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Testing Goodwill for Impairment: An Optional Consideration of Qualitative Factors

By Brian W. Carpenter and Douglas M. Boyle

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On April 22, 2011, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU), "Testing Goodwill for Impairment," aimed at lessening the complexity and costs of determining whether goodwill has been impaired. More specifically, the ASU would provide preparers with an option to use qualitative factors to assess whether a reporting unit's fair value is less than its carrying value in order to determine whether it is necessary to perform the two-step impairment test currently required by FASB. This proposal was approved in September 2011 and is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted.

CHANGES

Prior to the approval of the ASU, entities reporting goodwill were required to undertake a two-step test for its impairment on at least an annual basis. The first step required an entity to compare the reporting unit's fair value to its carrying value. The most common techniques used to determine fair value include quoted market prices in active markets of same or similar assets, if available, and a discounted cash flow methodology. If the fair value was less than the carrying value, the entity was required to perform a second step to measure the amount of the impairment loss, if any.

This second step, as initially specified in SFAS 142, Goodwill and Other Intangible Assets, compared the implied fair value of

The impetus for this ASU was the concerns that FASB received from nonpublic entities regarding the cost and complexity associated with performing the first step of the two-step impairment test.

the reporting unit's goodwill to the existing carrying value. If the carrying value exceeded this implied fair value, the goodwill would be restated at the implied fair value, with the difference being

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IRS Announces Voluntary Worker Classification Settlement Program

The IRS has announced a new program to permit employers to resolve past worker classification issues and achieve certainty under federal employment tax law at a low cost by voluntarily reclassifying their workers (Ann. 2011-64, 2011-41 IRB 503, IR-2011-95, 9/21/11). The Voluntary Classification Settlement Program (VCSP) is optional and allows employers to reclassify their workers as employees for future tax periods with limited federal employment tax liability for past nonemployee treatment.

To participate in the program, an employer must meet certain eligibility requirements, apply to participate in the VCSP, and enter into a closing agreement with the IRS.

Eligible employers can apply for the VCSP by filing Form 8952. Employers accepted into the program will pay an amount effectively equaling just over 1% of the wages paid to the reclassified employees for the past year, and they will not be audited on payroll taxes related to those workers for prior years.

On November 17th, 2011, the Vermont Department of Taxes announced it will not piggyback the IRS settlement program. It is possible that they may change their mind in the future.

Publication from Checkpoint Federal Library, Vol. 87, No. 5, November 2011



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Election to Claim Loss in Preceding Tax Year

This is a response to a tax alert regarding loss claims in the preceding tax year.

Dear Client:

The President recently declared parts of this area as a disaster area eligible for federal assistance. While I hope that you haven't been a victim, if you did suffer a loss as a result of the disaster, you may be able to recoup a portion of that loss through a tax deduction. Moreover, you can elect to claim the loss in either of two years: This year, the tax year in which the loss occurs, or in the immediately preceding year.

Choosing to take the deduction in the preceding year may increase the tax savings from the loss and may enable you to get a refund from IRS before you even file your tax return for the year the loss

occurred. For example, a loss that occurs this year can be claimed on this year's return, which won't be filed until early next year. But if you elect to claim the loss last year (by claiming it either on your original return or an amended return), you can generally expect to receive the refund within a matter of weeks. This can help to pay some of your repair costs.

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Forrester Research, Inc.: Tech Changes to Expect in Next 3 Years

According to Forrester Research, Inc.'s report on enterprise technology trends, Business Intelligence (BI) tools, mobile apps, and cloud application platforms are areas that will evolve and create significantly more business value between today and 2014. "The only constant is change," said the great science-fiction author and biochemist Isaac Asimov. And few industries change as rapidly as the technology space.

On the enterprise side, where slimmed-down IT budgets, economic downturns and traditional thinking can stifle change, evolving technologies and the necessary strategies to address those changes still persist at a rapid clip. In a recent Forrester report entitled "The Top 10 Technology Trends Enterprise Architects (EA) Should Watch: 2012 To 2014," the research firm gauged 208 Information Technology (IT) executives with knowledge of their companies' technology strategies to see what areas they expect to change most during the next

"The only constant is change," said the great science-fiction author and biochemist Isaac Asimov. And few industries change as rapidly as the technology space.

three years. The survey also asked about the areas in which these IT executives expect to see the most business value in the next three years. BI tools, mobile apps, and application platforms won out as the top three areas for change and increased business value. Other leading areas where change is on the horizon are Enterprise Application Integration (EAI) and Infrastructure-as-a-Service (IaaS), i.e. cloud computing. Here are two key observations Forrester culled from its research on upcoming changes in enterprise IT.



Business Intelligence Is the Biggest Changer, But Is IT Taking it Too Lightly?

