

Accounting for Ourselves...



Garrett R. Davis



Jessica L. Gunn

The Firm would like to welcome two recently hired Associates **GARRETT R. DAVIS** and **JESSICA L. GUNN** to the professional staff. Garrett is a native and resident of Huntington, West Virginia, where he graduated from the Lewis College of Business at Marshall University with a Bachelor of Business Administration degree in Accounting. Jessica hails from Barboursville, West Virginia, and graduated from the Lewis College of Business at Marshall University where she received a Bachelor of Business Administration degree in Accounting and Management with a concentration in Healthcare. Both Garrett and Jessica were selected to participate in the Somerville & Company Accounting Internship program and now concentrate their efforts providing accounting, auditing and tax related services to a wide range of clients. Welcome aboard!

MENDY A. ALUISE, CPA, and **MATT L. BROTSKY, CPA, MSA**, Associates with the Firm, have been elected to serve as members of the Board of Directors of the Huntington Chapter of the West Virginia Society of CPAs for the 2011-2012 program year. The charge of the Huntington Chapter is to locally promote advancement of the accounting profession, maintain high professional and ethical standards, expand professional knowledge, and render service to the community.



Mendy A. Aluise, CPA



Matt L. Brotsky, CPA, MSA



Congratulations to Associates **MENDY A. ALUISE, MATT L. BROTSKY, LINDA A. BURNS, SHARON K. CHANDLER, ALEX S. GAWTHROP, KATHY S. MOORE, KALEENA B. RAYBURN**, and Partner **WADE S. C. NEWELL** who all have completed comprehensive training curriculum developed by Intuit to become Certified QuickBooks ProAdvisors. Somerville's inhouse ProAdvisors are available to help businesses better manage their finances and prepare for tax reporting with this specialized training, software installation and customization, as well as recommend add-ons for value. If you or your business would like QuickBooks software training, please contact **Wade Newell** at **(304) 525-0301** or **email wade.newell@s-co.com**.

Congratulations and best wishes to **GARRETT R. DAVIS**, Associate, and his new bride, Sara Elizabeth (Freeman) Davis, who were recently married on June 25, 2011.

This is the third year Somerville & Company, P.L.L.C. has been pleased and proud to serve as corporate sponsor for the successful **WOMEN 2 WOMEN COMMITTEE** through the Huntington Regional Chamber of Commerce. The professional women's committee aims to identify women leaders in our community, provide mentoring and networking opportunities, and to promote work/life balance. A great time was had at the past meeting on October 4th at Huntington's Kitchen where a fall fashion show by Wright's and scrumptious lunch was enjoyed by all.



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Somerville & Company, P.L.L.C.

Certified Public Accountants and Consultants

501 Fifth Avenue
P.O. Box 2096
Huntington, WV 25721

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the SOMERVILLE Report

FALL 2011

IRS Issues Guidance on Carryover Basis Rules for Decedents in 2010

The Internal Revenue Service (IRS) recently issued guidance on the treatment of basis for certain estates of decedents who died in 2010 to assist executors who are electing to opt out of the estate tax and have the carryover basis rules apply. The agency also clarified how donors can opt out of the automatic allocation of the generation-skipping transfer (GST) tax exemption for direct skips in 2010.

Under the new guidance, an executor must file Form 8939, Allocation of Increase in Basis for Property Acquired from a Decedent, to opt out of the estate tax and have the new carryover basis rules apply. The IRS expects to issue Form 8939 and the related instructions early this fall. Form 8939 must be filed by January 17, 2012. Executors using this form will be required to provide extensive details of property and property valuations. To remain in the estate tax regime, the IRS has instructed executors of the estates of decedents who died between January 1, 2010 and December 17, 2010 to file the form that is used for taxable estates, Form 706, by September 19, 2011.

With the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the estate tax was gradually reduced and was repealed altogether in 2010. After 2010, the estate tax was scheduled to revert to the previous maximum tax rate of 55% and an exclusion amount of \$1 million. But under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act (Tax Relief Act) of 2010, each taxpayer's

first \$5 million, or \$10 million for married couples, are exempt from estate taxes. Above that amount, estates are subject to a maximum 35% rate. The estate tax provisions of the Tax Relief Act apply to decedents who died after December 31, 2009 and before January 1, 2013. The new law also eliminates the modified carryover basis rules that were in effect in 2010 only, and replaces them with the unlimited step-up basis rules that had previously applied.

