

LBA Advisor

WINTER 2007



Dear Clients & Friends

Dear clients and friends:



As we reflect on 2006, and look forward to 2007, we are once again thankful for the relationships we have established with our clients and friends of the firm. Those relationships define who we are and we appreciate the continued trust you put in our team.

Within this issue of LBA Advisor, you will find articles that relate to several areas of your business and personal financial needs. In addition, there are helpful tips and checklists we hope you will find useful. And those friendly faces that you will see next to each article are eager to answer any questions you may have related to the information within. Please do not hesitate to contact any of them at 904.396.4015.

As always, LBA is bustling with activity, both within the office and in our community. We are proud to announce new team members, exciting promotions and election to leadership of a local organization. There is also some new tax legislation that was signed by President Bush in December and finally, we continue to anxiously await the completion of our new building.



On behalf of everyone at LBA, thank you for a fabulous 2006. We look forward to continuing to serve you in 2007 and wish you personal and professional success.

Best wishes,

A handwritten signature in white ink, appearing to read "Richard D. Brock".

Richard D. Brock, CPA
Chairman of the Board

A handwritten signature in white ink, appearing to read "Neal".

Neal J. Von Stein, CPA
Managing Partner

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Reducing Retiree Taxes: IRAs to Charity

Of all the recent tax law changes enacted by Congress, there is one that has the potential of reducing income taxes for nearly every retiree.



Robert W. Hinckley, CPA
Tax Partner

Thanks to a major new change in the tax law, those over age 70½ are now permitted to make a direct transfer from their Individual Retirement Accounts (IRAs) to charity without reporting any taxable income on the IRA withdrawal. This change is effective now. Here are a variety of illustrations to point out why the new opportunity of a direct IRA-to-charity approach is better.

Lower Income Filers

A key point is that these tax-free transfers of an IRA to charity count toward the annual required withdrawal that every retiree over age 70½ must take from their retirement accounts. Many retirees, especially those with modest income, use the IRS standard deduction rather than claiming detailed itemized deductions that include their charitable contributions. For example,

for 2006, joint filers are given a standard allowance of \$12,300, while a single filer retiree may claim \$6,400. As a result, these taxpayers can use an IRA transfer to fund their normal church contribution, for example, and avoid the income they otherwise would have been required to take from their IRA. Yet they retain the same deductions due to the standard allowance.

Middle Income Filers

The greatest savings of using the IRA-to-charity transfer accrue to that large group of taxpayers who face the phase-in of taxable social security benefits. Under a complex tax formula, middle income retirees have an increasing portion of their social security benefits brought into taxable income as their other reportable income increases. Adding \$10,000 of extra income can mean as much as \$8,500 of social security benefits becoming taxable! But the formula goes the other way also. Reducing IRA withdrawal income by a charitable transfer may also significantly reduce taxable social security benefits.

Upper Income Filers

Upper income filers are typically claiming itemized deductions, and may not appear to gain an advantage from accomplishing their larger charitable contributions through direct IRA transfers. However, greater income brings with it the many phase-outs of tax deductions and credits. For example, upper income filers lose a portion of their itemized deductions and personal exemptions merely by reason of the size of their income. Similarly, some tax credits become unavailable, and the likelihood of incurring the Alternative



Minimum Tax (AMT) is much greater. For these reasons, most upper income filers will benefit from direct IRA-to-charity transfers by decreasing the income portion of their return, on which these various phase-outs are calculated.

