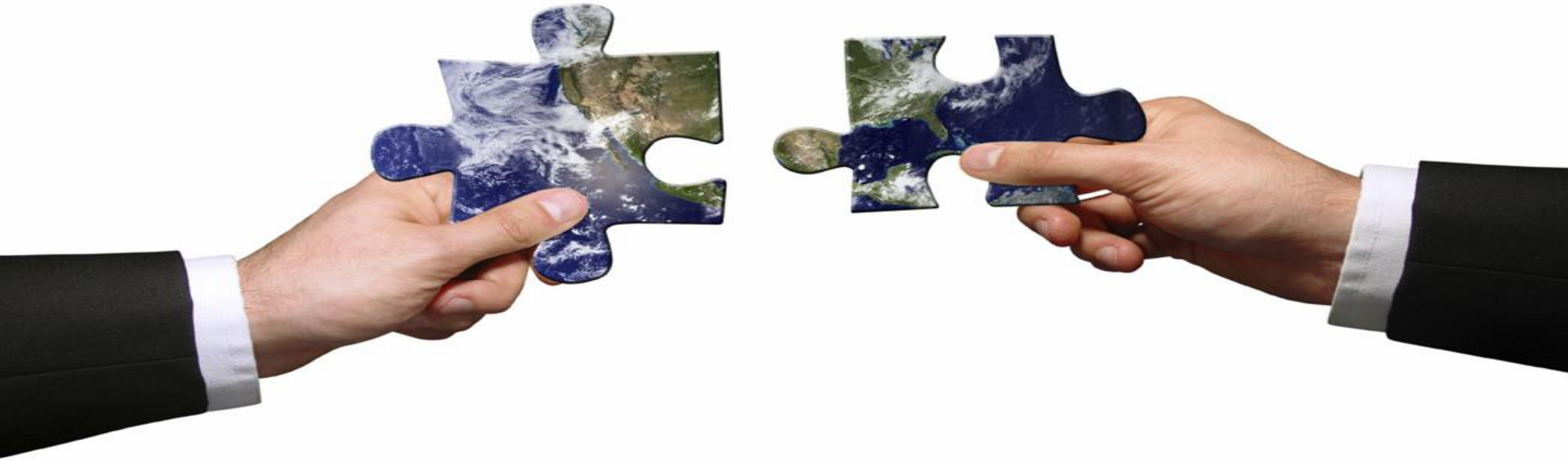
Ensure your organization is
headed in the right direction…

DHC

from here *to there*™



Considerations for Businesses in Today's Uncertain Political and Tax Rate Environment