In a related 2010 Forrester survey, BI was ranked as the third technology that is expected to change the most. This is the year that BI is number one, with 44% of respondents expecting it to change the most and 50% expecting it to generate big business value as data mining and reporting tools become more sophisticated and move to a cloud model. BI is on the minds of IT executives and Chief Information Officers (CIO) more and more as advanced metrics and analysis of raw data is used to improve manufacturing workflow, cut costs, and discovers new sales opportunities.

Forrester states that in a tight economy, BI allows CIOs to justify business decisions using hard numbers rather than gut feelings. The top BI vendors continue to be Oracle, SAP, IBM, and Microsoft and the various BI companies that they all acquire. Yet there is a contradiction at play in the Forrester survey. Respondents did not indicate plans to change the back-end data warehouse infrastructure that most BI apps depend on. "The enterprise data warehousing category ranked 19 out of 25 in terms of expectations for change," writes

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2012 Salary Increases Projected to Increase Slightly From 2011

According to all of the national surveys, salary increases are expected to increase slightly from 2011. Most data from other national surveys is similar to that found by Aon Hewitt.

Based on these results, Aon Hewitt's compensation group leader Ken Abosch, said, "Three percent is the new 4%, meaning we are not likely to be back to the 4% levels of increases of the late 1990s any time soon."

This national data is consistent with data from The Vermont Salary Survey, which is a product of Gallagher, Flynn & Company, LLP (GFC). Vermont companies typically budgeted 3% increases in 2011 and will continue at the level in 2012. (You can join the Vermont Salary Survey at any time and receive current data on the competitive pay levels for many different positions.

Historical U.S. Salary Increases						
	2007	2008	2009 (Record Low)	2010	2011	2012 (Projected)
Executives	4.0%	3.9%	1.4%	2.4%	2.8%	2.9%
Salaried exempt	3.7%	3.7%	1.8%	2.4%	2.7%	2.9%
Salaried nonexempt	3.6%	3.7%	1.9%	2.4%	2.8%	2.9%
Nonunion hourly	3.6%	3.6%	2.0%	2.4%	2.7%	2.9%
Union	3.3%	3.4%	2.2%	2.5%	2.6%	2.7%

Source: Aon Hewitt

See www.vtsalarysurvey.com for more information.)

The number of companies that are anticipated to freeze salaries in 2012 has decreased to about 45. However, the government sector is under great pressure. Pay increases in that sector are expected to be only 1.8% in 2012.

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Employee Job Satisfaction: The External Forces Influencing Employee Attitudes

According to the SHRM 2011 *Employee Job Satisfaction Survey Report*, employee job satisfaction in the U.S. reached its peak in 2009 – possibly because employees were especially grateful for their jobs at the height of the recession. Since then, however, it has been dropping slightly each year. To a large extent, the overall trend toward a decline in satisfaction across industries is likely due to forces that individual employers may have difficulty controlling. Factors such as little to no wage growth, living costs rising, and lack of progress in career movement is some of the things that frustrate the employed.

However, this does not mean that organizations cannot positively influence their employees' job satisfaction. Organizational leaders have a huge influence in this area, which is why employee satisfaction varies so much across companies. Keeping a close eye on trends and looking proactively for ways to respond to outside factors are increasingly important to maintaining employees' satisfaction.

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How to Prevent Small Business Fraud

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Association of Certified Fraud Examiners ▶
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Appraisal Foundation ▶
www.netforum.avectra.com

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In "How to Prevent Small Business Fraud: A Manual for Business Professionals," CFE (Certified Fraud Examiners) cites two key factors that contribute to the large losses suffered by small companies — lack of basic accounting controls and a greater degree of misplaced trust. More often than not, it is the long-trusted employee — typically the small business' one-person accounting department — who is found to be the thief. In other words, the person you least suspect is usually the one who commits the crime.

WHY AND WHICH EMPLOYEES STEAL FROM THEIR EMPLOYERS

Generally, it is more often the younger employee under the age of 35 who steals from an employer, although older workers who do steal tend to take much more than their younger counterparts. Managers are the usual culprits for the worst cases of fraud. It's typically not the new-kid-on-the-block, but the long-term and trusted employee who ends up being the company crook. Often, it is someone who's been with a company for more than three years. Employees at private companies cause more losses than those at public or non-profit establishments.

There's an old saying that's long been accepted in fraud prevention circles called the 10-10-80 rule: 10% of people will never steal no matter what, 10% of people will steal at any opportunity, and the other 80% of employees will go either way depending on how they rationalize a particular opportunity. The good news is that there is much a business can do to sway this 80% to their side.

Another widely accepted theory is that of the late Dr. Donald R. Cressey, called the "Fraud Triangle." According to this theory, there are three factors — each a leg of a triangle — that, when combined, lead people to commit fraud.