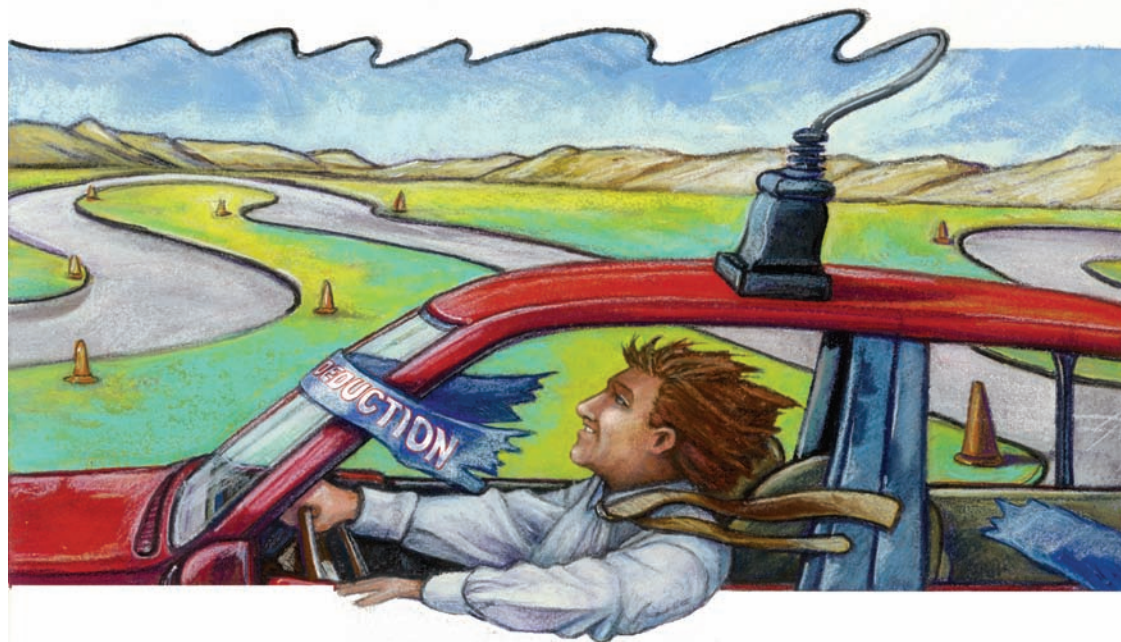
It seems clear that this new IRA-to-charity rule has opportunity for most over age 70½ retirees. If you have any questions about how it may apply to your situation, please call your LBA professional.

The Rules for IRA-to-Charity Transfers

There are several rules that must be followed to bypass your 1040 with an IRA-to-charity transfer:

- The IRA owner must have attained age 70½ by the date of the transfer.
- No income tax deduction is permitted for a qualified charitable distribution, as these distributions are not included in a donor's income.
- The privilege only applies to IRA accounts. Retirement plan funds and other types of accounts, such as SEPs, would first need to be rolled to an IRA before the charitable transfer may occur.
- Any one individual is limited to \$100,000 per year of tax-free IRA-to-charity transfers.
- The charity must be a publicly funded organization; it cannot be a private foundation or donor-advised fund.
- The charitable transfer is not subject to any percentage-of-income limitation, meaning that generous taxpayers who have previously encountered a limitation on their charitable gifts will not be limited on IRA transfers.

Hybrid Vehicle Credits



It was previously fairly simple. If you purchased a hybrid vehicle (using both gasoline and electricity), you were entitled to claim a \$2,000 deduction in your tax return. But that system ended with the 2005 tax year, and, beginning with the 2006 tax year, we now have a more complicated credit system that applies to hybrid vehicles and other energy efficient vehicles sold by manufacturers. Given the confusion in the marketplace about these credits, we believe that a few words of advice and explanation are important.

The Credit Amount

The tax credit amount varies for each make and model of vehicle. A manufacturer certifies the energy savings with the IRS, under a complicated formula that produces a specific credit amount that is assigned to the vehicle. This tax credit can vary significantly, from a low of \$250 (Chevrolet Silverado Hybrid 2 wheel drive) up to \$3,150 (Toyota Prius).

But there is further complexity. The tax rules limit the available credit to the first 60,000 qualifying vehicles sold in the U.S. by the manufacturer. Once that point is attained, the credit amount goes into a phase-down based on the date of acquisition.

For calendar year 2006, all of the hybrid vehicles qualify for 100% of their certified credit

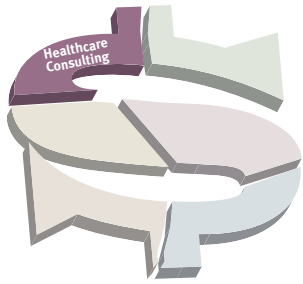
amount, with the exception of Toyota and Lexus models. Those vehicles purchased October 1, 2006 through March 31, 2007 will only receive 50% of their stated credit. If the vehicle is purchased April 1 through September 30, 2007, 25% of the credit applies. There is no allowable credit if the purchase is made after September 30, 2007. Therefore, if a taxpayer purchases a Toyota Prius in December of 2006, the credit is 50% of the \$3,150 certified amount, or \$1,575.

