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adviser

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WORLDWIDE REPRESENTATION BY DFK INTERNATIONAL

Beatrix McKane Named Among Top 50 Women on Long Island

"I feel humbled to be included among such an accomplished group of women," says Not-For-Profit Partner Beatrix McKane, after being named among the *Long Island Business News* Top 50 Most Influential Women of Long Island.

Beatrix is the incoming president of the Suffolk chapter of the New York State Society of CPAs, Treasurer of the Suffolk Community Council and on the Boards of Directors of Hospice Care Network and the Regional Plan Association.

"We would have been more surprised if she hadn't been named among the Top 50. She is a unique person as well as an accomplished businesswoman," says HR Managing Partner Frank Candia of Beatrix, who also is being inducted into the Hall of Fame of the Long Island Center for Business and Professional Women, as a past recipient of their Achievement Award.

This Month

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Charitable Deduction by an S-Corporation

The IRS recently has ruled that an accrual basis S-Corporation can not deduct a charitable contribution unless the payment of the contribution was actually made by December 31. This is in contrast to a C-Corporation that is permitted to deduct a charitable contribution if it is authorized by the board of directors prior to the close of the tax year and actually paid within 2 ½ months thereafter.

The reasoning behind this ruling points out one of the fundamental differences between an S-Corporation and a C-Corporation. A C-Corporation computes its own income and pays tax based on that income. Its deduction for charitable contributions is limited to 10% of its taxable income. A special provision in the Internal Revenue Code allows the C-Corporation to delay payment of its charitable contribution for 2 ½ months after the year end so that it can compute its contribution limit.

An S-Corporation, on the other hand, computes its income in the same manner as individuals. It passes through its income or loss, as well as its charitable contributions, to its shareholders. Individuals are only permitted to deduct

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Notable and Quotable

Partner **Barry Garfield** has been elected to the Advisory Board of the Long Island Development Corporation ("LIDC"). LIDC is a not-for-profit corporation that provides financial and technical assistance to small businesses on Long Island. "Because of all the fine programs that the LIDC has offered, including the SBA 504 program, it has helped many Long Island companies grow to the size they are today," says Barry. "I look forward to the coming year on the Advisory Board."

Alan Weiner's words are in print again, and if you have a CPA certificate or legal degree you might even be able to understand it. What started as a short memo to the HR staff on capital gains tax changes turned into the article "Potential Reduction in Capital Gains Tax Rate Requires New Planning and New Recordkeeping Now," in the March issue of the *Journal of Taxation*. Alan also adapted the article for the Bar Associations of Nassau and Suffolk.

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Passport Renewal

Did you know that some countries won't admit you if there are less than six (6) months remaining before the expiration date of your passport?

Don't wait until the last minute. You can access the form and instructions at **travel.state.gov**. Your passport can be renewed via mail or by visiting a post office that has a passport desk. In either case, it takes about four (4) weeks to receive your new passport – and the passport office will return your old passport as a keepsake.

BIG CHANGES FOR SMALL RETIREMENT PLANS

Under new Department of Labor ("DOL") regulations, effective for plan years beginning after April 17, 2001, certain small pension benefit plans (those with fewer than 100 participants) must now have an audit of its financial statements by an independent certified public accountant, unless the plan meets certain new requirements.

Why the change? The new regulations are primarily the result of the DOL's reaction to recent cases involving embezzlement and other plan asset misappropriations. It is the belief of the DOL that plan participants and beneficiaries are the first, and most often the best, line of defense in monitoring their own pension plans. Thus, the new regulations are aimed at providing more information to the persons who need it most (the participants), and to the ones who can catch "problems" the earliest.

The first requirement of the new regulations necessary to avoid an audit is that at least 95% of the plan's assets must be "qualifying" assets. Qualifying plan assets are defined as assets held by regulated financial institutions, including insurance companies and broker dealers, and consist primarily of mutual funds and investment and annuity contracts. Certain participant loans and employer securities also are deemed to be qualifying plan assets.

If less than 95% of the plan's assets are "qualifying" assets, the second requirement states that the plan must obtain bonding in an amount that is at least equal to the amount of the "non-qualifying" plan assets.

The third requirement pertains to the Summary Annual Report ("SAR"), which is the annual statement employers must give to employees. If no audit is required because the first or second requirement is met, then the plan administrator must include additional disclosures in the plan's SAR, as follows:

1. The name of each institution holding "qualifying plan assets" and the amounts being held at the end of the plan year;
2. The name of the surety company which bonds the plan's assets, if the plan has more than 5% of non-qualifying assets;
3. A notice that participants or beneficiaries may (without charge) examine, or receive copies of, statements the plan has received from each institution holding qualifying plan assets;
4. A similar notice that such parties may also examine evidence of the required bond; and
5. A notice stating that any participant or beneficiary denied access to the documentation stated above should contact the Regional Office of the U.S. DOL's Pension and Welfare Benefits Administration.

Questions? Contact HR Audit Supervisor Michael J. Mikulski, CPA at 631-752-7400, x-214 or *mmikulski@hrcpa.com*.