One leg is an individual's financial problem or need that they perceive is non-sharable;

i.e., a gambling debt. The second leg is this individual's perception that there exists at the place of business an opportunity to resolve the financial problem without getting caught. The third leg is the individual's ability to rationalize or justify the intended illegal action. ("After all I did for my company, they mistreated me. I was entitled to that money."). In shorter terms, PRESSURE plus PERCEIVED OPPORTUNITY plus RATIONALIZATION equals FRAUD.

SOME KEY WAYS TO PREVENT EMPLOYEE THEFT

- The first step to preventing employee theft is to screen job applicants thoroughly before hiring them in the first place. Background checks should be performed and should include a check on criminal history, civil history, driver license violations, as well as verification of education, past employment (including reasons for leaving), and references.
- Consider running a credit check on prospective employees, as people with financial difficulties are more prone to fraud. In order to do this, you are legally required to notify the job applicant in writing that a credit report may be requested. You also need to receive the applicant's written consent.
- Studies show that the more employees believe they will be caught, the less likely they are to steal.
- Be clear with employees that your company has zero tolerance for employee theft of any sort.
- Write and distribute a company policy that outlines exactly what constitutes stealing. Contact your local police department if you do discover an incident of employee theft so you send a message to your employees that stealing will not be tolerated.

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www.securitiesamerica.com

Dimensional Fund Advisors, Inc. ▶
www.dfaus.com

Charles Schwab ▶
www.charlesschwab.com

Eight Moves Investors Should Make in 2012

A New Jersey-based wealth advisory firm has some suggestions for investors for the coming year, reminding everyone to “keep the faith” in equities and to not invest based on emotions or day to day market behavior. Another reminder for everyone is to be wary of the change in tax legislation for 2013.

The following are suggestions that investors should be aware of for 2012. Some of them are:

Proactively Prepare for the Possible Change in Estate Tax in 2013 – Unless Congress gets involved, estate law will return to a \$1 million exemption and a 55% tax rate. The current federal exemption through 2012 is \$5 million. Therefore, 2012 is a valuable time to arrange your estate plans accordingly and consider making substantial gifts. Think about taking advantage of the historically low interest rates to provide low-interest

loans to adult children, as well as funding grantor retained annuity trusts (GRATs), installment sales to intentionally defective grantor trusts, or outright gifts of up to \$5 million (\$10 million per couple).

Take Advantage of Roth IRA Recharacterization Rules – If you have converted your IRA to a Roth IRA during 2011, you may want to consider “recharacterization.” One of the possible reasons why investors would do this is market decline. For example, you may have converted your IRA to a Roth IRA worth \$50,000. If you decided to pay all your taxes up front, you paid on \$50,000. If the account now is worth \$40,000, due to the decline in stock markets, then it may make sense to convert to a traditional IRA and get back the tax you paid on the conversion. You may want to change back to a Roth at a later time and pay on the lesser amount.

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Insights on Income Tax Rates to Soar by 2013

MANAGE RISING INCOME TAX RATES

For the past 17 years, most tax rates which includes income tax, have declined or remained fairly constant. This will likely change in the not too far distant future. Planning ahead is key to this changing environment.

Under current legislation, the highest marginal Federal tax rate on net investment income after Dec. 31, 2012, will be 43.4%. This corresponds to 39.6% in ordinary income and 3.8% in Medicare tax. State taxes could increase the maximum total tax rate to over 50%.

STRATEGIES FOR GREATER TAX EFFICIENCY

There are various ways to align portfolios for greater tax efficiency. Because dividends and taxable interest will be less attractive than tax-exempt income in future years, shifting to tax-exempt bonds and low dividend stocks by Dec. 31, 2012 can be an option. Placing investments that generate primarily taxable interest and dividends in a tax-deferred or tax-free vehicle is another possibility. Reconsider REITs. In 2013, the dividend rates will move to 39.6%.

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Testing Goodwill for Impairment: An Optional Consideration of Qualitative Factors *continued*

recognized as a loss due to impairment. The ASU provides an entity with the option to first assess particular qualitative factors to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying value. This consideration would serve as a screening mechanism, used to determine whether the entity would need to execute the two-step procedure. The qualitative factors that would be examined in this optional step include environmental factors, such as a deterioration in general economic conditions or a deterioration in the environment in which the entity operates, or cost factors, such as increases in the entity's raw material or labor costs.

