Target Keyword: Lease Accounting Rules are Changing
Word Count: 382
Page Title: Lease Accounting Rules Likely to Change, but Not Immediately

Leasing is extremely common in a variety of fields; many companies need to lease vehicles, aircraft, real estate, equipment, and the like. Existing accounting models only provide an incomplete picture of leasing activities, which has led to criticism, especially among financial statement users. In order to fix this issue, the International Accounting Standards Board (IASB) and the Financial Accounting Statements Board (FASB) have released a proposal, and over the next several years, lease accounting rules are changing.

The goal of the new proposed standards is to increase the information available about leasing activities. Companies will be required to report more assets and liabilities than they are currently. Not only will this lead to changes in accounting, but it may lead companies to revise or renegotiate lease contracts in order to stay in compliance.

The Rule Changes

Under current accounting rules, companies can report leases as either operating leases or finance leases. Most leases are operating leases, but only finance leases must be reported under current rules. As a result, the majority of leases aren't reported.

The proposal would require companies to report all leases with a possible duration of 12 months or more, regardless of the nature of the lease. The proposal would also change the way leases are reported by reporting leases as creating a larger expense in early years and a smaller one later. Under current rules, a $5,000 lease can be reported as an expense of $1,000 per year, but in the future the early years will carry a greater amount of the expense.

There will also be several smaller changes in the ways leases are reported, especially in the reporting of real estate leases and variable value leases.

Timeline

While lease accounting rules are changing, it will be a few years before they are fully implemented. The IASB is still accepting public comments until September 13, 2013; it will then take several months to review comments and issue a final rule, which will be released in early 2014. Companies will then be given several years to implement changes, and the transition will likely take until about 2017 to be completed.

If you have any questions about this proposal or how upcoming changes might affect you, please contact your CBIZ Tofias advisor, or contact us by emailing us.

Target Keyword: The Re-Emergence of the Due Process Clause as a Bar to State Taxation
Page Title: The Re-Emergence of the Due Process Clause as a Bar to State Taxation

In recent years, the nature of nexus has been redefined and further developed by states in order to tax businesses that don't have a physical presence in the state. Factor presence nexus is determined by the level of sales made in a state, not by the physical presence. This new definition of substantial nexus runs against due process, which has traditionally served as a bar to state taxation. Two Supreme Court cases may allow for the use of the due process clause as a defense against substantial nexus, leading to the re-emergence of the due process clause as a bar to state taxation.

Due Process

The Fourteenth Amendment contains the due process clause, which states that states may not "deprive any person of.... property, without due process of law." In *Quill Corp. v. North Dakota (504 U.S. 298,306 (1992))*, the Supreme Court ruled that states can tax businesses which do not have a physical presence in the state as long as due process is followed.

In recent years, the commerce clause has been focused on more than the due process clause when it comes to state taxation, because the "substantial nexus" requirement has been seen as a higher standard than the "purposeful availment" requirement.

The Cases

Goodyear Dunlop Tires Operations, S.A. v. Brown (131 S. Ct. 2846 (2011) and *McIntyre Machinery, Ltd. v. Nicastro (131 S. Ct. 2780 (2011))* are the two cases, decided by the Supreme Court on the same day in 2011, which may lead to the re-emergence of the due process clause as a bar to state taxation.

The Goodyear case disallowed North Carolina citizens from suing Goodyear, and the McIntyre case disallowed New Jersey citizens from suing the British company McIntyre, on the basis that the company had no physical presence in the state. In these cases, the Supreme Court rejected the state courts' view that even lacking a physical presence in the state, the "stream of commerce" meant that they could reasonably expect products to be sold there.

The result of this, according to the Court's interpretation of the due process clause, is that companies must target a specific state to have substantial nexus in it, and thus to be responsible for state taxes. Several recent state and federal court cases have upheld this.

If you have any questions about nexus determinations, please contact your CBIZ Tofias tax advisor, or contact us by emailing <="" a=""> or calling (888) 761-8835.

Target Keyword: Disclosure Requirements about Offsetting Take Effect in 2013
Page Title: Disclosure Requirements about Offsetting Take Effect in 2013

New disclosure requirements about offsetting take effect in 2013, with taxpayers now being required to provide more detailed disclosures about offsets on their balance sheets. The intention is to make it easier for financial statement users to reconcile statements prepared with US generally accepted accounting principles (US GAAP) with those prepared under international financial reporting standards (IFRS). The Accounting Standards Update 2013-01 has provided additional clarification on these new requirements.