CyberNotes - www.wolinskyweb.com

Wolinskyweb.com is one website most of us will wish we could have used, when we were in high school, for tricky homework assignments. On **wolinskyweb.com** is a section called, "Measure 4 Measure," described as "a collection of interactive sites on the web that estimate, calculate, evaluate, translate, etc. In other words they do the work for you."

Wolinskyweb.com is basically a portal, linking you to websites that can perform all sorts of calculations. With over 200 calculators, it isn't hard to find one that can be put to good use.

The websites are organized by category, including math/science, health, finance and a measure of everything else. In the 'math/science' category you can find links that instantly convert metric measurements, and sites that will solve other math problems. In the 'health' category you can calculate your daily caloric intake, your risk for various diseases and the financial cost of smoking. In the 'finance' category you can find the loan payment calculator and the calculator for life insurance needs. The 'measure of everything else' category includes just that – calculators and conversions that don't necessarily fit into the other categories, including dog and cat age calculators, the floor tile estimator (how many tiles you need to tile a room) and the golf handicap calculator.

With all these features, **wolinskyweb.com** certainly is useful, even if you are no longer in high school.

IRS Allows Advance Distribution of Transit Passes

Employers can now distribute tax-free mass transit passes to their employees farther in advance than one month. A recent IRS announcement changes the distribution requirement discussed in the proposed regulations.

The proposals would have exempted the transit passes (as qualified transportation fringe benefits) from federal income and employment taxes only for the month in which they were distributed.

Under the new requirements, employers may distribute transit passes (valued at $65 per month for 2001) for more than one month without negating the tax exclusion. For example, an employer may distribute transit passes quarterly. However, if the employee holding the advance transit pass terminates his or her employment before using all of the pass, and the employer does not recover the value of the pass, federal income and employment taxes will attach to the remaining value of the pass.

THE ADVISER CORNER

When is a Sale Really A Sale?

By Joseph W. Chase, CPA

Over the years professional literature has tried to address this diverse issue – when is a sale really a sale?

On December 3, 1999, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 101 ("SAB 101"), which summarizes certain SEC views in applying generally accepted accounting principles ("GAAP") to revenue recognition in financial statements. While the SAB does not change any of the accounting profession's existing rules on revenue recognition, it reemphasizes the basic criteria that must be met before companies can record revenue. Since this SAB is reemphasizing existing GAAP, both public companies and companies in the private sector should be addressing revenue recognition while preparing for year-end audits.

Revenue should not be recognized until it is realized or realizable, and earned. The SAB lists four criteria that need to be met in order to recognize revenue:

- There must be persuasive evidence that an arrangement exists;
- Delivery must have occurred or services must have been rendered;
- The selling price must be fixed or determinable; and
- Collectibility must be reasonably assured.

The SAB provides a number of examples of how the staff applies these criteria to specific fact patterns, such as persuasive evidence of an arrangement; bill-and-hold transactions; and gross vs. net revenue presentation.

Evidence of Arrangements

Persuasive evidence of an arrangement exists when there is an executed written sales agreement, or electronic evidence. For example, a customer places an order near the end of a company's year-end. The product is delivered the day before the year ends. The company uses written sales agreements, however, the customer can not obtain written approval of the contract until a few days after the end of the year. This revenue should be recorded in the following year. Persuasive evidence of an arrangement is the final agreement properly executed by the customer's authorized personnel.

Bill and Hold

It is the last day of your company's year-end and the auditors have come in to perform an inventory observation. Certain inventory has been marked as sold, but not shipped. The auditor begins to question whether or not this is really a sale. In a bill-and-hold situation, when delivery has not occurred, the following criteria must be met in order to recognize revenue:

- Risk of ownership must have passed from the seller to the buyer;
- The customer has to have made a fixed commitment to purchase the goods;
- The *buyer*, not the seller, must request that the sale be on a bill and hold basis, and have a substantial business purpose for ordering the goods on a bill and hold basis;
- A fixed schedule of delivery must exist;
- The seller must not have retained any specific performance obligations such that the earning process is not complete;
- The ordered goods must be segregated from the seller's inventory and not be subject to being used to fill other orders; and
- The equipment/product must be complete and ready for shipment.

Assuming all of the above have been met, a valid sale has been recorded.

Gross vs. Net Revenue Recognition

The SAB also deals with gross vs. net revenue recognition. The company needs to consider the following questions: Is it acting as a principal? Does it take title to the product? Have the risks and rewards ownership been passed? Is the company acting as an agent or a broker? In an example, assume Company A operates a website on which it sells Company B's products. Customers place orders and credit card information on the website. Company A receives the order and credit card authorization and processes the order. Company A does not take title to the product and has no risk of loss. Company B ships directly to the customer, and is responsible for returns, disputes, and defects. The product is sold for $175, for which Company A retains $25 and Company B retains $150. Company A should record the net amount, $25, as revenue.

Since the issuance of SAB 101 in 1999, requests had been sent to the SEC asking for additional time to study the guidance. In March, 2000, the SEC issued SAB 101A, which delays the implementation date of SAB 101. The SEC continued to receive requests asking for additional time to determine the effect, if any, on a company's revenue recognition practices. As a result, in June, 2000, the SEC issued SAB 101B, which further delayed the implementation date of SAB 101.

