

## Accounting for Uncertainty in Income Taxes - FASB ASC 740 (previously FIN 48)

by Kimberly A. Robinson, CPA, Audit Partner

In September 2009, Accounting Standards Update (ASU) 2009-06, entitled *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, was issued. With this guidance, the previously existing disclosures that many found troubling have been eliminated so that the disclosure requirements for NPOs are not as robust as the requirements for public companies.

The overriding principle in the guidance is that **all** entities are subject to FASB ASC 740, even if the only tax position in question is the tax status of the reporting entity. In addition, even in circumstances where it is more-likely-than-not that the reporting entity status as an NPO would be sustained upon examination, it is important to understand that the reporting entity may have other tax positions to consider that are within the scope of FASB ASC 740.

As defined, tax positions would encompass

things like failure to file tax returns or pay income taxes, underreporting of taxable income that may result from underreporting income and/or overstating expenses, or challenges to the taxpayer status of the organization.

NPOs need to assess whether any tax positions exist when unrelated business income is generated that might be subject to income taxes. Even in circumstances where organizations are not subject to income taxes on unrelated business income amounts, there still is a tax position as to whether the particular organization qualifies as tax-exempt.

It will not be uncommon for NPOs to need to address a variety of different tax positions in determining whether there is a need for recognition and/or disclosure in the financial statements. One of the positions that will need to be addressed will relate to the tax status of the reporting entity, so management will need

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## H&M Joins CPA Firm Association

Heinfeld, Meech & Co., P.C. has been chosen for membership in AGN International, Ltd., a worldwide association of independent CPA, accounting and consulting firms. AGN consists of 197 member firms, including 54 firms in North America. As a member of AGN, our firm can access resources for the best, most current information to assist our clients, while maintaining our firm's independence and local ownership. Our firm was selected for membership in the association due to our leadership position in the government and non-profit industries, our commitment to a superior work environment, and our outstanding growth. **H&M**

## IRS News and Updates


**Employment Tax Audits.** The IRS recently announced plans to randomly select 6,000 employers across the country for employment tax audits in conjunction with its National Research Program (NRP). Not-for-profit businesses will be among those selected for the audits. While the main stated purpose of this set of audits is to collect data to be used for designing future audits, these audits are also expected to result in tax assessments.

The IRS audits will verify proper classification of employee vs. independent contractors and proper classification of fringe

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## IRS News (Cont'd from page 1)

benefits; they will also examine expense reimbursements and officer compensation as well as compare employee & independent contractor records to actual tax return filings. The audits will also examine the accuracy and timeliness of employer-prepared tax forms and related deposits. The auditors will typically examine three years of employment tax records. The audits are expected to begin in November 2009 and will be conducted over a three-year period.

**Recommended Changes to Cell Phone Rules.** The IRS recently proposed changes to the rules related to employers providing cell phones as a fringe benefit to employees (excludable from taxable wages). The current rules require that employers require employees to maintain records demonstrating that cell phones were used exclusively for business purposes. The proposed changes, however, would simplify this requirement for the employer (and employee) to substantiate the charges as a business-related expense. The IRS was accepting comments regarding the proposed changes until Sept. 4<sup>th</sup> and they have not yet released final changes to the rules. The proposed changes are available on the IRS website at [www.irs.gov/irb/2009-23\\_IRB/ar07.html](http://www.irs.gov/irb/2009-23_IRB/ar07.html). 

## FASB ASC 740 (Cont'd from Page 1)

to determine whether the organization is considered to be an NPO in jurisdictions where tax returns are filed, or where they otherwise would be subject to taxes.

NPOs are not subject to the full disclosures in FASB ASC 740. While the FASB ultimately made the decision that the guidance in FASB ASC 740 should be applicable to NPOs, the more onerous of the disclosure requirements have been eliminated. The effective date is for periods ending after September 15, 2009.

**Questions?** Contact Kim at (602) 277-9449, ext 305 or [kimr@heinfeldmeech.com](mailto:kimr@heinfeldmeech.com). 

## H&M University Workshops

Information on our workshops, including links to online registration, can be found at [www.heinfeldmeech.com/hmu](http://www.heinfeldmeech.com/hmu). For more help, contact Susan at 520-742-2611, x107 or [hmu@heinfeldmeech.com](mailto:hmu@heinfeldmeech.com).