The Requirements

The new requirements apply to any financial instruments that are eligible for offsets under US GAAP. Entities are eligible to offset when each of two parties owe the other a certain amount, and the reporting party is able and intends to set off the amount it owes with the amount owed by the other party. As new disclosure requirements about offsetting take effect in 2013, the following features must now be disclosed:

- Gross amounts of the relevant liabilities and assets
- The amounts offset to determine the net amounts presented
- The net amounts presented in the statement of financial position
- The amounts subject to an enforceable master netting arrangement or similar agreement
- The amount after subtracting the amounts subject to enforceable master netting arrangements from the net amount presented in the statement of financial position

The Clarification

After these requirements were issued, concerns were expressed that it would risk diversity of practice if contracts were reported differently by different companies. In response, the Accounting Standards Update 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities,” issued a major clarification which serves to limit the scope of the new requirements.

The effect is that trade payables and receivables that an entity intends to settle on a net basis can be presented on a net basis in financial statements prepared under US GAAP as well as those prepared under IFRS standards. This process is considered more cost-effective for users.

If you have any questions about the new disclosure requirements, please contact your CBIZ Tofias & Mayer Hoffman McCann P.C. advisor, or contact us by emailing <="" a=""><="" a=""><="" a=""><="" a=""><="" a=""> or calling 888.761.8835.

Target Keyword: IRS Updates LB&I Directive on Repair Regulations
Page Title: IRS Updates LB&I Directive on Repair Regulations

The IRS Large Business & International Division (LB&I) has updated its 2012 directive on repair regulations. The LB&I now directs employees to discontinue audits of costs to maintain, repair, and replace property for the 2013 year, but to enforce regulations in full effect starting on January 1, 2014.

The IRS had previously issued temporary regulations on how to treat costs incurred for tangible property ("repair regs") in 2012. When this was released, the IRS delayed the date to 2014, allowing but not requiring companies to start reporting under the new regulations now. The IRS also left the door open for updating the directive during that time period, with IRS updates LB&I Directive on repair regulations in 2013.

Taxpayers have two years from the time of the release of the repair regs on January 1, 2012 to comply with the new standards. Taxpayers are also able to apply for automatic consent to the new standards during this period.

The Directives

The directives have a relatively limited scope, only affecting how taxpayers treat

costs to maintain, replace, or improve tangible property, as well as any correlative issues that involve the disposition of property. The directives don't apply to any other issues for which the IRS has provided specific guidance. Both the 2012 and the 2013 IRS Updates LB&I Directive on repair regulations instructed LB&I employees to cease audits until the beginning of the 2014 year. Returns filed for the 2012 and 2013 years, between January 1, 2012 and January 1, 2014, will be examined for compliance with the new regulations. LB&I employees will look at whether or not taxpayers have changed their method of accounting with regards to the repair regs.

When it released the 2012 directive, LB&I left the door open on whether or not it would perform risk assessments depending on whether the waiver period for the taxpayer to apply the new procedures had passed. In the 2013 directive, it was indicated that these issues won't be examined unless the taxpayer has filed Form 3115.

If you have any questions about the new repair regs, please contact your CBIZ Tofias & Mayer Hoffman McCann P.C. advisor, or contact us by emailing <="" a=""> or calling (888) 761-8835.

Target Keyword: FASB Proposal Affects Employee Benefit Plans
Page Title: FASB Proposal Affects Employee Benefit Plans

A new FASB proposal affects employee benefit plans, particularly employee stock ownership plans (ESOPs). The proposal allows for deferral of Level 3 fair value measurement disclosure requirements for nonpublic employee benefit plans holding private company employer equity securities, which would otherwise be subject to disclosure requirements starting December 15, 2011.

Proposed Changes

Part of the goal of the changes is to keep a balance between the costs and benefits of the disclosure requirements; in the case of Level 3 fair value measurement disclosure requirements for nonpublic employee benefit plans holding private company employer equity securities, the FASB determined that the costs outweighed the benefits. In addition, the disclosure requirements seek to make information about ESOPs more public and accessible.

The proposal includes a new definition of ESOPs, as an employee benefit plan

other than a plan that is subject to the SEC's Form 11-K filing requirements. It also allows for indefinite deferral for investments held by a nonpublic employee benefit plan in its plan sponsor's nonpublic equity securities.

Open Questions

During the deferral period, the FASB released several open questions to the public:

- Should the deferral apply to qualitative as well as quantitative information?
- Should it apply to investments other than the plan sponsor's nonpublic entity equity securities?
- Should the deferral include other employee benefit plans?
- Does the definition of nonpublic employee benefit plans work?