If this qualitative evidence indicates that it is more likely than not that a reporting unit's carrying value exceeds its fair value, an entity would perform the two-step procedure. If, however, this examination of qualitative evidence indicates that it is not more likely than not that the reporting unit's carrying value exceeds its fair value, the entity could use this determination to conclude that an impairment loss would not have to be recognized and thus it would not have to perform the two-step procedure. FASB has quantified the more-likely-than-not threshold at a likelihood of more than 50%. Accordingly, this examination of qualitative factors determines which of two possible states is more likely. If the examination indicates that carrying value exceeds fair value, then the entity would proceed with the two-step procedure. If the examination indicates that it is more likely than not that the carrying value is less than or equal to the fair value, then there is no need to perform the two-step procedure.

The impetus for this ASU was the concerns that FASB received from

nonpublic entities regarding the cost and complexity associated with performing the first step of the two-step impairment test. While the occasion for this proposal was driven by concerns expressed primarily by nonpublic entities, the standard applies to both public and nonpublic entities alike. FASB claims that the ASU improves existing accounting for goodwill impairment in three ways. First, it decreases the cost and complexity of complying with existing accounting standards. It also expands the examples of qualitative factors regarding potential contextual items that entities should consider between annual impairment tests when determining whether a reporting unit's carrying value exceeds its fair value. Finally, it provides better examples of events and circumstances that an entity with a reporting unit with a zero or negative carrying value could consider when determining the impairment loss, if any, in the second step of the impairment test.

IMPLICATIONS

Given the current push for the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS), it is important to note that this ASU does not address the current primary difference between FASB and the International Accounting Standards Board (IASB) in accounting for goodwill impairments. In practice, the ASU may even widen the gap that already exists between the frequency and magnitude of impairment loss recognition under the two methodologies. While U.S. GAAP and IFRS are similar in their treatment of goodwill as an indefinite-lived asset and their requirement of an annual impairment test, there are two primary differences that may affect both the likelihood of recognizing an impairment loss and the amount of the loss if recognized. As discussed by Steven Brice

("Procedural Differences in Impairment Testing," CPA Insider, AICPA, March 23, 2009), under IFRS, goodwill impairment is tested at the cash-generating unit, whereas under U.S. GAAP, this test is performed at the reporting unit. This distinction may cause impairment to be teste dat a lower level under IFRS, potentially resulting in a higher incidence of impairments. Once an impairment has been identified, the loss is not restricted under IFRS to the carrying value of goodwill. Any loss in excess of the carrying value of goodwill is applied to the other assets in the cash-generating unit. Under U.S. GAAP, the recognition of an impairment loss is limited to the carrying value of the related goodwill. The impairment methodology and recognition under IFRS may provide a more realistic and useful approach for the proper treatment of goodwill impairment. To further the cause of convergence, FASB may want to consider addressing some of the differences noted above.

The ASU provides important relief for many nonpublic entities that currently struggle with the costs and complexities associated with the first step of the goodwill impairment test. The ASU applies to all public and private entities that have goodwill.

One can question whether this option could defer or lessen the frequency of recorded goodwill impairments due to the subjectivity of the qualitative information used in the ASU. Seemingly, the mere introduction of the more-likely-than-not threshold found in the option will result in some impairments not being reported. Some academics and practitioners have expressed concern about the use of fair value estimates to measure goodwill impairment losses when SFAS 142 was initially proposed, as these fair value estimates are subjective in nature and may provide management with an opportunity to participate in earnings

Testing Goodwill for Impairment: An Optional Consideration of Qualitative Factors continued

opportunity to participate in earnings management through goodwill non-impairment (Dennis Chambers and Catherine Finger, "Goodwill Non-Impairments: Evidence from Recent Research and Suggestions for Auditors," *The CPA Journal*, February 2011). Goodwill non-impairment occurs when an impairment should be properly recognized but management uses the subjective nature of the fair value estimates to avoid such recognition. Chambers and Finger underscored these previously expressed concerns by referencing the results of three recent academic studies:

- The three studies report evidence that goodwill non-impairment does exist. ...In addition, the non-impairment is associated with incentives managers have to overstate earnings. They find evidence that recorded goodwill impairment losses are absent when they would cause company earnings to be negative or would cause earnings decreases. Impairment losses are also absent when they would decrease CEO compensation, damage CEO reputations, and cause bond covenant violations. Finally, evidence suggests that an impairment loss is not recorded at the time a goodwill asset generates cash flows, as implied by economic theory, but rather much later. Therefore, these studies indicate that early concerns of academics and practitioners were warranted; companies appear to be using the discretion in goodwill impairment reporting standards to manage earnings.

These findings illuminate the current opportunity for earnings management through goodwill non-impairments and raise concerns regarding any additional inclusion of subjective measures in the determination of goodwill valua-

tions. It would seem that the increased use of qualitative information, as outlined in the ASU, could provide additional opportunities for such nonimpairments. Whether these potential failures to record impairments are worth the potentially diminished costs and complexity for preparers is a matter for careful deliberation.