Other Complexities

Unfortunately, this hybrid tax credit only offsets regular income tax. It is not available to reduce Alternative Minimum Tax (AMT). The hybrid credit can only reduce regular tax to the point that it reaches AMT. Middle and upper income filers often have only a small gap between their regular tax and AMT, effectively limiting the benefit from this credit.

Businesses that purchase a hybrid vehicle will also receive the credit. But the credit amount must be treated as a reduction in the depreciable basis of the vehicle, and this has the effect of diminishing the value of the credit.

In terms of claiming the new hybrid credit in 2006 tax returns, we simply need to know the make and model of your purchased hybrid vehicle and the date it was acquired. No certification or other documentation is required.



To Trust or Not?

It is not uncommon to hear from Managers “We don’t have to worry about fraud/embezzlement. All of our employees are good people and most have been working for us for years.”



LeeAnn Brust
RN, MBA, CCP, CPC, CMPE
Executive Director
LBA Healthcare Consulting
Services, LLC

The reality is that every person found to have embezzled was a “trusted employee”. If they weren’t, they would never been given access to cash, checks, etc. in the first place.

In today’s hectic medical office environment, duties are distributed and, in many cases, blind trust is given. The lack of follow through, or proper internal controls, is what can lead to disaster. Herein lies the dilemma: To trust or not.

It is important and essential in a dynamic environment to be able to trust. However, we must also include systems for verification. Internal controls must be in place. While fraud can never be completely

eliminated, internal audits can decrease the chance of it occurring in your practice. Remember — someone stealing from you has carefully watched the activities and management style of both the employees and managers, and has attempted to master how to conceal irregularities.

The National Fraud Examiners Association describes fraud as a “triangle” says Joseph Dervaes, CFE. The three points of the fraud triangle are:

1. Opportunity
2. Motivation
3. Rationalization

Opportunity always comes first. The “trusted” employee has been given privileges that include access to computerized records, accounting and bank records and, of course, checks and cash. Many times these employees have not only been given the skills to perform fraud, but are working overtime (and getting paid) to complete these activities.

Motivation is the next crucial piece. Typically, staff who commit fraud are motivated by financial needs, and or a grievance with the practice. When a trusted employee is confronted with financial need that has pushed them into desperation they can be easily tempted. A common myth is that only those who look like they need money will steal.

Rationalization is the final piece. The individual who makes the choice to steal has convinced themselves that they are invaluable to the organization and are due the extra money. They may feel overworked and underpaid and truly believe the organization could not survive without them. They have convinced themselves that what they are doing is acceptable and generally have no remorse.

Separation of Duties

This is an area that is frequently overlooked either due to a lack of understanding, or perceived unimportance. Job descriptions can be used to review the segregation of duties. The owner(s) should review



The “trusted” employee has been given privileges that include access to computerized records, accounting and bank records and, of course, checks and cash.

each job and contemplate how money or funds could be diverted by individuals in each of these job functions. Duties should then be separated to ensure checks and balances are in place.

Discoverable

Fraud or embezzlement is often uncovered when the employee is absent from work. A red flag should be raised when an employee refuses to take vacation. This often indicates a fear of being discovered.

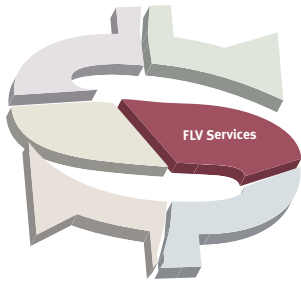
Protecting Your Practice

The best thing you can do to protect your practice is maintain stringent internal controls that are checked at least semi-annually by an outside consultant or accountant. Additionally, all employees should have another team member who is cross-trained for their position and for whom they fill in during vacations, sick days, etc. Employees should be required to take vacations or at least time away from the office, during which time their primary duties are carried out by others in the office, when possible.



Fraud: What to Watch For In Your Practice

- **Employees who frequently come in early or work late**
- **Employees who regularly work nights and weekends when not required**
- **Employees who seldom leave the office; even for vacations**
- **Employees who prevent others from carrying out their primary duties while they are on vacation**
- **Employees who defer compensation deductions that appear to be unreasonable for their living arrangements**
- **Employees who tend to live beyond their means**
- **Employees who brag about recent gambling winnings or family inheritance**
- **Employees who take on other tasks that fall outside of their job description; especially when cash or financial records are involved**
- **Employees who always balance and are never over or short**
- **Employees who are consistently behind in their work and keep things unorganized to the point where no one else can find anything**
- **Employees who have high debt and are frequently called by creditors at the office**



Getting The House In Order: How Forensic Accountants Conduct Internal Investigations

As recent, high-profile scandals have returned public attention to questionable corporate accounting practices, businesses and their attorneys increase their focus on uncovering fraud. More than ever, the assistance of forensic accountants is required to help companies ease the concerns of investors, vendors, employees and oversight agencies.



