FALL 2003

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NEWSLETTER

Unrelated Business Income

The IRS has been reviewing Web sites for unrelated business income issues. For your protection you may want your RKO Tax Advisor to do the same.

By Steve Bruning, Manager

Your not-for-profit Web site address is now part of the form 990 filing requirements. Employees of the IRS's Exempt Organizations Division have been trained and are expected to look at your Web site for unrelated business income and other tax issues.

Often, it is the organization's technology and marketing experts who develop and monitor its Web site - not the financial staff. Yet, it is the financial staff who are responsible for the monitoring of tax issues and maintaining the tax exempt status of the organization.

What would the IRS look for?

If your organization has corporate donors, the IRS will look to see if your organization "endorses" the donor corporation's products or services.

If your organization promotes any issues on behalf of its constituencies, the IRS will look to see if your organization is conducting any grassroots or direct "lobbying".

If your organization has alternative revenue sources from, for example, referral fees, advertising, job posting services, discount programs, travel programs, credit card, or other agreements, the IRS will look to see if your organization has any unrelated business income.

Runyon Kersteen Ouellette's tax advisors can help you navigate the tax issues with respect to your Web site, internet transactions, and other activities by providing the following services:

Up-to-date tax guidance.
We can share with you how the latest tax guidelines affect your organization. For instance, final regulations were issued April 25, 2002 regarding corporate sponsorship rules. These final regulations are helpful because they clarify, for the first time, the tax treatment of having a hyperlink to a corporate sponsor (donor's) Web site.

Review of specific revenue sources.
We can review specific revenue sources for activities that your organization is currently undertaking or is planning to undertake. We can review your corporate sponsorship agreements, affinity credit agreements, and other agreements to help you identify any tax issues and help mitigate them.

Review of your organization's Web site.
We can review your organization's Web site activity for the same tax issues the IRS would identify, if any. Then we can tell you the best way to handle them. Because this medium of doing business is relatively new, the IRS has not yet issued guidance with respect to tax issues of many Web-based activities for not-for-profit organizations. We can help you with the tax analysis even where there is not yet any IRS guidance.

Federal Audit Requirements

The Office of Management and Budget has revised Circular A-133 to **increase** the threshold requiring a compliance audit under these standards. Previously, if you expended federal funds in excess of $300,000 this type of audit was required. Now, effective for years ending after December 31, 2003, these audits will be required only if your federal expenditures exceed $500,000. Beware however, that if federal funds you receive pass through the State or other pass-through entities, they may “add on” other audit requirements even if you are below this federal threshold. Call us if you have specific questions.

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SUV'S & Hummers

Setting the Record Straight

By Jack Sullivan, Principal

Of late, we have had many inquiries regarding the tax deductions available to those who buy Sport Utility Vehicles and Hummers. There has been a great deal of advertising by the automobile industry that seems to suggest the government is promoting the purchase of such vehicles by allowing greater tax deductions for those who use them. In reality the government is promoting business tax deductions and certain vehicles happen to harvest those deductions sooner than others.

Rules relating to the depreciation deductions available to vehicles are complex. First, most "passenger vehicles" fall under the heading of "listed property", i.e. by their nature they lend themselves to personal use. "Passenger vehicles" used less than 50% for business are subject to a lesser alternative depreciation system. Even those used more than 50% for business are subject to an annual depreciation ceiling. This is true despite the $100,000 expensing election available to businesses as well as the 30% additional bonus depreciation allowed by the post 9/11 Job Creation and Workers Assistance Act of 2002 or the 50% bonus depreciation allowed by the Jobs and Growth Tax Relief Reconciliation Act of 2003 for post - May 5, 2003 acquisitions.

However, passenger automobiles, including any 4-wheeled vehicle manufactured primarily for road use that possesses an unloaded gross vehicle weight (GVW) of greater than 6,000 pounds falls outside of the definition of, and therefore out of the depreciation limitations associated with "passenger vehicles". Let's say that you have two similar vehicles, a pound apart, one at 6,000 and another at 6,001, that cost $50,000 each, and are used 100% in business in 2003. The lighter one (6,000 lbs) is limited to $10,710 of depreciation for 2003. The heavier vehicle would be allowed $50,000 of depreciation in the first year ($50,000 expensing election depreciation). The maximum that can be depreciated over the years, in either case, is $50,000. However, in the latter situation, depreciation is front loaded and deductions now mean tax savings.