NW Ohio CFMA – December 20, 2012

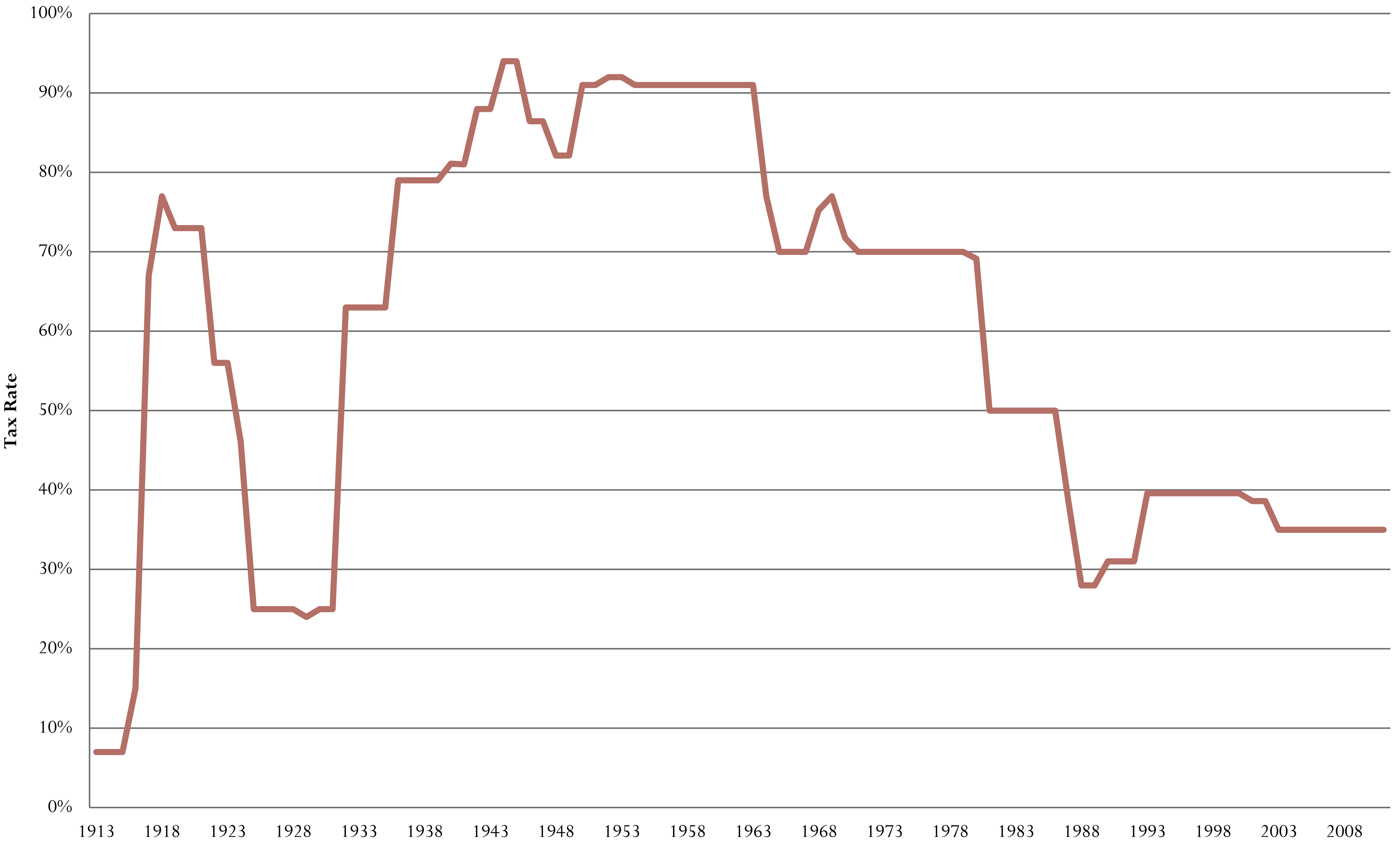
Presentation Agenda

- I. The Fiscal Cliff
- II. Patient Protection and Affordable Care Act
- III. Estate Planning and Gifting
- IV. Major Changes to Lease Accounting

Tax Issues – Expiring Bush Tax Cuts

- All of the Bush tax cuts are set to expire this year. The President agreed to a two-year extension of the cuts in 2010, but now opposes another blanket extension. Backed by Democrats in Congress, the President supports extending the Bush tax cuts only for taxpayers whose income is less than $400,000.

Historical Top Marginal Tax Rates
1913 - 2011



Major Potential Upcoming Income Tax Rate Changes

2012 vs. 2013 Under Current Law

Item	2012	2013
Highest Individual Marginal Income Tax Rate	35%	39.6%
Capital Gains Tax Rate	15%	20%
Tax Rate on Dividend Income	15%	39.6%
Medicare Tax on Unearned Income of High Income Taxpayers (>$250k annually for a married couple)	No Tax	3.8%
"Phase Out" of Personal Exemption	No Phase Out	2% of AGI above approximately $177,550 ($266,300 for MFJ)
"Phase Out" of Itemized Deductions for Individuals	No Phase Out	3% of AGI above approximately $170,000 (not more than 80%)
"Bonus" Depreciation	**50%**	**No Bonus Depreciation**
Highest Statutory Income Tax Rate on Corporations	35%	35%

Tax Issues – Expiring Bush Tax Cuts

- The expiration of the Bush tax cuts is part of a larger set of year-end fiscal threats.