Scott A. Steadman, ASA
Director of FLV Services

Forensic accountants will work to determine the scope of the fraud, including how long it has gone on and the parties involved.

Professional help

Forensic accountants specialize in conducting fraud audits and investigations to detect irregularities and troubling trends — looking for both telltale and subtle signs of fraudulent activity. Certified fraud examiners in particular undergo extensive training in fraud discovery, recognition, documentation and prevention. These experts are also generally knowledgeable about human behavioral factors and motivations that contribute to the commission of fraud, such as the ability to rationalize fraudulent conduct.

Often, forensic accountants are retained to detect misrepresentations of financial data or to locate missing funds. If you suspect this type of activity, it's important to investigate suspicions as early as possible.

Typical fraud audits

When you engage a forensic accountant, you can expect the expert to work closely with you and your client to tailor an appropriate investigation to the situation at hand. Depending on the type of fraud suspected, the investigation may be performed on a comprehensive, companywide or a random, spot-check basis.

Forensic accountants will work to determine the scope of the fraud, including how long it has occurred and the parties involved. Investigations typically require extensive document review. In a case involving asset misappropriation, for example, experts might search for forged documents.

They also look for evidence of compliance — or noncompliance — with Generally Accepted Accounting Principles (GAAP). Of course, GAAP compliance doesn't guarantee legitimate accounting, so an investigation might also focus on specific areas that wouldn't necessarily be caught in an audit, such as the use of assets at the operational level. Are they being used as

intended or for the benefit of an employee?

Special investigations

Fraud investigations can be particularly useful to monitor the activities of top executives — even if only for policy lapses. Upper-management employees often are given greater latitude and may be tempted to bend the rules. When this occurs, it can influence the ethical environment of an entire company and encourage other employees to disregard policies or even commit fraud.

Special investigations also can be effective in uncovering high-level financial fraud. A board usually receives its financial and operational information from a company's highest executives. Investigations provide a method for the board to obtain access to deeper, more detailed information without going through the executive level of management. Instead, investigators can gather information directly from those in the trenches, using methods such as interviews, and immerse themselves in data and information unfiltered by top management. They then can communicate directly with the board.

Negotiating the privilege issue

While investigations by a forensic accountant can be useful in ferreting out fraud, understand that attorney-client privilege can become an issue. Because accountants lack the protective privilege, they must work closely with attorneys to determine their roles and they need to be cautious about whom they interview. If, for example, plaintiffs' attorneys become involved, these parties are likely to request any notes of interviews conducted by forensic experts.

Even with privilege issues a concern, however, retaining a forensic accountant as early as possible is generally a good idea. It's likely to limit the damage caused by fraud and can even reduce your overall litigation costs.

IRS Regulations For Gift and Estate Tax Valuations: What You Need to Know

One common reason for obtaining a business appraisal is to ascertain gift and estate tax liability.

Among the most important considerations in this area are the IRS regulations regarding gift and estate tax valuations, which are addressed in the Internal Revenue Code as Submission of Appraisals in Lieu of Information Required.

The IRS lists the requirements appraisers must abide by to ensure clients qualify for the three-year audit statute of limitations, which is the time frame during which the IRS may audit the return. The three-year period begins once the return is correctly filed under what the IRS considers adequate disclosure. After the three years expire, the return can no longer be audited.

Appraiser qualifications

Under the IRS regulations, appraisers must have certain qualifications. First, they

need to hold themselves out to the public as an appraiser or regularly perform valuations. An appraiser should also be qualified to value the subject property, given his or her background, experience, education, membership and training, as detailed in the appraisal report. In addition, the appraiser cannot be the donor or donee of the property being valued or an employee of the donor or donee.

Report contents

The lion's share of these regulations, however, deals with the valuation report itself. The IRS will consider the report to have adequate disclosure only if it contains the following information:

Property specifications. The report must state the appraisal's date and purpose as well as the date of property transfer. It needs to also describe the property being valued and the appraisal processes, approaches and methodologies employed by the appraiser.

