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6 Reasons Owners Need a Certified Business Valuation

Article by: John H. Brown, President of Business Enterprise Institute *on page 10*

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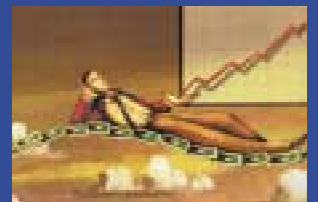

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President's Message

President's Message

By: Peggy Ford-Smith, CPA

With tax season behind us, and the summer in front, we turn our attention to vacations and catching up on our continuing education. SCA can lend a hand with both.

The annual Advanced Accounting Conference will be held in two locations again this year. Both sites will offer 20 hours of continuing education including fraud, accounting and auditing updates, as well as administration and tax planning for trusts and estates. The cost for 20 hours of continuing education is just $365 for members and $465 for nonmembers. For an even greater savings, sign up for both locations for one low price of $650. That is 40 hours of continuing education for only $16.25 per hour! Look for the registration form in this magazine or go to our website www.gosca.com and click on the Advanced Accounting banner.

The Embassy Suites in San Luis Obispo will be the location for the second conference August 20 – 22nd. This is a popular location due to its central location and wonderful hotel accommodations. Allow some additional time to wander through historic San Luis Obispo or take a short drive to Pismo or Avila Beach.

The Rancho Bernardo Inn in San Diego will host the first conference August 6-8th. This is a beautiful inn with numerous swimming pools, a golf course and a fantastic restaurant. Come down for the conference and stay on for a vacation in sunny San Diego.

The annual convention will be immediately before the Advanced Accounting Conference in San Diego. It will start at noon on Sunday, August 5 at the Rancho Bernardo Inn and end August 6 at the installation banquet (see flyer in this magazine). If you have been thinking about getting more involved in SCA, this is a great opportunity to meet members from all over the state. If you are interested in attending, please contact your chapter president or our state office (866-443-2057).

It is with some sadness and a great hope for the future that I will pass the gavel to our new president in San Diego. Each board brings with it new goals and fresh ideas. I can't wait to see what this one has to offer. As this is my last report as president, I would like to take this opportunity to thank the Officers and Directors for their hard work this year. It has truly been a pleasure working with all you. I would also like to thank the members of SCA for their support and guidance over the past twelve months.

Peggy Ford-Smith, CPA

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By: Richard Ivar Rydstrom, Esq. / LL.M.

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Part 1 – ACCOUNTANTS UPDATE!

New 2007 – "Tax Haven Abuses, The Enablers, The Tools and Secrecy Hearings"
Warning: The Private Annuity (Trust) is dead after April 18, 2007

New 2007 – "Stop Tax Haven Abuse Act" – New $1,000,000 Penalty!
Warning: Overview New Laws Coming

Avoiding or Deferring Tax on Sale of Assets (Appreciated Assets & the Private Annuity (Trust)

"Tax Haven Abuses, The Enablers, The Tools and Secrecy Hearings" – Update

Warning: The Private Annuity (Trust) is dead after April 18, 2007

On October 17, 2006 the I.R.S. issued Proposed Regulations 1.72-6(e) and 1.1001-1(j) covering certain annuity tax transactions entered into *after October 18, 2006*, and other types entered into after *April 18, 2007*. These new proposed regulations do not forgive certain private annuity trust transactions made prior to such dates, but will supply (taxable) guidelines going forward. Use of the Private Annuity (Trust) to transfer appreciated assets to a trust for the purpose of avoiding or deferring taxable gains on the sale are "suspect" and may be deemed "tax evasion." The I.R.S. may disregard the "form" of the transaction or its structure if it finds a lack of "economic substance," a "step transaction" or for other reasons. Although there are legitimate purposes and uses for such transactions, annuities or trusts, the I.R.S. has effectively shut this vehicle down. The regulations deem the transaction as a taxable event with immediate taxation. Section 72 (e) deems any "loan" that uses annuity assets as **immediately taxable ordinary income.** *[Request "I.R.S. Shakedown – Private Annuity Trusts™", by Richard Rydstrom, Esq., LL.M. Taxation at rydstromlaw@yahoo.com]*