THE PATIENT PROTECTION & AFFORDABLE CARE ACT

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Flexible Spending Account (FSA) Contribution Limit

- In 2013, employee contributions to medical FSA are limited to $2,500 per year (to adjust annually for inflation).

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Post-2012 Additional Medicare Tax

- Effective for tax years beginning after 2012.
- The rate is 0.9%
- Applies to individual's wages, compensation or self-employment income (*together* with that a spouse, if filing a joint return) exceed the threshold amount for the individual's filing status:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household (with qualifying person)	$200,000
Qualifying Widow(er) with dependent child	$200,000

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Post-2012 Additional Medicare Tax Continued …

- Tax applies only to employees, not employers.
- The individual is ultimately responsible for the tax.
- Employers must withhold the tax from wages in excess of $200,000 regardless of filing status or other income.

Post-2012 3.8% Surtax on Investment Income and Gains (Unearned Income Medicare Contribution Tax)

- Effective for tax years beginning after 2012.
- The rate is 3.8%.
- Applies to individuals with Net Investment Income and modified adjusted gross income over the following thresholds:

Filing Status	Threshold Amount
Married filing jointly	$250,000
Married filing separately	$125,000
Single	$200,000
Head of household (with qualifying person)	$200,000
Qualifying Widow(er) with dependent child	$200,000

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Post-2012 3.8% Surtax on Investment Income and Gains (Unearned Income Medicare Contribution Tax) Continued …

- The threshold amount is not indexed for inflation.
- Estates and Trust are subject to the Net Investment Income Tax if meet certain criteria.
- “Unearned income” for the surtax purposes includes interest, dividends, royalties, rent, gain from property dispositions, and gross income from a passive trade or business activity.

Penalties for Employers Not Offering Affordable Coverage

- Effective for tax years beginning after 2013.
- Applicable to employers with 50 or more full-time equivalents employees face hefty penalties if insurance coverage is not offered or does not offer affordable coverage to employees.

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Things to Consider:

- File separate returns.
- Consider passive activity regrouping election.
- Consider “real estate professional”.
- Unknown??????

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INNOVATIVE IDEAS . . . TRUSTED ADVICE

ESTATE & GIFT TAX CHANGES:

THE "FISCAL CLIFF"

DAVE BAYMILLER, CPA

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ESTATE & GIFT TAX

ESTATE TAX RATE CHANGES

YEAR	ESTATE TAX EXEMPTION	TOP ESTATE TAX
2012	$5,120,000	35%
2013 and beyond	**$1,000,000**	**55%** **(5% surtax over $10M to phase out graduated rate)**

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ESTATE & GIFT TAX

- Federal Estate Tax Rate Schedule for 2013 and Beyond.

Taxable amount over	Taxable amount not over	Marginal Tax Rate (percent)
1,000,000	1,250,000	41
1,250,000	1,500,000	43
1,500,000	2,000,000	45
2,000,000	2,500,000	49
2,500,000	3,000,000	53
3,000,000	---	55
10,000,000	17,184,000	60

ESTATE & GIFT TAX

GIFT TAX RATE CHANGES

- 35% tax rate in 2012.
- 41% to 60% tax rate in 2013 and beyond.

OTHER ESTATE & GIFT TAX CHANGES

- Reduction in generation skipping tax exclusion from $5,000,000 to $1,000,000 (certain additional changes relating to deemed and retroactive GST allocations).
- No spousal portability.
- RC §6166 rules (installment payment of estate taxes for tax attributable to closely held business) tightened.

