

Legacy Advisor

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NOT-FOR-PROFIT ORGANIZATIONS

How New IRS Rule Affects the Way CPA Firms Do Business

Circular 230 sets forth the regulations governing the practice of certified public accountants and other professionals representing clients before the Internal Revenue Service. A revision to the Circular 230 regulations, published in December 2004, became effective on June 20, 2005. Practitioners violating the new rules may be censured, suspended or disbarred from practice before the IRS.

The regulations oblige practitioners giving written tax advice to their clients, on certain matters, to prepare such advice with rigorous attention to a full and complete analysis of assumptions, facts and law. Additionally, they are required to reach a conclusion as to whether the federal tax treatment of the transaction is the proper treatment. If the written advice does not address transactions that must have a full analysis, a less comprehensive form of written advice can be issued. But, in such a case, the practitioner must prominently disclose that the advice written by the

practitioner is not intended to be used for the purpose of avoiding tax penalties.

In order to provide timely, high quality, and concise tax advice without completing an exhaustive analysis for each and every question that may arise, we will include the following disclaimer in letters, e-mails, newsletters and *News Flashes*.

Disclaimer: This newsletter (e-mail or *News Flash*) represents a general overview of tax developments and should not be relied upon without an independent, professional analysis of how any of these provisions may apply to a specific situation. Any tax information contained in this communication was not intended or written to be used, and can not be used, by the recipient for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.

*By Michael I. Stein, CPA,
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Legacy News

The partners and staff of Legacy Professionals LLP wish you a happy, healthy and safe holiday season. Looking back on the past year, it has been a great one for our Firm's Not-For-Profit Group. We are busy getting ready for Association Forum of Chicagoland's Annual Holiday Showcase, which is scheduled for Tuesday, December 13 at the Hyatt Regency Chicago. More details can be found on page 4.

Please let us know if you have questions or need any additional information on any of the topics we cover in this issue or otherwise. Also, if there are other subjects that you would like covered in future issues, please send us an e-mail with your request to info@legacycpas.com or give us a call at 877-DIAL-LEGACY. We also welcome guest writers anytime! Contact Julie Tucek at jtucek@legacycpas.com or at 312-384-4292 if you would like to contribute.

Finally, we are eager to provide you, our clients and friends of the firm, with information the way *you* would like to receive it. Please send an e-mail to info@legacycpas.com if you prefer to receive this newsletter and/or our *News Flashes* via e-mail, or both via U.S. mail and e-mail. If you wish to receive our communications via U.S. mail and are already doing so, there is no need to contact us. For now, the default preference is the U.S. mail.

This issue was edited by Rose G. Doherty, CPA. Rose is based out of our Chicago office and can be reached at rdoherty@legacycpas.com.

We sincerely thank you for your continued support of the Firm during 2005. Please do not hesitate to contact us at any time if you need anything or if you have any feedback or suggestions for us.

– The partners and staff of Legacy Professionals LLP

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IRS Emphasizes Nonprofit Compliance



Greg Wallenbecker, CPA

For many years, nonprofit organizations were not a priority for the Internal Revenue Service (IRS). But recently, the IRS has established a new division to scrutinize nonprofit returns and has imposed new electronic filing requirements for many charities.

Although charitable organizations generally do not have to pay any tax, they still must file annual information returns (Form 990). Certain organizations with limited assets or revenue, and churches and related organizations are exempt from this requirement. This is the main source of information that the IRS receives about nonprofits.

In 2004, the IRS established the Exempt Organization Compliance Unit (EOCU). This new unit was created to examine Form 990s for errors, inconsistencies, incomplete entries and other items of a suspicious nature. The EOCU is using electronic records to ensure compliance. As a result of this focus, it is expected that audits for charitable organizations will begin to increase significantly.

The IRS has also released new regulations requiring certain tax-exempt organizations to file annual returns electronically. The new regulations apply to the 2005 information returns that will be filed in 2006.

- For 2005 returns that are due in 2006, electronic filing is required by tax-exempt organizations with total assets of \$100 million or more.
- For 2006 returns, this requirement will be expanded to include annual returns of organizations with \$10 million or more in total assets.
- In addition, private foundations and charitable trusts will be required to file Form 990-PF electronically, regardless of their asset size.