Annuities are a contract that promises to pay the "annuitant" payments over a period of time or for life. Internal Revenue Code ("IRC") section 72 (a) provides in part a special rule for annuities purchased with appreciated assets such as stock or real estate, instead of cash when using a deferred private annuity based on a life, not a term certain. *The general rule requires the seller*

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to pay tax on the gain at the time of the sale, but the special rule is an exception. The special rule allows the seller to avoid reporting a taxable gain at the time of the exchange, until the annuity payments begin. It defers the taxability until and to the extent over the amount attributable to return of original investment. Rev. Rul 69-74, 1969-1 C.B. 43. The taxability of each payment is allocated as not taxable for the portion which represents a return of original investment, taxable as a capital gain to the extent of profit on appreciated property and the remainder taxable as ordinary income.

The Senate Committee says that "Annuities are no strangers to tax fraud. One common tactic has been for the person who purchased the annuity and supplied the annuity assets to immediately regain control of the assets by "borrowing" them back from the party providing the annuity. The tax code views such loan arrangements as evidence that the annuity itself was a sham to obtain a tax deferral on the investment assets. To prevent this type of sham as well as to prevent the diminishing of assets set aside for retirement income, Section 72 (e) deems any "loan" that uses annuity assets as immediately taxable ordinary income. These loans may also be considered by the I.R.S. as evidence that the annuities were themselves shams that should be disregarded for tax purposes."

Moreover, converting an asset to cash by sale from a private annuity trust set up for the tax benefits to the seller/annuitant, may lack economic substance, be a step transaction, or be in violation of the very case law or Revenue Rulings that (you thought) supported such an arrangement. If the annuity payments are to come from the cash realized from the transaction (i.e.: the one or same-source rule), that arrangement may be re-characterized by the I.R.S. under case law as well. It appears that the intent of the U.S. Treasury Department was to reverse Rev. Rul 69-74 and related case law to kill the Private Annuity (Trust). Deferral of capital gains taxes by virtue of a private annuity will be disallowed from October 18, 2006 forward with a narrow exception to April 18, 2007 for issuers who are individuals where the annuity contract is not secured, directly or indirectly, and the property transferred is not sold within 2 years from the date of the exchange.

WARNING: Effectively, there will be no more tax deferrals allowed on these transactions after April 18, 2007! There will be taxes on this type of transaction, going forward!

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Part 1 – IRS "LISTED TRANSACTIONS"

ACCOUNTANTS & CPAs - BEWARE!

Keep You & Your Clients off the IRS Naughty List!™

> ***WARNING: Asset & Legal Protection Note:*** *Judges in civil litigation may also want to find "intent to defraud creditors" in a litigation context causing potential loss of assets or personal liability. Watch how you use an I.R.S. weakened entity. It may open up attacks to the integrity of the entity or structure itself based upon your intent and other facts.*

The I.R.S. Shakedown - "Stop Tax Haven Abuse Act" - Overview

Most of you know my writings and my warnings. Although published or quoted collectively hundreds of times (in Forbes, Los Angeles Times, Chicago Tribune, Dallas Morning News, Apartment Associations, Society of California Accountants, etc., to the 110th Congress), this may be one of my most important warnings to date. This is your wake up call. Please take action to put your 'legal/tax' affairs in order – immediately – so you can get out of the path of an unstoppable IRS/SEC freight train. *Avoid domestic and offshore tax scam promoters! Get immediate legal/tax help if you are involved in any such 'tax avoidance' scam. The IRS is watching and marching!*

Are we in the grips of an I.R.S. shakedown of its taxpayers? IRS Commissioner Everson has made it clear that he will make all efforts to collect taxes as part of his operating mandate.

Warning – The "Stop Tax Haven Abuse Act" is on Deck!

On February 17, 2007 a bi-partisan bill called the ***"Stop Tax Haven Abuse Act"*** was introduced by Senator Carl Levin (D-Mich.), Senator Norm Coleman (R-Minn.) and Senator Barack Obama (D-Ill.) to stop offshore tax haven abuse and domestic and related offshore tax shelter abuses.