The ASU also has potentially important ramifications for the auditing profession. In order for auditors to properly assess the reasonableness of the qualitative analysis and related conclusions reached by management in its determination of whether the two-step impairment test is necessary, they will need to gain a more in-depth understanding of all business factors affecting the various reporting units. Auditors will be required to use more judgment and rely less on quantitative analysis. While the ASU may provide companies with potential cost and time savings, it could place an additional burden on auditors to ensure the engagement is properly staffed with experienced auditors with strong industry knowledge and sound judgment to assess the qualitative conclusions.

Finally, FASB notes that the expansion of suggested qualitative information found in the ASU will assist preparers in detecting impairments occurring between the dates of annual impairment testing.

A CALL FOR CAUTION

The ASU's addition of the evaluation of qualitative factors as an optional step in the goodwill valuation process offers many users the opportunity to significantly lessen the cost and complexity they face when determining whether goodwill has been impaired. Nevertheless, the ASU could widen the existing gap between the impairment methodologies offered by the IASB

and FASB. Furthermore, the ASU could increase the risk that goodwill impairments will be deferred or not recognized, and could increase the burden on the auditing profession due to an increased use of qualitative factors. Recent research indicates that earnings management through goodwill non-impairment does exist. This is an important issue that requires further study. The ASU increases the subjectivity of the prior methodology, which may provide additional opportunities for earnings management. While the stated benefits may be appealing, the implications for the reliability of financial reporting, the practice of auditing, and the goal of convergence should be carefully considered.

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Election to Claim Loss in Preceding Tax Year continued

Losses that qualify –

A loss only qualifies for this tax break if the declared disaster or emergency caused the loss. So keep copies of local newspaper articles or photos that will help prove that your loss was caused by the specific disaster.

The loss must have occurred in a federally declared disaster area. I know which areas these are. And I can determine if you have deductible disaster loss, and make the necessary computations to properly advise you as to the most advantageous course of action.

Which year to deduct –

Determining the most beneficial year in which to claim the loss requires a careful evaluation of your entire tax picture for both years, including filing status, amount of income and other deductions, and the applicable tax rates.

The higher your marginal tax rate, the more valuable the deduction is. For example, a \$4,000 deduction saves \$1,120 for a taxpayer in the 28% tax bracket, but is worth \$1,320 to a taxpayer in the 33% bracket.

Ordinarily, casualty losses are deductible only to the extent they exceed 10% of your adjusted gross income (AGI). Where this rule applies, a larger amount of AGI will cut into your allowable loss deduction. The good news is that the 10%-of-AGI limit on personal casualty losses (but not the \$100 [\$500 for 2009] per-casualty floor) was waived for federally declared disasters in 2008 and 2009.

How to claim deduction –

To claim the disaster loss on your return for last year, an election statement must be prepared and attached to the return. The statement, which I can draft for you, must include specific information about the time, place, and nature of the disaster that caused the loss.

Non-itemizers can't take disaster loss deduction –

Individual taxpayers who don't itemize deductions can't deduct their disaster losses.

Although non-itemizers were allowed an additional standard deduction for net losses from federally declared disasters occurring in 2008 or 2009, this isn't available for disasters occurring in 2010 or later years.

Casualty gains –

Sometimes, a disaster may actually result in a gain for tax purposes. This may occur where the insurance proceeds you receive exceed your tax basis in the destroyed property. If that happens, there are several ways to exclude or postpone the tax on the gain. If you think you might be in a gain position, please let me know and I will go over these options.

Source from 2011 Thomson Reuters/RIA

Forrester Research, Inc.: Tech Changes to Expect in Next 3 Years continued

report author and Forrester analyst Brian Hopkins. "EAs should reconsider this in light of the significant technology changes that next generation BI and big data are driving."

Mobile Apps and Cloud Platforms Merging to Create the App Internet

It should come as no surprise that mobile apps and application platforms were ranked number two and three respectively, with high ranks for expected change and increased value. Thirty-six percent of respondents see mobile apps for Smartphones and Tablets as a top changer and 32% believe mobile apps will deliver the most business value.

Clearly, the proliferation of mobile apps will call for IT to support at least the BlackBerry, iOS (Apple's mobile operating system), and Android platforms, as well as increased acceptance of personal—and potentially corporate-liable—devices that connect to enterprise resources.

As Hopkins states, the good news is that mobile apps are relatively inexpensive, and they are improving as context-aware technologies via sensors, location services, and better security and battery management.