While the Tax Relief Act retroactively reinstated the estate tax for the estates of decedents who died in 2010, it allowed executors to opt out of the reinstated tax. Therefore, executors of the estates of individuals who died in 2010 may choose between having the estate taxed under the Tax Relief Act, or under the EGTRRA provisions that were in effect in 2010, when the estate tax rate was zero, but estates were subject to a modified carryover basis regime in section 1022 of the Internal Revenue Code.

Under the step-up basis rules, the value of an inherited asset is "stepped-up" from the original purchase price to the higher market value of the asset at the time of inheritance, and the heirs are freed from paying capital gains taxes on the increase in the value of the asset over the decedent's lifetime. Yet, under the modified carryover basis rules, heirs of property from a decedent who died in 2010 were allowed to step up only \$1.3 million of the

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Keeping You Informed -

Welcome to our Fall Edition of The Somerville Report - a semi-annual newsletter designed to bring additional value to our relationship with you. An important component of our mission is to keep you informed of accounting, tax-related, financial and technology issues as well as opportunities from which we hope you can benefit.

In this issue, we discuss recently issued guidance from the IRS on the treatment of basis for certain estates of decedents to assist in estate planning. This article is important and may trigger other questions and concerns you have regarding estate planning to ask your Somerville Partner or Associate. Another significant article inside relates to an IRS announcement regarding nonprofit organizations and their tax-exempt status.

With many of our clients and friends engaged in the latest technology, don't miss reviewing the Tablet Computer Security Issues to Consider. This brief but critical article introduces us to the gaps in security that Apple's iPads and the Amazon Kindle Fire pose, particularly for business use.

As always, feel free to contact us by phone or email to discuss the articles or questions and concerns you may have. We are here to assist you with our ever changing and complex financial environment.

Yours truly,

Floyd E. Harlow, Jr., CPA
Managing Partner



Partners (left to right):
Barry L. Burgess, CPA
Mark E. Richardson, CPA
Wade S. C. Newell, CPA
Floyd E. Harlow, Jr., CPA

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Tablet Computer Security Issues to Consider

With the success of smart phones, particularly the iPhone, projected success of tablet computers, such as the iPad, is predicted to soar as well. According to PCWorld.com, analysts estimate that Apple will ship 10 million iPads by the end of 2011.



Tablet computers such as Apple's iPad and its lower priced competitor, the Amazon Kindle Fire, have been met with enthusiastic reviews and seem to be here to stay. You can find these devices used in all types of business as they are user friendly and travel well. Their thin, sleek size fits easily into most briefcases, and they also sit comfortably on a lap for reading on a plane. The remote wireless internet feature provides convenience for accessing information quickly and seamlessly particularly in face-to-face meetings without the hassle of using a bulky computer monitor.

Other advantages for using tablet computers include improvements in the processing power and the increased use of online storage services that are now taking the place of large, local hard drives. Despite popularity and efficient features, tablet computers have their drawbacks, and businesses should strongly consider these risks.

Topping the list is security. To begin, most users are not aware that laptop computers, unlike tablet computers, have more security programs designed to protect from spam, viruses, hacking, and theft. There have been noted weaknesses in Apple's iPhone Safari web browser, which translates into serious concerns for the iPad.

As with other information technology used in a business setting, a formal written policy should be in place for employees with guidelines for tablet computer use, be it professional or personal.

The following should be considered when amending your company policy to include tablet computers:

Mandating employee passwords Most experts believe mandating employee password usage is critical. A strong password should include not only letters but numbers and symbols, and be changed frequently.

Install standard security As tablet computers provide the ability to connect remotely to sensitive and/or company data, the use of a built-in remote-wipe feature (which provides the ability to wipe files remotely off lost or stolen tablet computer or mobile devices) proves critical.

Periodically inventory tablets Have IT personnel or the company computer liaison review tablet computers intermittently to check for viruses and unauthorized use of apps used to house company data.