Although calendar year-end 2000 companies should already have adopted this provision, all fiscal year-end 2001 companies should be addressing this issue now, in preparation for their year-end audits.

Questions? Call Joe Chase at 631-752-7400, x-211, or *jchase@hrcpa.com*.

"Say something in Italian!"

When people learn that you speak a foreign language, they inevitably ask you to "say something" in that language . . . and inevitably, nothing comes to mind. And so, one reply could be: *"Non o niente di dire"* ("I have nothing to say").

No such dilemma exists with the multi-lingual staff at Holtz Rubenstein. It would be Administrative Assistant Rose Marotta's pleasure to let you know, in Spanish, that *"Usted no le debe nada al IRS."* ("You don't owe any money to the IRS.") Administrative Assistant Marie-Louise de Perignat also will happily advise you, in Italian, *"Lei riceverà un rimborso!"* or in French, *"Vous recevra un remboursement!"* ("You will receive a refund!")

Patrick Yu, senior auditor, can greet you in Cantonese, *"Lei ho ma?"* (How are you?) and, after many hours of on-site research and calculations while conducting an audit, he can confidently advise you, in Mandarin, that *"Ni mun kung se duh ni-en dee kwai ji dongon hwo duh hur beow jo-en duh peen goo yi tsien."* ("You have received an unqualified opinion on your audit.")

No matter which language you choose, you can count on our professional staff to answer your tax, audit and general accounting questions expertly, reliably and in a timely manner.

A-B-C-D-E-F-G-H Stamps

You need a stamp!

You look in your stamp drawer! It's maddening! You have an A stamp and a C stamp and you absolutely must mail Mom's birthday card. Well, relax. The A stamp is a 15¢ stamp and the C stamp is a 20¢ stamp (a total of 35¢ even though you need only 34¢) - and they both still are valid.

Here's the price list of the lettered "nondenominated postage" (the post office's term) stamps:

A stamps (15¢), B (18¢), C (20¢), D (22¢), E (25¢), F (29¢), G* (32¢), H* (33¢)

* Be careful since several G stamps with different values were issued. The 32¢ stamp says "U.S. Addresses Only". Also, some G and H stamps are "Make-Up Rate" stamps, worth 3¢ and 1¢, respectively.

For the value of other nondenominated postage stamps, click on **usps.gov**; then, Services Guides (in the gray shaded area); enter "nondenominated postage" in the search box and check "**Q**uick **S**ervice **G**uide (if not already checked); then **Q S G** 022; and you're there (if you have Acrobat Reader).

P.S. Mom will get her birthday card
and you're safe until Mother's Day.

Computer Software Costs

The IRS has updated its guidelines on the treatment of computer software costs, clarifying which are to be expensed in the year incurred and which of these expenses must be capitalized.

These guidelines apply to all computer software, which is any program that causes a computer to perform a desired function, including all consumer documentation. Computer software does not include data or information base unless it is public domain and incidental to the program. The treatment of these costs depends on the whether the software is developed, related to other acquired software, or incurred in connection with leased or licensed software.

Costs incurred for the development of computer software can either be deducted as a current expense or may be capitalized and amortized over 60 months from the date of completion of the development or over 36 months from the date the software is placed in service.

Conversely, software that is purchased along with hardware and not separately stated on the invoice must be capitalized and depreciated with the cost of the hardware (generally over a five-year term). Software that is separately stated on the invoice may be amortized over a three-year period.

As you can see, it benefits you to either get a separate invoice for the software purchased or to make sure these costs are itemized on your bill. Currently, software that is leased or licensed can be deducted as rental expense.

DFK Website of the Month

DFK International is the worldwide association of independent accounting and business advisory firms in which Holtz Rubenstein is actively involved. Through our affiliation we are able to provide enhanced services to you, and to other clients throughout the United States and the world.

This month we spotlight the American division - **DFK International/USA**. We invite you to log onto **www.dfkusa.com**.

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Notable & Quotable

In between helpings of corned beef and cabbage, you might have seen **Tim Mulcahy** on News 12 Long Island on St. Patrick's Day. With just weeks until tax day, Tim advised viewers about different filing options for tax returns.

The list of rules was long – be sure to study the script, don't wear stripes, small patterns, or solid black, red or white. Recently, HR Marketing Director **Flo Federman** was a co-host of the Arthritis Foundation Telethon on WLNY-TV55, which presented both doctors and arthritis sufferers, and informed viewers about treatment options for the many different kinds of arthritis. (By the way – she ended up wearing blue.)

Please allow our partners to brag. **Paul Rubenstein** has a new granddaughter, Jamie Theodora Rubenstein, who was born on March 5. And on March 12 Kyra Cooperman was born, the granddaughter of Harriet Holtz, wife of the firm's late co-founder, Bill.

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Charitable Deduction by an S-Corp

contributions that are actually paid by December 31, and thus, the same rule applies to S-Corporations.

Please note - a payment with a credit card is considered to be paid on the date of the charge, even though the actual payment is made when the credit card bill arrives.