In addition, the report should explain the assumptions, hypothetical conditions, and any limiting conditions and restrictions on the transferred property that affect the analysis, opinions and conclusions.

A documentation description. This includes all of the financial information the appraiser used to arrive at an opinion of value. He or she must include enough detail to allow a third party to replicate the appraisal process and arrive at the same value estimate.

Procedural disclosures. The report needs to describe the valuation procedures employed and the reasoning set forth that supports the analysis performed, opinions stated and value estimated. It should also offer a rationale for using the various methods and procedures in determining the property's fair market value that is the subject of the transfer. Last, the report must detail a specific basis for the valuation, such as comparable transactions or sales of interests that are comparable to the interest being transferred.

The government's eyes

The IRS requirements aren't all that dissimilar from what one would probably find in a full valuation report prepared by a qualified appraiser anyway.

Nonetheless, when valuing a company for gift and estate tax purposes, an appraiser needs to double-check his or her work against these rules to ensure the appraisal report will be considered sound in the eyes of the federal government.

Eight Fundamental Factors

In meeting IRS requirements, an appraiser needs to adhere to certain rulings when preparing a valuation for gift and estate tax purposes. In doing so, there are eight fundamental factors to consider:

1. **The nature of the business and the history of the enterprise from its inception,**
2. **The economic outlook in general and the condition and outlook of the company's specific industry,**
3. **The book value of stock and the financial condition of the property being valued,**
4. **The earning capacity of the property being valued,**
5. **The dividend-paying capacity of the subject property,**
6. **Whether the enterprise has goodwill or other intangible value,**
7. **Sales of the stock and the size of the block of stock to be valued, and**
8. **The market price of stocks of corporations engaged in the same, or a similar, line of business and whose shares are actively traded in a free and open market, either on an exchange or over the counter.**



Multiple-Entity Owners and Financial Statement Consolidation



Harry M. Parsons, Jr., CPA
Partner

In 2003, the Financial Accounting Standards Board (FASB) issued "FASB Interpretation No. 46, Consolidation of Variable Interest Entities" to help determine when a company should include in its GAAP-basis financial statements the assets, liabilities and activities of another entity. Later in 2003, this Interpretation was replaced by another, which made several changes to the original FASB Interpretation.

This new Interpretation, which is known in the accounting profession as "FIN 46" is of particular interest to owners of multiple entities. One common and relatively simple multiple-entity arrangement is where a business owner sets up an entity to hold a building (and any related debt) and lease it to an operating entity owned by the same individual. FIN 46 requires a determination of whether any of the multiple entities is a "variable interest entity" (VIE) and, if so, who is required to consolidate the VIE's financial statements.

In general, a VIE is a corporation, partnership, trust

or other legal structure that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. In plain terms, an entity that needs financial support from another entity is probably a VIE and should be consolidated with the entity that provides the most financial support. Such financial support commonly includes equity interest, loans, and debt guarantees. A VIE often holds financial assets, including loans or receivables, real estate or other property. A VIE may be essentially passive or it may engage in research and development or other activities on behalf of another company.

Prior to FIN 46, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 clarified that voting interests are not the only factor in determining consolidation requirements.

A VIE should be consolidated by the "primary beneficiary," i.e., the company subject to the majority of the risk of loss from the VIE's activities, or entitled to receive a majority of the VIE's residual returns, or both.

One of the consequences of FIN 46 has been that many joint ventures, general and limited partnerships, and LLCs that were never intended to be consolidated may fall within the criteria for financial statement consolidation. For real estate developers and others, FIN 46 has caused confusion and has raised legal and tax liability issues affecting both completed and future joint ownership transactions.

Three years after its issuance, FIN 46 continues to torment business owners involved in multiple-entity arrangements. Since the complexities of its application defy in-depth discussion here, you should consult your LBA professional to measure the potential impact of FIN 46 on your GAAP-basis financial statements and on future plans involving multiple entities.



Managing Depreciation

For small business owners, a key tax provision in recent years has become the first year bonus depreciation deduction.



David A. Brinson, CPA
Business Advisory
Services Partner

The write-off can be significant: Up to \$108,000 of equipment purchases can be claimed as an immediate deduction. But the eligibility rules are confusing. Understanding these rules and budgeting your equipment replacements to fit within the parameters is an important part of good tax planning.