This bill is the trend in law making in Congress. It's no joke. It's not the same old stuff. This law would allow the IRS to no longer have to 'chase-the-facts' to prove its case. It supplies deadly and automatic evidentiary factual presumptions against violators in favor of the IRS or SEC. It renders certain attorney legal opinions useless to shield the taxpayer from devastating penalties, and to prove the taxpayer's 'reasonable cause to claim the tax benefit'. This law would also impose on corporate officers a $1,000,000 penalty per violation, with enhanced penalties (i.e.: of 40%-150% on underreported income/taxes or ill-gotten gains). This law is aimed directly at the "beneficial owner" and person or entity with effective "control", whether or not listed as owner, beneficiary or "protector". This law will go after the banks, brokerages, financial institutions, individuals, trusts, corporations, LLCs, corporate officers, CPAs, attorneys, entity formation agents, and tax (scam) promoters, and find its booty in any entity "form" to satisfy the goal of making "every American pay(s) their fair share of taxes." This law will make law the common law concept of "form" over "substance" to "invalidate transactions that have no meaningful economic substance or business purpose apart from tax avoidance or evasion. [It] [a]lso increases penalties for understatements attributable

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to a transaction lacking in economic substance." [Summary, Levin-Coleman-Obama]

Senator Carl Levin says $345 billion in taxes is due and unpaid each year. Congress refers to this number as the *tax-gap*. Senator Levin states "Abusive tax shelters, both domestic and offshore, account for additional billions in unpaid taxes each year. With a $345 billion annual tax gap and a $248 billion annual deficit, said Levin, "we cannot tolerate a $100 billion drain on our Treasury each year from offshore tax abuses." The good old U.S. of A. needs money. The world's problems are at our door. This law is intended to help close that gap and keep the U.S.A. from getting deeper in debt.

"Experts estimate that Americans now have more than $1 trillion in assets offshore and *illegally evade between $40 and $70 billion in U.S. taxes each year through the use of offshore tax schemes.*"{emphasis added} [Tax Haven Abuses, The Enablers, The Tools and Secrecy, August 1, 2006, U.S. Senate Committee on Homeland Security and Governmental Affairs, Norm Coleman, Chairman, Carl Levin, Ranking Minority Member] "[I]ndividuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities or life insurance to do so. The IRS…continues to ***aggressively pursue taxpayers and promoters*** involved in such abusive transactions." ❖

See the next issue for:
"The I.R.S. Shakedown - "Stop Tax Haven Abuse Act" – The 4 Most Dangerous Trends Facing Accountants - Part 2'

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By: John H. Brown, President of Business Enterprise Institute

Six Reasons
Owners Need a Certified Business Valuation

When business owners first meet with an Exit Planning Advisor, they are often surprised that one of the advisor's first recommendations is to obtain a certified valuation of the company. Owners usually react in one of the following ways: "Now? I'm not planning to leave for years!" or "I know what this company is worth. I built it!" and most significantly, "It will cost too much!"

Since a reliable valuation is the bedrock of the entire Exit Planning Process, it is vital for Exit Planning Advisors to be able to answer the business owner's concerns in order for the planning process to move forward. It also is important for advisors to realize that obtaining a value serves to dispel misconceptions in the owner's mind. For instance, if an owner feels the business is really worth, say, $5,000,000 according to a rule of thumb or based upon what a similar business sold for, that owner may be reluctant to move forward with Exit Planning because he wants or needs twice that amount to feel financially secure. Likewise, an owner may believe the business to be worth $10,000,000, an amount sufficient to meet his or her financial security goal, and therefore believes no additional planning is needed. However, the owner may later discover when the business goes to market that it is only worth that amount. At this point, it is too late, or the owner may be too burned out to spend the time, effort and money necessary to grow business value.

Even so, most advisors may still question the importance of valuations in the Exit Planning Process. Many advisors may see the cost of a valuation as simply another barrier for the owner, and they may shy away from pursuing a valuation because it is all too easy for an owner to procrastinate as it is. So, is a valuation

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really necessary? And if so, how much will it cost and who should conduct the valuation?

First, let's look at six reasons why smart owners secure independent business valuations.

