the period that begins July 1, 2008, and ends December 31, 2010, and does not apply to local sales or use taxes. As usual, there are restrictions. A Georgia sales tax exemption also applies to the sale of electricity used directly in the manufacture of a product if the cost of the electricity exceeds 50% of the cost of all materials used in the product.

Homebuyer Credit

Jake M. Bodenheimer

A new first-time homebuyer credit of up to \$7,500 has been designed by Congress to entice middle-class taxpayers to get off the sidelines and buy their first home. This temporary tax credit applies for homes purchased after April 8, 2008, and before July 1, 2009. As with most tax law provisions, in trying to make the first-time homebuyer credit fair, Congress introduced some complicated rules. The basics, however, are fairly straightforward:

- The credit is equal to \$7,500 (\$3,750 for married individuals filing separately) unless the purchase price is less than \$75,000, in which case the credit is 10 percent of the purchase price.
- Those with higher income are excluded from taking the credit. The new credit phases out for married couples filing jointly with modified adjusted gross income (AGI) between \$150,000 and \$170,000 (\$75,000 and \$95,000 for single taxpayers).

A first-time homebuyer is someone who has not owned a principal residence in over three years. Renters, even if they own a second home, can therefore qualify, as can someone who stopped owning a home three years ago.

Qualifying homeowners who purchase within the allowed time period in 2009 need not wait to file their 2009 returns to claim the credit; they may do so on a 2008 return. The credit amount (\$7,500 or less) must be paid back to the government over 15 years starting with the second year after purchase. It is therefore more an interest-free loan than a permanent tax credit. There are exceptions in cases of death, and an accelerated recapture provision that may require an immediate payback of any balance due when the house is sold or no longer used as a principal residence.

Gifts of Appreciated Property Benefits and Savings for Donating Stock

Rick Hamilton

With the end of a tax year just around the corner, the time is right to review opportunities to deduct charitable contributions. Consider the benefits of **gifts of appreciated property**. Generally, a gift of appreciated property (such as stock) to a qualified charitable organization is deductible to the extent of the fair market value of the property at the time of the gift. The appreciation in the property escapes tax.

Assume you wish to make a significant gift and you own stock that was acquired many years ago at a cost of \$10,000, which is now worth \$50,000. You could sell the stock and write a check to the organization for the amount of the after-tax proceeds, or you could make a gift of the stock itself. By *selling* the stock, you will have to pay 20% tax on the \$40,000 capital gain which would equal \$8,000. Therefore, after paying the taxes you have \$42,000 to give the charity and you will get a tax savings of \$16,800 (40% of \$42,000).

However, if you *donate* the stock at FMV of \$50,000 the charity ends up with the full \$50,000 and you get a tax savings of \$20,000 (40% of \$50,000). The net result is that the charity gets \$8,000 more, and you get the greater tax savings.

A bargain sale of appreciated property can also provide a tax benefit. The charitable deduction is determined as the difference between the selling price and the fair market value of the property. The taxable gain is determined by prorating the basis in the property between the portion "sold" and the portion "gifted."

The deduction for contributions of appreciated property by an individual is limited to 30% of adjusted gross income for the year. Certain exceptions apply to the ability to deduct the fair market value of property. For example, a contribution of tangible personal property is deductible only to the extent of the taxpayer's basis in the property unless the recipient uses the property in furtherance of its exempt purpose.

Deducting appreciated property can be a win-win and should be considered as a valuable tax-saving opportunity.

Accrual by C corporation. Accrual basis Subchapter C corporations may accelerate the deduction for contributions made after year-end. The board of directors must authorize the contribution during the tax year, and the payment must be made by March 15 of the following year for calendar year corporations. The tax return must include a declaration signed by a principal officer and a copy of the board resolution.

Strictly Personal



Making Our Move

HLB Gross Collins, P.C. is preparing to move. Our new office will be located at 3330 Cumberland Boulevard, Suite 900, just down the road from our current location.

In addition to designing the new office space to accommodate the growth we have experienced and the growth we anticipate over the next few years, we are designing this with excellence in client services in mind. Attention is being paid to every detail, down to the most effective communication and IT systems to implement that will facilitate efficiency and effectiveness in client relations.