The application platforms category, which refers to development of "elastic" applications for cloud services such as IaaS and PaaS (Platform-as-a-Service), 'is seen as a top changer by 34% of respondents and 28% believe application platforms will deliver business value. Mobile apps and cloud platforms will offer lower TCO (total cost of ownership) and CIOs should plan to capitalize on that over the next few years, writes Forrester's Hopkins, who also recommends that enterprise IT be prepared to

manage apps on many devices and develop mobile and desktop apps that use new technologies such as HTML5 (HyperText Markup Language) and PaaS for platform compatibility. In the coming years, Forrester predicts that mobile apps and cloud services will merge to form what the company calls the "App Internet," where specialized apps will use the storage and processing power of personal computers (PC), Smartphones and Tablets and the scale and flexibility of the cloud, to allow applications to communicate with other apps and devices.

According to the Forrester report, if it plays out, the App Internet would mark the end of the website as we know it and the dawn of the mobile app era. It is also certain to change how developers and enterprises create apps and manage the devices that run them. "This type of interaction requires a new architecture, and it is not one that most companies currently support," writes Hopkins.

2012 Salary Increases Projected to Increase Slightly From 2011 continued

The Culpepper Survey shows the range of expected increases in salary budgets in the coming year.

Table 1: U.S. Salary Increases for 2011 and 2012

	Percentiles Include Salary Freezes (with zeros)					Avg. (Mean)	Mode
	10th	25th	Median 50th	75th	90th		
All Companies							
2011 Actual	2.00%	2.50%	3.00%	3.20%	4.00%	2.92%	3.00%
2012 Budgeted	2.00%	2.90%	3.00%	3.10%	4.00%	3.01%	3.00%

Source: 2011-2012 Culpepper Salary Budget Survey

One of the ways that companies are stretching their meager salary increase budgets is by targeting higher increases to higher performing employees, as the following chart shows:

Table 4: U.S. Salary Increases by Job Level, Function, and Performance for 2011 and 2012

	2011 Average (Mean) Actual Base Salary Increases		2012 Average (Mean) Budgeted / Projected Base Salary Increases	
	Includes Salary Freezes (with zeros)	Excludes Salary Freezes (without zeros)	Includes Salary Freezes (with zeros)	Includes Salary Freezes (with zeros)
United States				
All U.S. Employees (Aggregate)	2.92%	3.09%	3.01%	3.11%
Job Level				
Executives	3.10%	3.70%	3.01%	3.32%
Director & Manager Level	2.93%	3.19%	3.03%	3.17%
Individual Contributors: Salaried & Exempt	2.88%	3.09%	2.98%	3.10%
Individual Contributors: Hourly & Non-Exempt	2.77%	2.98%	2.92%	3.04%
Job Function				
Sales	2.58%	3.18%	2.66%	3.11%
Technical/Engineering/Scientific	3.03%	3.29%	3.15%	3.36%
Job Performance				
High Performing Employees	4.51%	4.51%	4.62%	4.62%
Average Performing Employees	2.87%	2.88%	2.95%	2.95%
Low Performing Employees	1.00%	1.64%	0.93%	1.70%

Source: 2011-2012 Culpepper Salary Budget Survey

As of September 2011, inflation had climbed to 3.9% annually. It seems likely that inflation will be greater than average salary increases this year, and that is likely to be the case for 2012 as well.

Employee Job Satisfaction: The External Forces Influencing Employee Attitudes *continued*

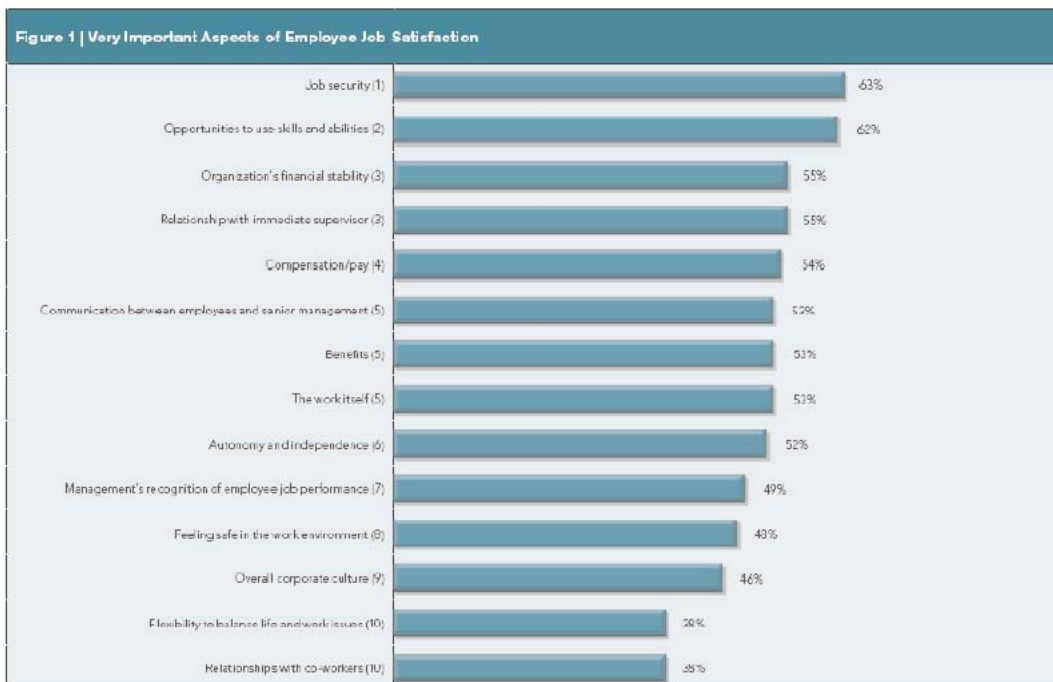
What do employees value the most? Since the start of the recession, job security is valued the most. The chart below shows the top job satisfaction factors for 2011.