The depreciation deductions are for those who use such vehicles in a trade or business, not for personal use. Nonetheless many consumers have been led to believe they will get tax benefits if they buy larger vehicles even for personal use. As always, business reasons and economic reasons should dictate equipment and vehicle purchases; the tax deductions should be considered an added benefit. Things like vehicle mileage, insurance, finance costs, and other expenses should also be factored into your decision.

Often less publicized is the tax credit that the government allows to individuals, as well as businesses, for the purchase of "Qualified Electric Vehicles". A tax credit of 10% of the cost of a new vehicle can net a tax credit of as much as $4,000 for the initial user of a motor vehicle powered primarily by an electric motor, rechargeable batteries, fuel cells, or other portable sources of electric current.

Identity Theft

Simple steps to Protect Yourself

By Amy Rossignol, In-Charge Accountant

Do you know how to protect your personal information (i.e., credit card numbers, social security numbers, checking account numbers, etc.) from identity theft? It has been reported by the Federal Trade Commission that 86,168 cases of identity theft were reported in 2001. However, the General Accounting Office and the Secret Service say the total is much higher at 500,000.

How does identity theft occur? In many instances identity theft occurs through fake telemarketing phone calls, the internet, stealing receipts from the trash which may have personal information, or thieves simply posing as "you" while speaking to your credit card or bank representatives.

The following list illustrates simple steps you can take to protect yourself from becoming an identity theft victim:

- Properly dispose of papers which contain personal information.
- Shred credit card receipts, bank statements, etc.
- Avoid printing your social security number on your checks.
- Online ordering should only be done on a secured site, and if possible use a credit card with a low credit limit for such purchases.
- Reduce the number of credit cards you carry with you.
- Do not carry social security cards, passports, and birth certificates with you.
- When entering PIN numbers in ATM's, be aware of others around you.
- Never carry your ATM PIN number or password in your wallet.
- Read your bank and credit card statements carefully for unauthorized charges.
- Put outgoing mail into a post office collection box rather than your personal mailbox to avoid it being stolen.
- Order checks with your initials rather than your full name.
- Update your computer's virus protection software.
- Never download files sent by strangers.
- After making credit or debit card purchases, tuck receipts safely away.
- Don't leave receipts in the bag with the merchandise.

It's not too late to take action if you are already an identity theft victim or think you may be. Follow these steps carefully:

- Report the theft to your local police. Once the police report is filed send the report to all banks, credit card companies, and other agencies where you think your identity may have been used.
- Have a "fraud alert" added to your report. This is done by contacting the fraud companies of the three major credit bureaus.
- Immediately close accounts that have been tampered with and open new ones with different PIN numbers.

For more identity theft assistance or complaints, you may visit this website at www.consumer.gov/idtheft established by the Federal Trade Commission. Remember, protecting yourself from becoming a victim is definitely easier and "cheaper" than repairing your credit with endless phone calls and lawyer fees once a victim!

529 Savings Plans

A Sensible Way to Save for School

By Jenna McPartland, Senior Accountant

529 plans are state-sponsored investment plans that allow parents to save now for future college costs. Every state offers at least one 529 plan and generally you do not have to be a resident of a particular state to participate in that state's plan, although residents often receive special benefits such as no annual fee or no account minimum.

The benefits

Everyone is eligible to participate in a 529 plan, there are no age restrictions or income limitations. 529's in many states allow over $200,000 per beneficiary in contributions. The earnings grow tax-deferred and are currently federal tax-free until 2010. Many states exempt distributions from **their** state plan from state income tax as well. As the donor, you retain control over the account. The funds remain yours to do with as you wish; be aware that only qualified withdrawals will receive favorable tax treatment. With a 529 account you can designate and change beneficiaries.

And for grandparents, a 529 contribution can be a great estate planning tool. Up to $55,000 for a single person and $110,000 for a married couple can be deposited at one time during a five year period without incurring federal gift tax. This contribution counts towards the annual $11,000 gift exclusion for each of the next five years. You retain control over the funds while enjoying the estate tax benefit of excluding those assets from your estate.