Reason One

Exit Planning is a seven-step process that is completely focused on each owner's unique objectives. A major objective shared by many owners is to receive full, fair value for their ownership interest. When discussing the value of their lives' work, most owners are not comfortable with rules of thumb, informal or casual estimates because rules of thumb rarely take into account variations in revenue, cash flow, location, reputation, proprietary technology, contingent liabilities and other factors that may have a significant effect on the value of a particular business. How do determine the full, fair value of a business unless an experienced, trained business valuation specialist values it?

Ask yourself this question: If you assisted an owner with the sale of a business to a sophisticated outside buyer, would that buyer acquire the business without first determining its worth? Of course not—nor should a business owner sell it to anyone without first determining its worth. Of course, most owners are not on the verge of transferring ownership – a situation where the need for a reliable valuation is obvious.

Reason Two

When thinking about an owner's exit, one of the first questions you must answer is, "How much will the owner need from the sale of his company to maintain the lifestyle he wants for himself (and for his family) in retirement?" The companion question should be, "Is the business worth enough (on an after-tax basis) to support those needs? You must know this answer before you help an owner proceed down any exit path.

Let's look at this simple example. Suppose your client is prepared to leave his/her business, subject to being financially secure and independent. In most cases, the source of the financial security is predominantly from the conversion of business value to cash (with taxes being paid). Knowing the business value well in advance of the ownership transfer is imperative. Again, if the owner believes the value to be higher or lower than it really is, this causes the owner to take the wrong set of actions or inactions. If the value is higher than believed, the owner can leave sooner rather than later. If the value is lower, there is work to do that the owner may have thought unnecessary. So, how can you help your client develop an exit strategy based on obtaining financial security without starting with a reliable valuation?

Reason Three

It surprises many owners to learn that business value is relative, not fixed. It can vary based on the reason for transferring ownership and on the conditions under which a transfer is made. For example, an appropriate business value for a third-party sale may be significantly higher than that established for a transfer of the same business to key employees over time, or a gift of the business to children. Business valuation experts understand this, "rules of thumb" don't.

The classic example we've seen many times is the owner using a valuation guesstimate based on sales of comparable businesses to third parties—and applying that value to a proposed sale to the company's key employees—who have no money. The result, in the unlikely event that the sale goes forward, is frustration and failure as the cash flow of the business cannot, after taxes, support the higher valuation using a third-party sale value approach. The solution is to have the business valued both from a full fair value perspective—perhaps a third-party sale scenario—and from a transfer to insiders approach, with the difference in value being paid to the owner via other and more tax effective methods.

Value is not only relative, it fluctuates. In co-owned companies, unless the value established for the buy-sell agreement is updated periodically, one owner may receive

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Six Reasons Owners Need a Certified Business Valuation

too much or too little (upon death, disability or departure) while the other pays too much or too little. Using outdated valuations often results in litigation (and subsequent loss of business value) as the remaining owner goes to court.

Likewise, if an owner is contemplating a sale to a third party, the business value is dependent not only on the intrinsic value of the business, but on the "external" condition of the M&A market for that type of a business in that particular geographic area as of now—not six months or two years ago. The M&A cycle is continually changing based on a variety of external factors, such as the cost of financing, the state of the stock market and the availability of capital, all of which dictate not only the EBITDA multiple, but the terms of a possible third-party deal. This also effects how much of the deal price is to be paid in cash, in the form of a buyer-note, or represented in an earn-out.

Reason Four

An important part of The Exit Planning Process™ (Step Three) is growing the value of the business. Whether business owners contemplate a transfer to insiders or a sale to outsiders, it is important to motivate and keep management/key employees. Incentive programs that both motivate and "handcuff" employees to a company are typically based on formulas. The most successful of these incentive programs (whether cash- or stock-based) use formulas that link the size of a bonus to growth in business value. Participating employees are justifiably interested in knowing how the business value was established, how it is measured and whether the value you approved is fair to them. Relying on an outside appraiser is often the best way to dispel their concerns.

Reason Five

If an owner is considering a transfer to key employees, do you believe that the employees will accept an unsupported valuation? Bear in mind, they likely have little sense for what the business value is, or how it should be determined. Even though your client may (for tax and other reasons) decide to sell the business at a low value, employees may not consider the value to be low. It is best to anticipate these concerns and to obtain an independent valuation at the outset of the planning process.