Eligibility for the first year deduction is limited to smaller businesses that do not exceed an annual asset addition limit. For tax years beginning in 2006, that threshold is \$430,000 of eligible purchases. Typically, eligible assets include equipment, fixtures, and vehicles, but not buildings. If the annual eligible purchases exceed the \$430,000 threshold, there is a dollar-for-dollar reduction in the eligible first year deduction.

Example. Jones Construction files on a calendar year and purchased equipment of \$450,000 during 2006. Jones must reduce its \$108,000 limit by \$20,000, the amount by which its qualifying purchases exceed \$430,000. Accordingly, Jones may only claim a first year deduction for 2006 of \$88,000 (\$108,000 - \$20,000). Had Jones been able to better budget its equipment purchases for the year to remain below the \$430,000 limit, it could have achieved a \$20,000 greater first year deduction.

Other Eligibility Rules

In view of the significance of this deduction, it is important to understand the other eligibility restrictions:

- Both new and used assets qualify, but only the boot paid counts if the asset is acquired through a trade.
- An entity's deduction is limited to its business net income. Accordingly, if an S corporation is in a loss position, no deduction is allowed.

- Property is ineligible if purchased from a related party.
- Property that is purchased and leased to others faces a complicated calculation to determine eligibility (but this rule does not apply to C corporations).

Special Vehicle Rules

Normally, automobiles are subject to a small annual depreciation limit that makes the deduction impractical.

For example, for an automobile placed in service in 2006, the first year depreciation limit is \$2,960, assuming 100% business use.

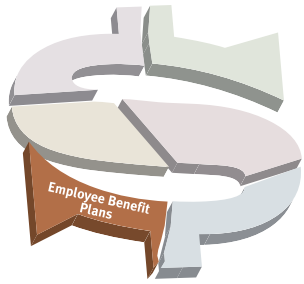
But a special privilege exists for vehicles with a gross vehicle weight rating over 6,000 pounds, such as full-size SUVs, pickups, and vans. These vehicles are allowed up to \$25,000 of first year depreciation.

But even this \$25,000 limit on larger trucks and vans has exceptions. Three categories of over-6,000 pound vehicles continue to qualify for a full write-off of their tax cost, up to the \$108,000 limit:

- Vehicles with seating capacity of more than nine persons behind the driver's seat (e.g., hotel shuttle van).
- A pickup truck with at least a six foot interior length cargo box.
- A van designed to carry cargo with no seating behind the driver's seat (e.g., an electrician's or plumber's van).

Example. Able Mfg. buys a full-size pickup truck with an 8 foot box to be used in the business at a cost of \$38,000. Assuming this vehicle has a weight rating over 6,000 pounds, the entire cost of the pickup may be deducted because it is a truck with a six foot or greater interior length box. On the other hand, if Able purchased a four door pickup with a short 5.5 foot interior length box or an enclosed SUV without an open box, the deduction would be limited to \$25,000.

Eligibility for the Section 179 first year deduction is limited to smaller businesses that do not exceed an annual asset addition limit.



The Pension Protection Act of 2006 — What You Need to Know

Automatic enrollment, IRA rollovers for non-spouse beneficiaries, default investment safe harbors, and sweeping changes to defined benefit plans.



Catherine M. Beaver
Director
LBA Retirement Plan
Services, LLC

The Pension Protection Act of 2006 (PPA) has something for everyone. In this article, we highlight the key issues affecting employers that sponsor 401(k) and other defined contribution plans.

Expiring EGTRRA Provisions

PPA makes the Economic Growth and Tax Relief Reconciliation Act of 2001's pension and IRA provisions permanent. Most were slated to expire after 2010.

Among these provisions:

- Higher maximum annual limits for salary deferrals to 401(k), 403(b), and 457 plans and for contributions to IRAs;
- Catch-up contributions for individuals age 50+.
- The option to treat 401(k) plan elective deferrals as after-tax Roth contributions (if a plan allows); and,
- The Saver's Credit for lower income individuals who save for retirement (which was to expire after 2006). The income limits for the credit will also be adjusted for inflation.

Automatic Enrollment

For plan years beginning on or after January 1, 2008, PPA provides employers with incentives to adopt automatic enrollment for their 401(k) plans. With automatic enrollment, an employer can enroll employees in its 401(k) plan without their consent, as long as they have the right to opt out of contributing.