Compensation is a major factor influencing job satisfaction, the fifth most significant according to this research. From 2000 to 2010, middle-income Americans' earnings have fallen. During this 10-year period, income for middle-income Americans dropped by 7%. Since there is not much growth in wages, rising health care costs makes the paychecks received even smaller. However, some economists argue against jumping to conclusions and note that wages have stagnated most within the job groups where health care benefits are generally not offered. Employees may also feel additional strain due to the rise of living costs. The latest Consumer Price

Index for September 2011 showed that retail inflation climbed 3.9% from the year before. Factors of these living costs also include higher food and energy prices, education costs, and debt owed due to student loans. An example of a social trend that might influence job satisfaction in the years ahead is an erosion of trust in leadership and institutions. As noted in the chart above, communication between employees and senior management was rated as the fourth most important aspect of job satisfaction by employees. Trust and transparency obviously play an important role in this factor and many others as well. Communication with employees has been shown to influence satisfaction with pay, and it will certainly increase their sense of job security as well. This is a key area where company leadership can make a significant difference. Certainly, many external forces can

discourage job satisfaction in the workplace. However, organizational leaders can make themselves aware of the rising trends influencing employees and can implement proactive remedies to mitigate these problems. Challenging assignments, mentoring programs, and training for employees can increase engagement. Better communication about pay and the state of the company have been shown to increase job satisfaction. Wellness programs and careful design of health insurance can lower health care costs. The best companies are doing all they can to keep employee satisfaction high in the midst of the larger economic uncertainties.

Publication available from SHRM – Society for Human Resource Management, 2011 Issue 4



(n = 900)

Note: Figure represents those who answered "very important." Percentages are based on a scale where 1 = "very unimportant" and 4 = "very important."

Source: 2011 Employee Job Satisfaction and Engagement: A Research Report by SHRM

How to Prevent Small Business Fraud continued

- Business owners and senior management must themselves be role models of honesty and integrity, or they may risk setting up a work environment that justifies illegal and criminal activity.
- Avoid at all costs allowing the finances of a business to be handled and controlled by a single individual. Separation of duties is critical, and no employee should be responsible for both recording and processing a transaction; i.e., don't allow the same person who sends out bills to collect the mail and prepare bank deposits.
- Run irregularly scheduled surprise audits or have a third party audit your books once a year. Also insist that your bookkeeper or any employee who has access to monies take a yearly vacation so you can examine the records.
- Make sure all checks, purchase orders, and invoices are numbered consecutively, and regularly check for missing documents.
- Use a "for deposit only" stamp on all incoming checks to prevent an employee from cashing them.
- Personally look into customer complaints that they have not received credit for payments.
- Most incidents of employee theft are revealed by coworkers, but many still are hesitant to report these incidents to their employers. Set up a system whereby employees may report employee theft anonymously. You may also want to consider offering rewards for informants while keeping their identity confidential.
- Unopened bank statements and canceled checks should be received by the business owner or outside accountant each month and they should carefully examine for any red-flag items such as missing check numbers. They should also look at the checks that have been issued to see if the payees are legitimate and make sure that the signatures are not forgeries.
- Require all checks above a certain amount to have two signatures. Never sign a blank check. Sign every payroll check personally. Avoid using a signature stamp.
- Get an insurance policy that covers outside crime, employee theft, and computer fraud. It will be there as a safety net in case your fraud prevention tactics don't work.
- Small business owners should take the time to review accounts payable by checking cash disbursements and payments. A very common scheme to look out for is billing-scheme fraud where an employee sets up fictitious "phantom" vendors.
- Be alert to disgruntled or stressed employees, or those who have indicated that they are having financial difficulties. Also look for any unexplained significant rises in an employee's living standards.
- A positive work environment has been shown to deter employee fraud and theft. Open lines of communication, positive employee recognition, and fair employment practices will assist in the reduction of occupational fraud.