YEAR END ESTATE & GIFT TAX PLANNING

- Utilize all or part of remaining $5,000,000 per person gifting capacity.
  - Including GST “skip” transfer if desired.
  - With or without discount planning.
  - Spousal Trust, to retain access to gifted assets if needed.
  - “Binding” promise to make future gifts ,to retain access to gifted assets.
- Other possible 2013 changes:
  - Elimination of discount planning
  - Elimination of “defective” grantor trust planning.
  - Elimination of GRATs under 10 years in length.
  - Limitation of Dynasty Trusts to 90 years.

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SO WHAT DO WE DO?

- Nothing is currently binding
- These proposals do provide an indication toward the future direction of the estate, GST and gift tax laws
- Since we currently enjoy a number of favorable planning strategies that may be lost by the end of the year, <u>the time to plan is NOW</u>

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Questions?

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{Preparing for the Changes Ahead}

Assurance Update

DECEMBER 20, 2012

Agenda

❖Pronouncements effective this year

❖Future anticipated changes

Overview

Effective Year	
2012	Later (to be determined)
• ASU 2011-05 Comprehensive Income • ASU 2011-09 Disclosures about Employer's Participation in Multiemployer Plan	• Revenue Recognition • Leases

Comprehensive Income

- ASU 2011-05 Comprehensive Income
  - Public companies - Effective for fiscal years and interim periods beginning after December 15, 2011
  - Non-public companies - Effective for fiscal years ending after <u>December 15, 2012</u>

- Addresses the allowable methods of presenting comprehensive income
  - No change in measurement or the types of things included in OCI

Comprehensive Income

- Allowable forms of presentation:
  - Combined statement of income and comprehensive income
  - Separate statement of comprehensive income that begins with net income
  - Example of a combined statement:

Revenue	10,000,000
Cost of Revenue	8,000,000
Gross Margin	2,000,000
Operating Expenses	1,500,000
Net Income before Taxes	500,000
Income Tax Expense	200,000
Net Income	300,000
Other Comprehensive Income	25,000
Total Comprehensive Income	**325,000**

Comprehensive Income

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No longer an option - Only in the statement of equity

- Example:

STATEMENT OF OPERATIONS	
Revenue	10,000,000
Cost of Revenue	8,000,000
Gross Margin	2,000,000
Operating Expenses	1,500,000
Net Income before Taxes	500,000
Income Tax Expense	200,000
Net Income	300,000

STATEMENT OF EQUITY			Other	
	Common	Retained	Comprehensive	Total
	Stock	Earnings	Income	Equity
Beginning balance	1,000	3,000,000	80,000	3,081,000
Net Income		300,000		300,000
Other Comprehensive Income			25,000	25,000
Total Comprehensive Income				325,000
Ending balance	1,000	3,300,000	105,000	3,406,000

Multiemployer Plan Disclosures

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- ASU 2011-09 Disclosures about Employer's Participation in Multiemployer Plan
  - Public companies – effective for fiscal years ending after December 15, 2011
  - Nonpublic companies – effective for fiscal years ending after <u>December 15, 2012</u>

- Significantly increases the disclosure requirements for multiemployer plan (i.e. union plans)

Multiemployer Plan Disclosures

- Individually significant plans – some new disclosures include (not all inclusive):
  - Legal name of the plan and FEIN
  - Certified Zone Status, as required by Pension Protection Act of 2006
  - If Zone Status not available, funding level between one of these categories:
    - < 65% 68-80% > 80%
  - Expiration date of collective bargaining agreements
  - Whether funding improvement plan or rehabilitation plan was implemented
  - Whether the Company paid a surcharge to the plan
  - Disclosure of any minimum contributions required

New Pronouncements

Effective Year
Later (to be determined)
• Revenue Recognition • Leases

Revenue Recognition Exposure Draft

Status and Expected Timeline

Revenue Recognition Exposure Draft

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- Overview of proposed model – 5 step process:
  - Identify contract with customer
  - Identify separate performance obligations
  - Determine transaction price
  - Allocate transaction price to the performance obligations
  - Recognize revenue when a performance obligation is satisfied