A plan with an automatic enrollment feature will

not be subject to annual nondiscrimination testing if it complies with new safe harbor rules. To qualify, a plan has to provide for an automatic contribution of at least 3% for the first full plan year of participation and increase the contribution percentage 1% in each of the next three years until it reaches 6%. (The percentage cannot exceed 10%.) In addition, employers must either (1) match 100% of the first 1% of salary a nonhighly paid employee defers and 50% of additional deferrals that don't exceed 6% or (2) contribute at least 3% of pay on behalf of each eligible nonhighly paid employee — whether or not the employee participates in the plan. Plans must also meet new vesting and written notice requirements.

PPA eliminates conflicts with state laws on wage withholding without employee consent and allows employees to take penalty-free withdrawals of automatic deferrals and related earnings if the employee makes a withdrawal request within 90 days of the first deferral. It also gives plans with non-safe harbor automatic enrollment arrangements additional time to test for discrimination and make corrective distributions, if needed. These plans will have six months after the end of the plan year, rather than until March 15, or 2½ months, as under pre-PPA law.

Default Investments

For plans that allow employees to direct their own account investments, PPA provides relief from fiduciary

Inherited Benefits

Beginning in 2007, non-spouse plan beneficiaries can roll over inherited 401(k) and other retirement account balances to their own IRAs. Previously, only surviving spouses could do this. The transfer must be a direct

rollover and must be made to a separate IRA opened in the deceased employee's name specifically to receive the inherited benefits.

Currently, many plans have provisions requiring all inherited benefits to be distributed to non-spouse beneficiaries within five years. Under PPA, payments

from the IRA can be based on the non-spouse beneficiary's life expectancy — or a shorter schedule, if desired. Non-spouse beneficiaries generally will have to begin distributions immediately. Surviving spouses can continue to wait until they turn age 70½ to begin distributions.



liability with respect to default investments for employees who do not give directions for investing their accounts. To secure this protection, the employer must have a default investment that meets U.S. Department of Labor (DOL) regulations to be issued by February 2007. These investments are expected to include balanced funds, target or life-cycle funds, lifestyle funds, and managed accounts. Employers also have to satisfy requirements contained in the new law regarding written notice to participants.

Investment Advice

PPA also provides relief to employers who may be concerned about the potential liability associated with offering investment advice to their employees. Under the new law, employers can arrange with retirement plan service providers who offer investments to their plans (“fiduciary advisers”) to provide advice to employees and, if otherwise warranted, recommend their own funds.

There are many requirements to meet in order to shield employers from liability. The adviser’s fees must be “neutral” (the fees do not vary based on which investment options are chosen) or the adviser must use an unbiased computer model certified by an independent expert to create recommended portfolios for employees. Specific notice and other requirements

apply. PPA’s investment advice rules are generally applicable beginning in 2007.

Reporting and Disclosure

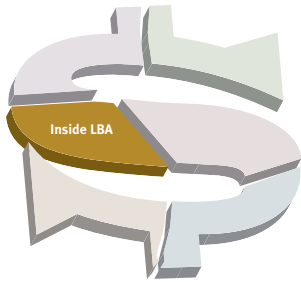
For plan years beginning in 2008, identification and basic plan information included in the Form 5500 annual report must be displayed on a nonpublic Intranet website maintained by the employer or plan administrator for employee access. This information also must be filed with the DOL in an electronic format to be displayed on the DOL’s website.

Portability and Distribution Rules

PPA makes it easier for employees to move their retirement savings to other retirement plans and to receive plan distributions. For example:

- Starting in 2008, participants will be able to make direct rollovers from employer-sponsored plans to Roth IRAs. Such rollovers will be taxable events.
- Hardship distributions are allowed for hardships of 401(k) plan beneficiaries who are not a participant’s spouse or dependent.
- Employer nonelective (for example, profit sharing) contributions made for plan years starting after 2006 must become nonforfeitable using the faster three-year cliff or six-year graduated vesting schedules applicable to employer matching contributions.

A plan has to provide for an automatic contribution of at least 3% for the year and increase the contribution percentage 1% in each of the next three years until it reaches 6%



New Team Members

LBA continues to grow and it is with great appreciation that we thank our clients and friends for your continued trust in our team. Please join us as we welcome our newest team members.