The fair market value will likely be the value that the owner wants and is willing to sell the business for. The valuation establishes that it is the appropriate value as well. Yet, as the following paragraph explains, it is not the value at which the employees will buy much of the ownership. A common technique is to allow the buying employees to purchase an initial amount of ownership, valued using a minority discount. This not only makes the purchase feasible, but the employees realize they are getting a "deal" when they contrast their per-share purchase cost with the fair market value determined not by the owner's accountant, but by an independent, certified valuation expert.

Reason Six

In a transfer to key employees, a common transfer technique (designed to reduce both owner's and buyer's tax liabilities) is to initially transfer a minority interest at a discounted value. Using a "rule of thumb" valuation to support a minority discount simply will not fly when the IRS asks you to justify the discount. You must depend on the valuation of an independent valuation specialist who is able and willing, to defend the valuation before the IRS.

Since a valuation will be necessary anyway, why not obtain it earlier in the process so that it can be used as a basis for all planning – establishing value and related incentive planning to the acquiring key employees, using it as the basis for gift planning if a transfer is to children, using it to reaffirm the expected sale price if the owner chooses a third-party sale exit path, or determining how much value needs to increase to reach the owner's objectives? After all, in the words of Yogi Berra, "You've got to be very careful if you don't know where you're going, because you might not get there." Yogi Berra wasn't an Exit Planning specialist, but he was on to something. You and your clients simply can't be efficient and effective in growing value if they don't know the start and end valuation points.

How much does a valuation cost? How about a lawyer's answer – "it depends?" Valuation costs range from zero to $25,000 for a fairly straightforward company. Valuation services are available online and from non-certified advisors. Valuations are often performed by transaction intermediaries or CPAs who may or may not have formal training and certification. These valuations are often performed for little or no cost. These valuations are often useful—especially if your client is contemplating a third-party sale. Using an investment banker or business broker provides you with a picture of what is happening today in your client's M&A market segment.

Many business valuation specialists will provide an "estimate of value" or a "calculation of value" that falls short of being an opinion of value, but can be effectively used for planning purposes. When an ownership transfer is imminent, that "calculation of value" can be fleshed out to create a valuation opinion. For a "normal" business with $10,000,000 or so in revenue, a valuation typically costs $5,000-$15,000 and a "calculation of value" costs 60-75 percent of that amount. When the value calculation is upgraded, an additional 25 percent or so is charged. Thus,

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valuation calculations might typically cost about $5,000 if the valuation cost is about $7,500-$8,500. Having said this, the complexity of valuations varies tremendously based on the companies being valued; the cost of valuations varies significantly between different regions of the country, as well as among the many valuation firms or individuals in your community. It is important to interview local appraisers during the early stages of the Exit Planning process.

The bottom line is this: valuations are not costly—a business worth even $1,000,000 can easily afford a valuation.

If the cost of a valuation seems unnecessary, compare it to the cost of underestimating the company's value (thus leaving money on the table), or of defending a rule of thumb value before the IRS—unprotected by a proper valuation. The uncertainty of value undermines the entire purpose of performing effective planning – if you don't know what you have, how are you going to get more?

Who should you use? The short answer is a credentialed valuation expert. Do not use anyone else (with the possible exception of valuing a very small business that has no proprietary technology, such as a small retail store, franchise restaurant or service business with only a few employees). Common certification designations are CVA (Certified Valuation Analyst), ASA (American Society of Appraisers), ABV (Accredited in Business Valuation), and CBA (Certified Business Appraiser).

The transfer of your client's ownership interest is the final act in the owner's business career. Doesn't it make sense to be certain that everything has been done to maximize the value of the owner's life work? ❖

For questions or comments on this article please contact John H. Brown, Business Enterprise Institute at 888-206-3009, or www.exitplanningforadvisors.com.

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Please select the classes you will be attending. Class selection must be made at the time of registration. Classes cannot be changed at the conference.