We are planning to complete the move prior to the end of the year and we look forward to inviting clients and friends for a visit once we get settled. As always, client service is a top priority and the move will be seamless for our clients.

Announcing our Newest Principal

Rick Hamilton joins the firm as a tax principal. Rick graduated Summa Cum Laude from the University of Georgia in 1979.

Rick has almost thirty years of public accounting experience. He has extensive operational experience as an office tax practice leader, he has also been involved in a National Tax Leadership team, and he developed and led continuing education classes on many tax topics at the national and local level.

Rick's industry expertise includes consumer and industrial products, real estate, services, and technology companies. He has focused on S corporations and partnerships throughout his career, and spent three years on the S corporations taxation committee of the AICPA Tax Division. He has consulted on acquisitions and dispositions of businesses, exit and succession planning, and equity based compensation.

In addition to his tax planning and consulting experience, Rick has developed a particular strength in financial statement accounting for income taxes.

Welcome back to **Nevajane Tuggle, CPA**, who began her career with us back in 1993. She worked here for 4 years and took time off from the world of accounting to start a family and begin her own dance company. She also owned and operated several small businesses that involved residential real estate and land development.

Nevajane holds a BA in accounting from Berry College, and a Masters in Taxation from Georgia State University. She is happy to once again be a part of our tax department.

Nevajane is married and has two children. She enjoys tennis, karate, and going to the gym.

Instilling Financial Responsibility through Operation Hope

HLB Gross Collins, P.C. is pleased to announce that we have made a commitment to participate in Operation Hope, a charity dedicated to eradicating poverty through economic empowerment.

In addition to a financial contribution to the organization, HLB Gross Collins, P.C. will offer time and expertise by sending various members of our firm to facilitate and instruct programs geared toward educating students in low-income communities about financial responsibility.

We are excited about participating in this excellent program and sharing the gift of knowledge in the hope that underprivileged individuals will be armed with tools and insights that will guide them on a path of financial success.

A Few New Additions

Kristin Gill joins HLBGC after graduating from the University of Georgia with a BBA in accounting. She is currently working toward her Master's degree at Kennesaw State University. Kristin was an intern at HLBGC in the spring of 2006.

In her free time, Kristin enjoys spending time with her niece and nephew.

Kate Cheshier, CPA, joins us as a tax supervisor. Kate graduated from Florida Southern College in 2003 with a Bachelor of Science in both accounting and finance. She also earned a Master's degree in accounting.

Kate has 5 years of public accounting experience and in her spare time she enjoys photography, scrapbooking and spending time with family.

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.

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Employee Theft

What are the warning signs?

Sonya D. Coates

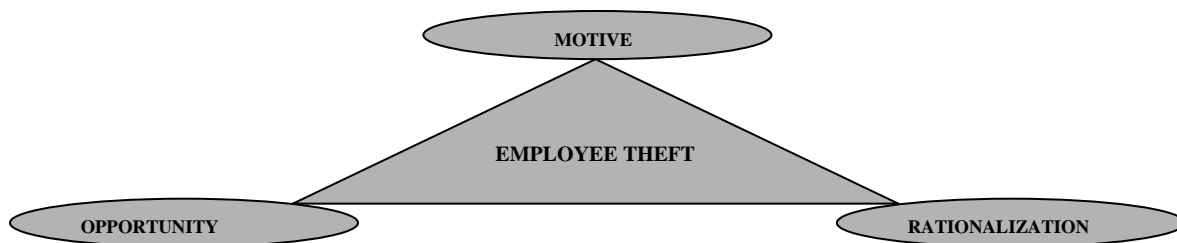


Employee Theft: A Big Problem for Small Businesses

Small businesses lose billions of dollars to employee theft every year. Recent downturns in the economy have resulted in an increased number of incidents of employee fraud. Employee fraud has a huge impact on the bottom line. With a median loss of \$100,000, small businesses are especially vulnerable because of the difficulty they have in absorbing these losses. Many small businesses are forced into bankruptcy by the theft of just one employee.

Who Steals, and Why?