Revenue Recognition Exposure Draft

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- Separate performance obligations – only if good/service is “Distinct”:
  - Customer can use the good/service on its own or together with resources that are readily available, AND
  - Good/service is not highly dependent on, or highly interrelated with, other goods/services promised in the contract

- To help with application, “indicators” of “distinct” have been added

Revenue Recognition Exposure Draft

- Sales of real estate fall under scope

Timing of Profit Recognition on Sale of Real Estate	
Current Guidance (FAS 66)	Under Proposed Revenue Recognition
• Collectability is reasonably assured • Buyer has sufficient initial investment and continuing investment • Seller not obligated to perform significant activities	• Collectability is reasonably assured • Transfer of control

Leases Exposure Draft

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Status and Expected Timeline

August 2010 – Exposure Draft

IASB/FASB Re-deliberated

NEW Exposure Draft expected 1st half 2013

Standard expected to be issued ___? (maybe end of 2013)

Implementation unknown, but likely not before 2015

Leases Exposure Draft

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Lessee Accounting –

- Recognize an asset representing the right to use the leased asset for the lease term – (Valued initially at the PV of the lease payments)

- Recognize a corresponding liability to make lease payments – (Also valued initially at the PV of the lease payments)

- Relief of asset/liability and corresponding income statement effect will be based on either:
  - **Amortization & interest expense (financing approach)**
  - **Straight-line lease expense (operating lease approach)**