Monday, August 6 or August 20th

1:00 PM - 5:00 PM (Select One)
- ❑ Auditing Update (4 hrs. A&A)
- ❑ Estates & Trusts - Part 1 (4 hrs. T)

Tuesday, August 7th or August 21st

8:00 AM - 5:00 PM (Select One)
- ❑ COSO Light (4 hrs. A&A)
- ❑ Analytical Procedures (4 hrs. A&A)
- ❑ Estates & Trusts - Part 2 (8 hrs. T)

Wednesday, August 8th or August 22nd

8:00 AM - 5:00 PM (Select One)
- ❑ Accountants Responsibilities for Fraud (8 hrs. F or A&A)
- ❑ Financial Statement Disclosures (4 hrs. A&A)
- ❑ Compilation & Review (4 hrs. A&A)
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By: Charley Wright

Income Investing

Dividend Hunting can be Fruitful

Here's an all too familiar story – It was early 2002, and Caren needed to preserve her financial nest egg, create sufficient cash flow to pay the bills. The stock market was still in its free fall to its 39% cumulative decline over 3 years, and interest rates were well below today's 5% range. She needed about 10% return to pay the bills, and wanted to grow the nest egg so that future income could keep pace with inflation. She felt comfortable with well known and recognized investments that were publicly traded and that she could follow every day. Fixed income investments were paying too little for her needs, but growth investments put her principal at greater risk than her comfort level would tolerate. She was between the proverbial hammer and anvil.

For Caren, and for many others, the answer was found in one word – DIVIDENDS. Let's see how.

What are dividends?

They are payments made by a company to its shareholders. When a company earns a profit, that money can be put to two uses: it can either be re-invested in the business, or it can be paid to the shareholders of the company as a **dividend**. A company could be a regular business, or it could be an investment company, i.e. (mutual fund, closed-end fund, etc). There are businesses and investment companies whose purpose is to generate high dividends for their shareholders. Let's identify some of them:

Floating Rate Funds – These are investment companies that make loans to large corporations, fully collateralized, whose interest rates are reset every 30-90 days. There are dozens of these funds available, led by "Closed-end Funds," which are currently paying 8% plus. These funds are completely interest rate driven, so they will follow movements of interest rates.

Preferred and Convertible Securities – This is a comparatively new asset class that has grown substantially over the past ten years. There are several dozen Closed-end Funds in this category, and currently pay around 8% dividends.

Canadian Trusts - Years ago, Canada established a business entity called an "Income Trust" and gave it special tax benefits designed specifically to encourage high dividend payouts. For years, these "Income Trusts" have paid out high dividends. Some of these businesses are oil and gas exploration and production companies, some are utility companies, some are in other industries. The current Canadian government has proposed changing the current tax law, making these trusts' dividends less tax beneficial, but extending the implementation of these changes for at least four years. These changes are still under debate, and are far from final. In the meantime, these trusts pay dividends of 8 – 12%.

Business Development Companies – As private equity has raged forward, investment companies who raise capital for this purpose have done very well, and encourage investor participation by paying strong dividends. Several of these investment companies have paid dividends of 8% plus for years, and continue to do so.

Master Limited Partnerships – These investment are typically in energy production or distribution. Many of them pay 8% plus in dividends.

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Equity & Option Income Funds – Sometimes called "Buy-Write" funds, this is a strategy that combines investing in dividend paying stocks or indexes combined with generating higher income by writing cal options. As with any strategy, it is only as good as the strategist, but for the past few years, the strategists appear to have figured it out. Dividends of 10% plus are common among the dozens of funds that offer them.

Are These Mainstream, Publicly Traded, Regulated Investments?

Every one of these investments is publicly traded, so all the regulations and requirements of transparency and disclosure apply, and all offer broad diversification of positions within their focused marketplace. Each of these investment companies holds dozens to hundreds of positions, all with the focus of investing for yield. Most of these investments have low correlation with each other, and most have a low correlation with the stock market. Of course, each one has their own unique issues, and must be evaluated on their own merits.

Are there risks with these investments?

Of course. That's why only a portion of one's portfolio should be invested in any single approach, and more than one investment company can be selected for each approach. Such diversification can greatly protect against surprises in the marketplace.