Sandy Albert
Plan Administrator
LBA Retirement Plan Services, LLC



Summer Blades
Staff Accountant
Tax Team



Daniel Brock
Staff Accountant
Business Advisory Services Team



Laura Heimerl
Consultant
LBA Healthcare Consulting Services, LLC



Greg Lacina
Staff Accountant
Business Advisory Services Team



Brent Snedeker
Staff Accountant
Business Advisory Services Team

Leadership



LBA takes great pride in our staff's support of the local community and we encourage them to strive for leadership within the organizations they serve. Please join us as we congratulate Ms. Paula Heacox on her election to the Board of Directors for The Florida Theatre.

Paula is a Senior Manager in our Business Advisory Services Group and has been a valued member of the LBA team for nine years.

Bill Shelton Named Partner

William G. Shelton, Jr., CPA has been named Partner in the firm, effective January 1, 2007. He joined LBA in 1999 and has over 15 years of experience in public accounting. Bill focuses his practice on assisting the firm's clients within the legal and healthcare professions but also enjoys working with small, privately held companies and individuals.



Promotions

We are extremely proud of the hard work and dedication our team members consistently give to the firm. It is this commitment that allows us to provide our clients with a premier level of service. We proudly announce these recent promotions.



Joey Cummings
Principal
Business Advisory Services Team



Christine Miller
Manager
Business Advisory Services Team



Zack Woodrich
Senior Accountant
Tax Services Team



Scott Lanigan
Principal
Audit Services Team



Shannon Richardson
Senior Manager
Business Advisory Services Team

President Bush Signs New Tax Legislation

On December 20, 2006, President George W. Bush signed tax legislation that affects several areas of tax savings and deductions, some of which are highlighted below. For further information on these, or any other tax issues, please contact your LBA professional at 904.396.4015.



Investment Advice

PPA also provides relief to employers who may be concerned about the potential liability associated with offering investment advice to their employees. Under the new law, employers can arrange with retirement plan service providers who offer investments to their plans (“fiduciary advisers”) to provide advice to employees and, if otherwise warranted, recommend their own funds.

State and Local Sales Tax Deduction

The provision creates parity among States by allowing all taxpayers the option to deduct their State and local sales taxes in lieu of their State and local income taxes. The provision is extended for two years through 2007.

Above-the-Line Deduction for Teacher Classroom Expenses

The provision allows teachers who teach at least 900 hours per year to deduct up to \$250 of out-of-pocket costs incurred to purchase books, supplies and other classroom equipment. The deduction is available to all individual taxpayers regardless of whether they itemize their deductions. The provision is extended for two years through 2007.

Fifteen-Year Depreciation for Leasehold Improvements

The cost of leasehold improvements is generally depreciated over 39 years. The provision reduces the depreciation period for qualified leasehold improvements from 39 years to 15 years. The provision is extended for two years through 2007.

Incentive Stock Option Alternative Minimum Tax (AMT) Provisions

The provision allows individuals to take advantage of a refundable credit with respect to certain long-term unused AMT credits existing prior to January 1, 2013. The annual credit amount, subject to a phase-out, is the greater of (i) the lesser of \$5,000 or the amount of the long-term unused AMT credit, or (ii) 20 percent of the amount of the long-term unused AMT credit.

Premiums for Mortgage Insurance

The provision establishes an itemized deduction for the cost of premiums for mortgage insurance on a qualified personal residence. The deduction is phased-out ratably by 10 percent for each \$1,000 by which the taxpayer’s adjusted gross income exceeds \$100,000 for married couples or \$50,000 for singles. The provision is effective for one year and only applies to policies issued after 2006. Current home owners are not eligible.

Health Savings Account Provisions

The Tax Relief and Health Care Act of 2006 also contains a package of provisions designed to improve Health Savings Accounts (HSAs).

- **Flexible Spending Accounts (FSAs) and Health Reimbursement Accounts (HRAs) terminations to fund HSAs.**
 - a. **Allow rollovers from health FSAs and HRAs into HSAs**
 - b. **Certain FSA coverage treated as disregarded coverage**
- **Repeal of annual plan deductible limitation on HSA contributions**
- **Modification of cost-of-living adjustment**
- **Expanded contribution limitation for part-year coverage**
- **Modification of employer comparable contribution requirements for contributions made to nonhighly compensated employees**
- **One-time rollovers from IRAs into HSAs after 2006**

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