Leases Exposure Draft

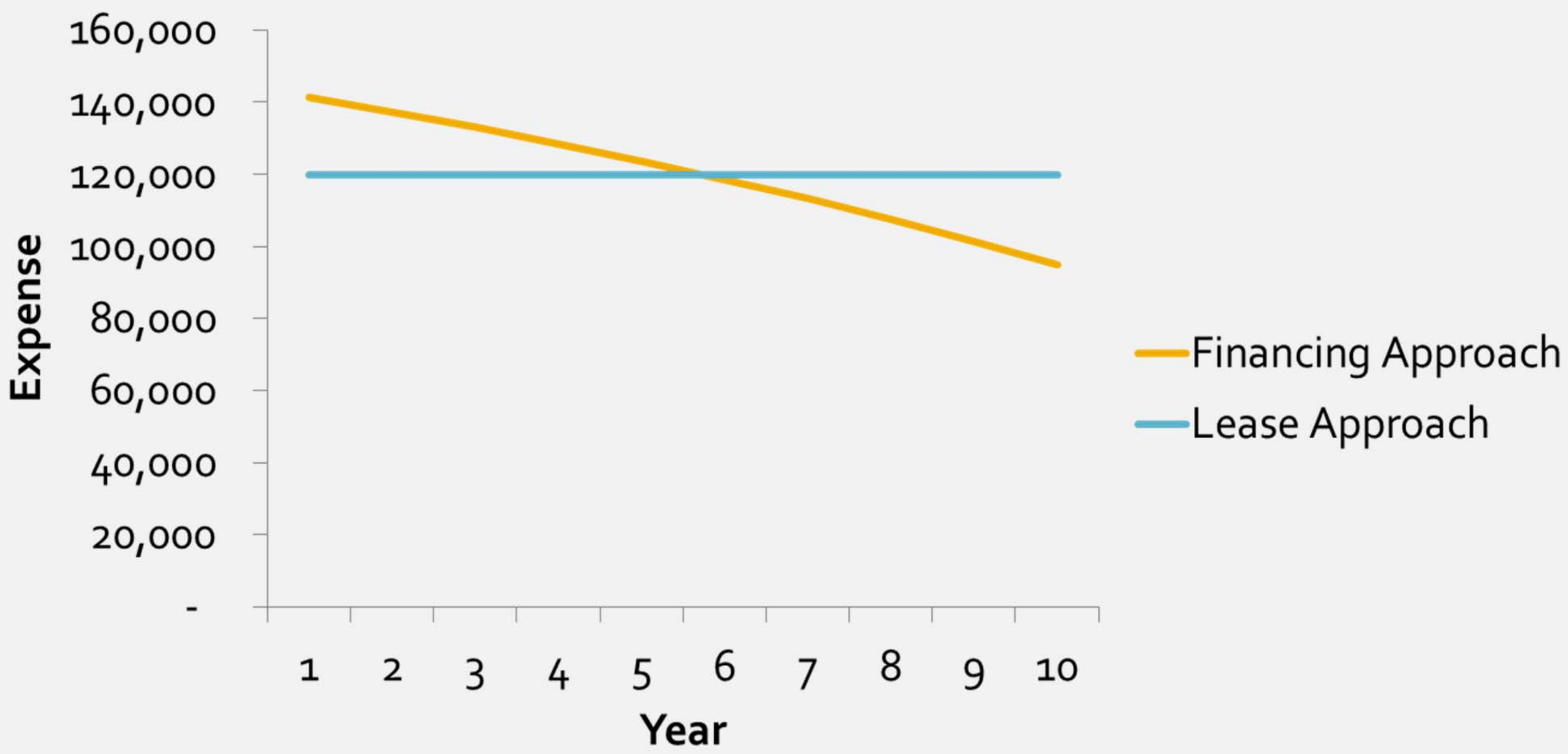
Lessee Accounting – Example

- Lease term = 10 years
- Annual rent = $120,000
- Discount rate = 6%
- Calculated present value = $883,210

	Debit	Credit
Right-of-use Asset	$883,210	
Lease Obligation Payable		$883,210

Leases Exposure Draft

Comparison of Total P&L Expense over the Lease Term



Leases Exposure Draft

- *Lessor Accounting* – Two possible methods:
  - Receivable and residual approach (financing)
    - Recognize asset representing right to receive lease payments – valued initially at the PV of the lease payments
    - Derecognize the carrying value of the asset being leased
    - Recognize an asset for the residual asset (if any) – PV of the estimated end-of-term asset value plus deferred profit
  - Operating lease approach
    - Essentially same as current accounting for operating leases, including requirement for straight-line rent recognition.

Leases Exposure Draft

❑ *Financing versus Operating:*

	Real Estate	Other Property
Presumed to be	Operating	Financing
Unless:	• Lease term is major part of economic life	• Lease term is insignificant relative to economic life of asset
	• PV of lease payments is substantially all of FV of asset	• PV of lease payments is insignificant relative to FV of asset

Leases Exposure Draft

- *Financing versus Operating:*
  - Lease term – examples (NOT rules) presented in FASB/IASB webinar

	Real Estate	Classification
Lease term is major part of economic life	• 30 yr lease term • (assume 40 yr life)	• Financing <grey area>
Lease term is NOT major part of economic life	• 10 yr lease term • (assume 40 yr life)	• Operating

Leases Exposure Draft

Financing versus Operating:

- Lease term – examples (NOT rules) presented in FASB/IASB webinar

	Other Property	Classification
Lease term is insignificant relative to economic life of asset	• Vessel – 5 yr lease • (assume 40 yr life)	• Operating <grey area>
Lease term is NOT insignificant relative to economic life of asset	• Truck – 4 yr lease • (assume 10 yr life)	• Financing

Leases Exposure Draft

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- Potential impact of Leases standard (primarily from Lessee's standpoint):
  - Impact on key financial ratios and metrics, such as:
    - Working capital
    - Debt to net worth
    - Debt service coverage
    - EBITDA
    - Net Operating Income
  - Resulting impact on loan covenants
  - Resulting impact on formula-based stock purchase prices
  - May change "buy" vs. "lease" decisions
  - Lessees may be motivated to favor short-term leases

Thank you!

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