How has this approach worked over the past several years? Ask Caren. She has received dividend distributions of at least 10% every year, and her portfolio has grown by over 25% total. ❖

About The Author

Charley Wright

is a Fee-Only Investment Advisor representative of Partnervest Advisory Services LLC in So. Calif. He advises pension plans and participants on their investment portfolios, on a fee basis only, and sells no investment products for commission.
He can be reached at cwright@partnervest.com or at 909-483-1123. Charley Wright does not provide legal, accounting or tax advice.

SCA Membership

The Society of California Accountants (SCA) is a nonprofit, voluntary, professional organization representing California CPAs in public practice; management, business and industry; education and government.

Membership in SCA provides a professional advantage by enabling CPAs to stay current on rapidly changing technical, professional and management issues, improve the quality of their work, and advance their careers. The value of membership has never been greater and we are continually alert for new ways to help our members succeed.

SCA is a member-driven organization dedicated to:

- Increasing your technical knowledge, skills and abilities
- Keeping members current in their field of expertise
- Providing support, contacts and networking

"Every man owes a part of his time and money to the business or industry in which he is engaged. No man has a moral right to withhold his support from an organization that is striving to improve conditions within his sphere." Theodore Roosevelt

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Representation/Liaisons
SCA has an active legislative program, legislative advocate, and a liaison with the California Board of Accountancy.

Chapter Meetings
With chapters statewide, chapter meetings are held monthly and feature guest speakers and informative programs. Usually eligible for CE.

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SCA provides a fully staffed Executive Office which is available to answer questions or to provide up-to-date referrals concerning legislation, educational opportunities or other issues concerning membership.

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- **NEW! Office Depot –** Discounts on office supplies and equipment
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For more information on these membership benefit programs, contact Society of California Accountants at (707) 578-2070 or by email at info@gosca.com

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CAPITOL AVENUE

SCA LEGISLATIVE REPORT

California Board of Accountancy and Committee on Professional Conduct (CPC) May meeting review

There were two main topics of discussion at the May meetings of the California Board of Accountancy and the Committee on Professional Conduct (CPC) held in Sacramento.

For CPAs with clients residing outside of the CPA's home state, "Cross-Border Practice" has become a time consuming, costly and sometimes confusing issue. At the March 2007 meeting of the Committee on Professional Conduct representatives from the AICPA and NSABA (National Association of State Boards of Accountancy) presented an Exposure Draft of the proposed revisions to AICPA/NASBA Uniform Accountancy Act related to cross-border practice. The Committee met in May to further discuss the Exposure Draft in order to make recommendations to the Board of comments to include in a written letter to be submitted to the AICPA and NASBA. Additionally they were investigating potential modifications to California's practice privilege requirements to propose to the Board.

Currently California requires a licensee from another state to meet one of three requirements to qualify for cross-border practice: 1) the licensee is from a state considered by the board to be "substantially equivalent"; 2) the licensee individually has met licensure requirements "substantially equivalent" to California's pathway to licensure requiring 150 semester units of education; or 3) the licensee has practiced public accountancy for four of the last ten years. If a licensee meets one of these requirements he/she can then complete an online form which provides the Board with information identifying the practice privilege holder as well as informing the licensee of his/her responsibilities. There is a fee of $100 for practice privilege with an authorization to sign attest reports and $50 without authorization to sign attest reports. Most practice privilege holders receive practice rights immediately. If a "disqualifying condition" is reported on the application, the licensee must obtain Board approval prior to being practice in California. To see the full text of the law and the Practice Privilege Regulations go to www.dca.ca.gav/cba.

Both the AICPA and NASBA recognize that CPAs need to be able to practice in various states to meet the needs of their clients and that having different laws in each state concerning practice privilege makes "mobility challenging and costly." In their Exposure Draft they believe they have arrived at a solution that is described as "no notice, no fee and no escape." Under this plan a licensee who qualified for "substantial equivalency" would have practice privilege without notifying the state board of the visited state or paying a fee. In order to be "substantially equivalent" a practitioner must either be from a state determined to have licensure requirements substantially equivalent to the licensure requirements in the UAA or individually to have met licensure requirements substantially equivalent to those in the UAA. The "no escape" component states that by practicing in the visited state the licensee consents to the jurisdiction of the state board of the state.

The Committee on Professional Conduct sent the following recommendation the California Board of Accountancy:

The Board support elimination of the notification requirement in the UAA and that the Board supports the national licensee database.