Source
[http://www.businessknowhow.com/
manage/employee-theft.htm](http://www.businessknowhow.com/manage/employee-theft.htm)

Eight Moves Investors Should Make in 2012 continued

Consider Investments That Incorporate Portfolio Protection and Exploit Volatility

Volatility is inevitable in today's market. One way to possibly reduce volatility is to invest in asset classes with low correlation to the equity/fixed income investments in your portfolio.

Invest in Equities for the Long Term

If possible, investors should be invested in equities up to their personal risk tolerance. Because one is invested in the long term, do not be discouraged, side-tracked by daily news, or election-year politics. Investing in equities historically has been the best defense against inflation. Even if one is retired, inflation will incrementally increase your living expenses during your natural life.

Diversify, Diversity, Diversity – Make diversity part of your investment strategy. Proper asset allocation combined with opportunistic rebalancing continues to be the best way to reduce risk. A well-diversified portfolio that invests across a range of asset classes (equity, fixed income, and alternative investments) is always a good option.

Beware of Investments That Prey on Investor Fears

Beware that many popular investment vehicles that are sold during volatile times. They can be very expensive and complex, usually sold due to fear. While there are a fair amount of products that offer risk protection, many are limited in their benefits. Some can have adverse effects to investors' portfolios during normal market environments.

Stick to Your Guns – Studies have shown that investors allow their emotions to govern their financial decisions. With uncertainties in markets, sticking to your guns is highly advised. Maintaining a well allocated and balanced portfolio is more sound than a knee-jerk decision. Note that some or all of the above ideas may not be suitable due to your individ-

ual risk tolerance, time horizon, expected or needed investment returns.

Excerpts from:

<http://www.advisorone.com/2011/12/06/8-moves-investors-should-make-in-2012-brinton-eato>

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Insights on Income Tax Rates to Soar by 2013 continued

creating equal footing with investments paying dividends and taxable interest. Consider Master Limited Partnerships because a portion of the distributions are considered a return of capital. If your tax savings exceed the cost of insurance, considering cash value life insurance as a source of funds could be another tax efficient option.

Under the new tax structures, now is a good time to review wealth management plans. It will help to identify ways to gain optimal benefits. Charitable deductions may become increasingly valuable, if they can offset higher taxes (unless tax laws are changed to limit the tax benefit of itemized deductions). For example, consider charitable trusts to smooth income and provide charitable deductions. Retirement plans other than Roth IRAs and Roth 401(k)s can accumulate assets pretax. Distributions are not subject to the 3.8% Medicare tax on net investment income, but are taxed as ordinary income. Distributions are also included in the Modified Adjusted Growth Income (MAGI) threshold used to determine “high income taxpayer” who are subject to the Medicare tax. Consider trust provisions favoring income distributions rather than income accumulation in the trust. Installment sales for wealth transfer combining with grantor trusts for leveraged gifting is another option.

To begin planning for future tax increases in 2013, there are new tax rules and specific strategies that can assist certain types of investors. For business owners, it might make sense to accelerate income into 2011-2012 and to defer certain deductions until 2013. Think about establishing defined benefit pension plans and fund it to the maximum. If a business is sold after 2012, explore an installment sale to smooth income. For corporate executives, consider stock options before 2013. Think about making 83(b) elections

on restricted stocks and explore taxable hedging strategies.

Another suggestion is to contribute the maximum allowed to retirement plans. For investors, suggested conversions to Roth should be made before 2013. Possibly consider deferring significant charitable gifts until 2013, unless tax law changes limit the tax benefit on itemized deductions. Before 2013, take profits and generate capital gains.

HIGHEST INCOME TAX RATES 2011 THROUGH 2013

Under Current Legislation

Excerpts from:
<http://qa.bnymellonwealthmanagement.com/Resources/documents/ATaxessoar.pdf>

Federal Income Tax Rates*	2011-2012	2013
Ordinary Income	35%	39.6%
Long-term Capital Gain	15%	20%
Qualified Dividend	15%	39.6%
Medicare Tax on Net Investment Income		3.8%
Medicare Tax on Wages - Employee	1.45%	1.45%
Medicare Tax on Wages - Employer	1.45%	1.45%
Medicare Tax on Wages - Employee (above threshold)		0.00%
Social Security Tax Wages - up to \$106,800 in 2011	6.2%	6.2%

Income Tax Rates for Selected States	2011
California	11%
Connecticut	7%
Delaware (resident only)	7%
Florida	None
Georgia	6%
Massachusetts	5%
Nevada	None
New Hampshire	5%
New Jersey	9%
New York	8%
Ohio	6%
Pennsylvania (excludes local)	3%
South Dakota	None
Texas	None
Vermont	9%
Washington	None

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