First Steps

With the deferral in effect, now is a good time for employee benefit plan sponsors to meet with their ESOP plan independent auditor to determine next steps. This is important to do now before the FASB proposal affects employee benefit plans, because if an independent auditor observes that the filing departs from accepted accounting standards, it will be recorded on the Form 5500. This notation leads to an increased risk of auditing by the Department of Labor, and taxpayers may be fined for not filing a complete Form 5500.

If you have any questions about how the new FASB proposal will affect you, please contact your CBIZ Tofias and Mayer Hoffman McCann P.C. advisor, or contact us by emailing <="" a=""><="" a=""><="" a=""><="" a=""><="" a=""><="" a=""> or calling 888.761.8835.

Target Keyword: Reporting of Reclassifications from Accumulated Other Comprehensive Income
Word Count: 355
Page Title: Reporting of Reclassifications from Accumulated Other Comprehensive Income

The Financial Accounting Standards Board (FASB) has released its Accounting Standards Update 2013-02, and with it comes changes in a variety of accounting practices. One change is in the reporting of reclassifications from accumulated other comprehensive income.

Understanding Other Comprehensive Income

These changes affect accumulated other comprehensive income (OCI). OCI refers to gains and losses that won't be included in the net income for a given

accounting period. Companies that have OCI transfer the total OCI to accumulated other comprehensive income (AOCI), which is a separate component of equity. This is taken into account in the statement of financial position. Examples of OCI include but are not limited to:

- Unrealized gains and losses on available-for-sale securities
- Cash flow hedges gains and losses

The amended requirements apply to most companies with OCI. In general, the only companies exempt are not-for-profit organizations, which don't use OCI.

What to Expect

The amended requirement will change reporting in two major ways. First, companies will be required to provide a report of any changes in accumulated other comprehensive income for the current accounting period.

In addition, companies will need to provide information about how significant amounts reclassified out of AOCI affect the net income. If the item needs to be reclassified in its entirety in the same reporting period, then the effects on net income must be reported. If the item doesn't need to be reclassified to the net income in the same reporting period, then you will need to cross-reference other disclosures to provide additional details.

Timeline

The new reporting of reclassifications from accumulated other comprehensive income will be implemented on a staggered basis, based on whether a company is public or private. Public companies are required to comply this year (2013), but private companies are not required to comply until after December 15, 2013. In addition, after implementation private companies will not have to report information about effects on net income of significant amounts reclassified out of AOCI during interim periods, but only annually.

If you have any questions about how these changes affect you, please contact your CBIZ Tofias advisor, email us or call (888) 761-8835.

Target Keyword: guidelines for Fiduciary Accounting Income
Word Count: 363
Page Title: The Importance of Being Earnest about Fiduciary Accounting Income

The United States is currently seeing an unprecedented amount of trusts created from gifting at the end of the 2012 year. At the same time, trusts are about to experience new taxes as the Affordable Care Act is implemented. The ACA includes a 3.8% Medicare surtax on the net investment income of trusts, estates, and individuals. With these two conditions in place, let's review guidelines for fiduciary accounting income.

Fiduciary Accounting Income (FAI)

Fiduciary Accounting Income is income for trust purposes. The components of FAI determine how much income can be distributed to beneficiaries. States are responsible for creating guidelines for fiduciary accounting income. State law also gives guidance on separating trust income from trust principal. Depending on the terms of the trust, both settlors and trustees may have a say in what funds are trust income and what are trust principal.

Computing FAI requires attention to local laws and regulations, and a strong understanding of accounting. Improper computation can have an affect on trustees, as income is incorrectly distributed. It can also put the trust in violation of local laws.

Distributable Net Income (DNI)

Distributable Net Income helps to determine who bears the trust's income taxes - the trust, the beneficiaries, or both. It calculates the amount that beneficiaries must include in their income, and it also limits the amount of distribution deduction that trusts can claim. Capital gains aren't usually included in DNI, but they may be under some circumstances.

The Importance of Calculation

When DNI isn't computed properly, it can result in either the beneficiaries or the trust bearing too much of the tax burden. At the same time, when FAI is computed improperly, the distribution of trust income may be inequitable. Proper allocation helps to minimize the amount of taxes paid. In addition, proper computations help to preserve the original intent that the trust settlor had in mind,

which is of the utmost importance. With new taxes on the way, these computations are more important than ever.

If you would like to discuss how to minimize the effect of these new taxes, please contact your CBIZ Tofias advisor, or contact us by emailing TheBottomLine@cbiztofias.com or calling (888) 761-8835.