The Board expressed support, in the comment letter, for the overarching principle that state boards should trust one another to appropriately license and appropriately discipline.

The Board included in the comment letter the following statement: While the UAA contemplates a future in which an individual would be licensed in only one state, the current reality is that many practitioners are licensed in multiple states, and the Board is concerned that the UAA does not address how discipline by a state other than the state of the principal place of business affects a practitioner's cross-border practice rights.

The Committee would like the Board to call attention to the lack of definitions and the inconsistent terminology in the UAA.

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Finally the Board should communicate that it is not comfortable with the way that the UAA firm registration provisions separate audits and reviews and comment on the complexity of the firm registration requirements

The Board approved all of the above recommendations. The CPC will continue discussions on allowing cross-border practice without notification in California at a future meeting.

Assembly Bill No. 1185 has passed the Assembly and is currently in the Senate. This bill would require the Board of Accountancy to review and evaluate whether to implement a peer review program applicable to certain accounting firms that provide attest services, and to report its finding to the legislature and the department no later than September 1, 2008. Current law requires this be done no later than September 1, 2011. This bill is sponsored by the California Society of Certified Public Accountants.

At the May meeting the Board did not discuss mandatory peer review in California but listened to a presentation of the AICPA's peer review process for CPA firms. The presentation was made by Susan Coffey, AICPA Senior Vice President of Member Quality and State Regulation, Mr. James Brackens, AICPA Vice President of Firm Quality and Practice Monitoring and Linda McCrone, CalCPA Director of Technical Services. The panel told the Board how the program currently works. It also addressed proposed revisions to the peer review standards, the peer review transparency initiative and the peer reviewer pool initiative. A motion to refer the discussion related to the next steps for peer review to the September 2007 CPC and Board meetings was unanimously passed.

Currently 42 states have mandatory peer review. The Board must make its report on peer review to the Legislature by either September 1, 2008 or September 1, 2011. We want your voice to be heard. Watch for a member survey about peer review on the SCA Website, www.gosca.com, launching on July 23, 2007. ❖

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Chapter

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I hereby apply for membership in the Society of California Accountants as:

❑ Active Member. Active Members shall be those persons who are active licensees of the California Board of Accountancy. **($340 Dues* + $10 Application fee)** California License #______________ Date of Birth______________

❑ Associate Member. Associate Members shall be those persons who have applied to take, or have taken, the CPA examination, or who are in the employ of persons qualifying for Active Membership. **($255 Dues* + $10 Application fee)**

❑ Affiliate Member. Affiliate Members are any individuals who, by their affiliation with the accounting profession, find membership advantageous and have a desire to support the Society. **($170 Dues* + $10 Application fee)**

❑ Student Member. Student Members shall consist of full-time students, as per the accredited college requirements for full-time status, who are accounting majors or interested in accounting careers. **($34 Dues + $10 Application fee)** *Verification is required. Please attach copy of current student ID.*

❑ Educator. Educators shall consist of full-time employees (as defined by their institution), of accredited colleges, including junior colleges, engaged primarily in teaching of accounting and business related subjects. **($85 Dues* + $10 Application fee)**

❑ Governmental. Governmental members shall consist of licensees who are full time employees of governmental agencies. **($85 Dues* + $10 Application fee)**

❑ Sustaining Member. Sustaining members shall consist of any individual, company or corporation who, by their interest in the accounting profession, is desirous of supporting the purposes of the Society. **($680 Dues + $10 Application fee)**

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How were you referred to SCA? ______________ Have you previously held membership in SCA? ❑ Yes ❑ No

I agree to abide by the Code of Ethics, Rules of Professional Conduct and Bylaws of this Society, and regulatory provisions of the California Board of Accountancy. ______________ ______________________

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August 5-6, 2007
San Diego, CA

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12:00 PM - 1:00 PM .... Early Bird Lunch
1:00 PM - 5:00 PM .... Business Session

MONDAY, AUGUST 6, 2007

8:00 AM - 12:00 PM .... Business Session
12:00 PM - 1:00 PM .... Lunch
6:30 PM .... Installation Banquet

HOTEL INFORMATION

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