### Extracurricular Activities and School Tax Credits – What You Need to Know (webinar for schools)

**Date:** Wed., Jan. 20<sup>th</sup>

**Time:** 10am to 12pm

**Cost per site:** Clients - \$100; Non-clients: \$125 (unlimited participants per site)

### Preventing Fraud – Best Practices for Internal Controls

**Tucson area (Vail):** Tues., May 4<sup>th</sup>

**Mesa:** Wed., May 5<sup>th</sup>

**Flagstaff:** Thurs., May 6<sup>th</sup>

**Cost:** Clients - \$75; Non-clients: \$95

## 1099 Reminders for Year End

As the calendar year end nears, here are a few reminders for 1099 preparation:

- 1) *Nonemployee* individuals and *unincorporated* businesses providing **services** of \$600 or more in a calendar year should receive a Form 1099-MISC.
- 2) If the vendor is an individual, report the individual's name & SSN. If the vendor is a sole proprietor, report the individual's name (not the business name) and either the SSN or the sole proprietorship's EIN. If the vendor is a partnership or other entity, report the business name and EIN.
- 3) Form 1099-Copy B must be furnished to vendors by January 31, and Copy A must be furnished to the IRS by February 28.

## Subsequent Events – FASB ASC 855-10 (formerly FAS 165)

By Kimberly A. Robinson, CPA, Audit Partner

The objective of this Statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth:

1. The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;
2. The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and
3. The disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after **June 15, 2009**.

This standard change will affect **ALL** non-profit reports, regardless of whether or not they have subsequent events. The following are examples that may be used in the notes to the financial statements:

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **V. Subsequent Events**

*[If the entity does not have any subsequent events, this sentence is placed here in Note 1. If entity does have subsequent events, then this sentence is placed in that applicable footnote.]*


Subsequent events have been evaluated through REPORT DATE, which is the date the financial statements were available to be issued.

### **NOTE XX – SUBSEQUENT EVENT(S)**

*[If entity does not have any subsequent events, this sentence is placed in Note 1. If entity does have subsequent events, then this sentence is placed here in this footnote.]*

Subsequent events have been evaluated through REPORT DATE, which is the date the financial statements were available to be issued.

*[Add applicable subsequent event(s).]*

**Questions?** Contact Kim at (602) 277-9449, ext 305 or [kimr@heinfeldmeech.com](mailto:kimr@heinfeldmeech.com). 

## Welcome to Our New Clients!


H&M welcomes our new clients:

Victim/Witness Services for Coconino County  
Greater Yuma Economic Development Corporation  
US Handball Association  
Arizona Compass School  
Cornerstone Charter School  
Skyline Schools, Inc.

We are excited that you have chosen H&M and look forward to helping you achieve new levels of accounting and managerial success!

## H&M Announcements

**H&M Receives Copper Cactus Award for Best Place to Work:** Our firm was honored in October 2009 with the Wells Fargo Copper Cactus Award for Best Places to Work (31-75 employees). H&M also received this award in 2007.

**Staff Achievements:** The following staff recently received their CPA certifications: Eugene Park, Staff Auditor II, Melanie Askew, Staff Auditor II, Travis Zander, Staff Auditor II, and Stephanie Lopez, Staff Auditor. 

## How Much Banking Insurance Do You Have?


*By Michael Hoerig, Audit Manager*

By now, most people are aware that the Federal Depository Insurance Corporation (FDIC) insures bank accounts up to \$250,000, but did you know that you may have even more insurance protection for your accounts? In addition to the extended FDIC coverage, the Federal government also implemented the Transaction Account Guarantee (TAG) Program.

The TAG program is a component of the Temporary Liquidity Guarantee Program that was adopted by the FDIC in October 2008. It was created to help ensure greater confidence in the U.S. banking system by extending depository insurance to all non-interest bearing accounts in amounts equal to that on deposit. Additionally, the FDIC extended the TAG program reach to also cover Negotiable Order of Withdrawal (NOW) accounts that earn interest at less than .50% and this stipulation includes certain business checking accounts. Together these new legislative changes can result in FDIC-insured monies in excess of \$250,000. For example, if you have \$500,000 in a non-interest bearing account (or NOW account) and \$250,000 in a certificate of deposit, the FDIC will insure the entire \$750,000.

All banking institutions were automatically enrolled during the first 30 days of the program last year, but extended participation is voluntary (at the bank's discretion) and paid by the bank via increased insurance premiums. Thus far, most major banks have elected to continue their participation in the TAG program. The TAG program was recently extended to expire on June 30, 2010 and the expanded \$250,000 coverage is scheduled to expire on December 31, 2013.

Typically deposit insurance disclosures appear in financial statement notes so be sure to check with your banking institution for the exact limits that apply, and to determine the particular accounts that are covered.

For more information on the TAG program or other banking insurance issues refer to the FDIC website (<http://www.fdic.gov>). 

### **About Heinfeld, Meech & Co., P.C.**

H&M is an Arizona-based CPA firm with offices in Tucson, Phoenix and Flagstaff that is exclusively dedicated to providing accounting and auditing services to not-for-profit and governmental entities. We offer this free quarterly newsletter as part of our commitment to providing resources and training to Arizona's non-profit business personnel.

For more about Heinfeld, Meech & Co., P.C., please visit our web site at [www.heinfeldmeech.com](http://www.heinfeldmeech.com).