It's important for companies to establish ground rules for the use of devices and develop policies and procedures that take the security limitations of the device into consideration. The good news is that experts now believe companies understand the security implications. Software security vendors continue to develop software to protect tablet computers and other devices. Now is the time to review your policies and assess the risk that tablet computers may pose for your company and personal use. For more information on tablet computer security and information technology concerns, contact Somerville Partner Wade S. C. Newell, CPA, via email at wade.newell@s-co.com or Firm Technology Chairperson & Associate Alex Gawthrop at alex.gawthrop@s-co.com or (304) 525-0301. ❖

IRS Revokes Tax-Exempt Status of Many Nonprofits

On June 8, 2011, the Internal Revenue Service (IRS) announced that approximately 275,000 nonprofit organizations automatically lost their tax-exempt status because they did not file legally required annual reports for three consecutive years. While agency officials said they believe that the vast majority of tax-exempt organizations are in compliance with the new filing requirements, and that most of the organizations that failed to comply are defunct, the IRS is providing further assistance to existing organizations with applying for reinstatement of their tax-exempt status.

Under the Pension Protection Act (PPA) of 2006, most organizations that have been granted tax-exempt status are required to file an annual information return or notice with the IRS using Forms 990, 990-EZ, 990-PF, or 990-N. The law imposed a filing requirement for the first time in 2007 for very small organizations (with annual gross receipts of \$25,000 or less through 2009, or \$50,000 or less starting in 2011), but these groups are permitted to file using the 990-N "e-postcard." The law automatically revokes the tax-exempt status of any organization that does not file required returns or notices for three consecutive years.

The IRS has issued guidance on how organizations can apply for reinstatement of their tax-exempt status, including retroactive reinstatement, and offered transition relief for tax-exempt organizations with annual gross receipts of \$50,000 or less for 2010. To receive retroactive reinstatement, a nonprofit must re-file Form 1023 or 1024, and demonstrate reasonable cause for failure to file an annual return. These reinstatement procedures are not available to organizations that lost their exempt status as a result of an IRS examination.

The list of organizations whose tax-exempt status has been revoked is available on the IRS website. The IRS said it will update the list monthly to include additional organizations that lose their tax-exempt status. Publication 78, Cumulative List of Organizations, is also being updated to reflect the changes.



The listing should have little or no impact on donors who previously made deductible contributions to organizations whose tax-exempt status has been automatically revoked because donations made prior to the list's publication remain tax-deductible. However, organizations that are on the list and are not reinstated are no longer eligible to receive tax-deductible contributions, and the income they receive may be taxable. An organization that loses its tax-exempt status could be subject to corporate income taxes at the Federal level, as well as state and local taxes. ❖

We at Somerville & Company are trying to become a more "green" company. In order to provide you with the timeliest content possible while helping the environment we all treasure, we have created an electronic version of this newsletter. Moving to email distribution helps preserve our forests and reduce the greenhouse gases produced from transporting the trees, then paper, and then mailed newsletters.

You can help by switching over to the electronic newsletter. Just provide us with your email address by emailing your Partner or Associate, or emailing mgrmkt@s-co.com. If you prefer the printed newsletter, we will continue to provide that. Thank you so much.

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decendent's assets to the current fair market value, and property bequeathed to the decedent's spouse could be stepped-up by an aggregate amount of \$3 million, for a total of \$4.3 million. Assets above this level would be subject to capital gains taxes when sold by the heirs. Family members who inherited less than \$5 million from a decedent in 2010, but who were subject to modified carryover basis rules, may prefer to be taxed under the Tax Relief Act in order to benefit from the unlimited step-up basis.

The guidance also clarifies that, if the executor of the estate of a decedent who died in 2010 chooses the modified carryover basis regime, the executor must allocate the decedent's available generation-skipping transfer (GST) exemption by attaching Schedule R to Form 8939. To elect out of the automatic allocation of GST exemption to a testamentary direct skip, an affirmative election to opt out must be made on Form 706 or Form 8939. The GST had been repealed for 2010, but under the Tax Relief Act, the GST exemption for gifts made to grandchildren in 2010 and onwards has been made equal to the applicable exclusion amount for estate tax purposes. Thus, the GST exemption amount is \$5 million with a GST rate of zero for GSTs made in 2010. ❖