Studies have shown that the typical white-collar criminal is well educated, socially conforming, and has no arrest record. The largest frauds are committed by people who hold high executive positions, have tenure with the company, and are well liked and respected within the company. These people have access to the largest amounts of money and have the greatest amount of power and ability to override controls. More often than not, the thief turns out to be a long-time trusted employee, and is the person least likely suspected. So what leads these people to commit crime? Three factors, when combined, lead employees to commit theft:



Motive - People who are ordinarily honest can fall into circumstances where there is a new or unexpected need for money, and the normal options for obtaining it seem to be closed. With today's tightening lending requirements, more and more individuals are unable to obtain financing when unexpected needs arise. Individuals may need additional cash to pay for college tuition, hospital bills for a parent with cancer, gambling debts, drugs, alimony, or child support. They may also need extra cash to pay for expensive homes, cars, and boats, or to finance business or stock speculation losses.

Opportunity – Small businesses don't always have internal controls in place to prevent and detect employee fraud. Employees in positions of power and trust may also circumvent internal controls when they are not subject to monitoring or oversight by management. This absence or lapse of internal controls can be used by an employee as an open door to misappropriate assets.

Rationalization – A lack of integrity, when combined with motive and opportunity, can lead an employee to rationalize theft in order to make it acceptable for their self-image. Here are some common rationalizations:

- I need it more than the company does.
- I'm borrowing the money and will pay it back.
- Nobody will get hurt.
- This company is big enough to afford it.
- No one will ever know.
- I'm underpaid and I deserve it.

No one should naïvely think that theft will not occur in their business. If the motivation and the opportunity are present, then temptation and problems with personal finances can lead even the most loyal of employees into fraudulent activities. **Prevention is key.** See the backside of this page for some steps you can take to reduce the risk of fraud in your business.

Employee Theft

What steps can you take to prevent theft in your business?

Sonya D. Coates



Carefully screen job applicants - Background checks should be performed. Because people with financial difficulties are more apt to commit fraud, consider running a credit check on prospective employees.

Educate employees - Provide all employees with a written policy to educate them about fraud. Let employees, managers, and executives know that the company is actively seeking out information concerning internal fraud. Each employee in the company should know where to anonymously report suspicious, unethical, or illegal behavior. Be clear that your company has zero tolerance for employee theft of any sort.

Implement a strong system of internal controls - A weak internal control environment is an open invitation to employee theft. Increasing the perception of detection may well be the most effective fraud prevention method. Studies show that the more employees believe they will be caught, the less likely they are to steal. Internal controls provide the opportunity to get caught.

Consider the following internal control policies and procedures:

Separation of duties is critical. Never allow the finances of a business to be handled and controlled by a single individual. The separation of the following duties and responsibilities is an important feature of internal control: (1) transaction authorization, (2) recordkeeping, (3) custody of, or access to, assets, and (4) reconciliation of actual assets to the accounting records. Generally, a person who can perform two or more of these functions can also commit fraud.

Regular vacations by all employees should be company policy. Often times, employees who steal are reluctant to take vacation because they are concerned that their misdeeds will be discovered during their absence.

Pre-numbered documents, including checks, purchase orders, and invoices, should be used. Regularly check for missing documents.

Investigations of customer complaints that credit has not been given for payments made should be performed by a person outside of the accounting department.

Dual signatures should be required on all checks above a nominal amount. Never sign a blank check. Prohibit checks made payable to "Cash" and avoid using a signature stamp.

Review accounts payable by checking cash disbursements and payments. Be watchful for a common billing scheme where an employee creates fictitious "phantom" vendors.

Instruct that unopened bank statements and cancelled checks be directed to the business owner or another person outside of the accounting department for review. Look for missing check numbers, fictitious payees, unauthorized disbursements, and forged or unauthorized signatures.

Be alert to disgruntled or stressed employees, or those who have indicated that they are having financial difficulties. Also look for instances where an employee changes his or her lifestyle or spends more money than the salary justifies.

Much of the money lost by small businesses might have been saved had business owners made the prevention of employee theft one of their top priorities. Considering the high cost of small business employee theft, prevention will always be cheaper than the cure.