The cons

529 savings accounts are treated as an asset of the parent in determining a child's eligibility for financial aid. The 529 account itself could be excluded from financial aid calculations if the grandparents are the account owners; however, there is no way of avoiding the distribution being included as part of the student's income.

The NextGen Plan is Maine's 529 plan. Currently, qualified distributions from the plan are exempt from the state income tax. Additionally, Maine residents may qualify for a matching grant. As each state plan's investment performance varies based on who is managing the plan's assets, it may be more advantageous to invest in another state's plan. There are many useful resources on the internet including www.savingforcollege.com and www.money.cnn.com that can assist you in determining which state's plan is best for you.

RKO Combats Spam

By Todd Cloutier, Network Administrator

Due to the recent increase of spam, RKO has recently implemented new spam filtering software. GFI MailEssentials was installed in July to combat unwanted emails that RKO was receiving in our email system. Since July, MailEssentials has detected and blocked over 25,000 incoming emails that contained unsolicited advertisements, and offensive and inappropriate materials. That number equated to 75% of all incoming email!

GFI MailEssentials is easy to install and configure. The software is a server based solution that does not require any installation or configuration on your client computers. MailEssentials filters for spam using these four techniques:

- **Blacklist/Whitelists** - The blacklist/whitelists allows the administrator to add known spam senders to the blacklist, and known good senders to the whitelist. All blacklist senders are blocked and all whitelist senders are allowed to send email to your network.
- **Bayesian Filter** - The Bayesian filter is an 'artificial intelligence' technique, based on probability, used to classify spam. The Bayesian approach is highly effective, and is reported to have a spam detection rate of over 97%.
- **Keyword Checking** - MailEssentials has a default list of known words and phrases that are likely to be included in spam messages. Most of these words and phrases are profanity or other common words often found in spam. (i.e. Viagra, Sex, 100% nude…). If MailEssentials finds any of these keywords in a message, the message is blocked from reaching its destination.
- **Header Analysis** - The header analysis feature checks the email header for blank "From:" fields and invalid email address.

Pricing for GFI MailEssentials is very competitive and is based upon the amount of email accounts that are on your server. To determine if GFI MailEssentials is right for your network, check out: http://www.gfi.com.

Ferris Research calculated that if an employee receives just 5 spam mails a day and spends 30 seconds on each, he will waste 15 hours a year on junk mail - now multiply that by the hourly rate of each employee in your company and you will have a very conservative idea of the cost of spam to your organization.

It is essential to put a stop to spam to save time, money, and bandwidth.

New Faces

Paul Ainsworth joined RKO last fall as the Firm's Business Manager. A Maryland native and graduate of Penn State University, he moved to Cape Elizabeth in 1986. After owning and operating a travel agency in Scarborough for 12 years, Paul has worked as finance and operations manager for several local companies.

Jeremy (Hank) Farrah started with our firm in May of 2003 as a Senior Accountant. Hank graduated from Penn State with a Bachelors in Accounting and passed the CPA exam. He moved to South Portland from his original residence in Fredericktown, PA.

Jennifer Giles joined RKO in July as an Assistant Accountant. She graduated from Husson College in May of 2003 with a Bachelors in Accounting and a Masters in Business and she passed the CPA exam. Jennifer recently moved to Falmouth from Bangor and is originally from Boothbay Harbor.

Angela Matson is a new face at RKO. Angela started in September 2003 as an Assistant Accountant with a Bachelors in Accounting and a Masters in Business from Husson College. She is originally from Eddington, ME and now resides in Scarborough.

Congratulations

Congratulations to **Angela Hayden** on the birth of her daughter *Allie Rae Hayden* on November 28, 2002... Thanksgiving Day!

Angela Matson started her journey at RKO as a new Mom to her baby boy. *Cody Matson* was born to Angela and Ryan Matson on June 12, 2003.

Another baby boy joins the RKO family. **Peter & Michelle Way** had their baby boy, *Jacob Andrew Way* on June 5, 2003.

Congratulations to the newlyweds **Laura and Luke Bryant** who just celebrated their one year anniversary on September 14, 2003.

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