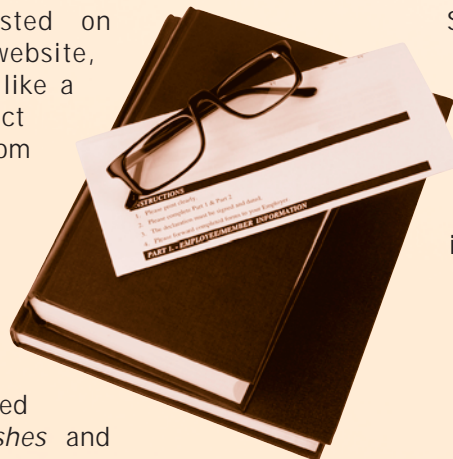
These recent changes highlight just how serious IRS compliance is. The best advice we can offer is to seek assistance from a CPA firm that specializes in nonprofits to ensure that your organization is in compliance. Please let us know if you have any questions.

By Greg Wallenbecker, CPA
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Year End Tax Planning Guide Available

The Legacy Professionals LLP Year End Tax Planning Guide is posted on the home page of our website, www.legacypas.com. If you would like a hard copy of the guide, please contact Laura Resendiz at info@legacypas.com or at 312-384-4261.

For your information, also posted on our website, are past issues of *Legacy Advisor*. Additionally, *Legacy News Flashes*, releases on hot topics that cannot wait for the next issue of *Legacy Advisor*, are posted on the website. Both *News Flashes* and



Legacy Advisors are available via e-mail. Simply let us know your e-mail address and that you'd like to receive them electronically.

At any time, if you have any questions or need additional information on any of these topics, contact us at info@legacypas.com.

Succession Planning for Non-Profits

Many small organizations are highly dependent on one or two individuals and the Board of Directors often only has a relationship with those individuals. The potential downside for an organization that has lost key personnel could be catastrophic. When an organization has the luxury of being completely staffed, care should be taken to develop and implement both a short-term and a long-term plan for continuity and succession.

At minimum every non-profit should spend some time planning how to deal with the unavailability of key personnel. This may be as simple as a memo to the Chairman outlining other members of the staff that the Board could turn to on a short-term basis to run day-to-day operations until a replacement is found or the person returns to work. Also, having adequate back up relating to authorized signers for the organization's bank or investment accounts is necessary.

For long-term succession planning you should consider some of the following:

- **Make sure detailed job descriptions are up to date.**
- **Make Board aware of any search firms that the organization has used in the past.**

- **See that Board or executive committee has had discussions with key staff about their long-term plans, such as retirement, etc.**
- **Proactively hire and develop staff with goal of not simply performing current role, but also future roles.**
- **Give the Board opportunities to become familiar with successor candidates.**



Bob Grogan, CPA

Succession planning is more than just a human resources exercise. It is probably better placed with your organization's strategic planning process. If done well, it can help ensure your organization's continued success. If not done well, it may take years to regain your proper footing.

Let us know if you have any questions or need any advice on succession planning for your organization.

*By Bob Grogan, CPA
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NFP Tax Law Update

Congress and the Internal Revenue Service have been busy recently, and there are several new rules that affect charitable organizations and their donors. The following is a brief summary of recent developments.

In general, charitable donations made in cash by individuals can be taken as itemized deductions that are limited to 50% of adjusted gross income. Under the new tax relief law for Hurricane Katrina victims, cash donations by individuals made after August 27, 2005 and before January 1, 2006, are exempt from the percentage of adjusted gross income limits. The waiver of this limit applies to all cash charitable contributions, not just those for Katrina relief.

For corporations, the charitable contribution deduction is generally limited to 10% of taxable income before charitable contributions. The new law waives the 10% limit for cash contributions made after August 27, 2005

and before January 1, 2006 for Hurricane Katrina relief only. Another provision permits corporations, partnerships and sole proprietorships to take deductions under more favorable rules for contributions of food and school books.

For charitable remainder trusts created after June 27, 2005, a married donor is generally required to obtain a waiver from the donor's spouse of spousal rights to claim assets of the trust under state inheritance laws. Depending upon the state of residence, a waiver for pre-June 28 charitable remainder trusts may be advisable.

Please let us know if you have any questions on these or any other issues for your organization.

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Legacy to Exhibit at Holiday Showcase



Legacy Professionals LLP will be exhibiting at Association Forum of Chicagoland's Holiday Showcase on Tuesday, December 13 at the Hyatt Regency in Chicago.

Legacy Partners Rose Doherty and Greg Wallenbecker, along with Marketing Director Julie Tucek, will represent the Firm at the luncheon and at the tradeshow. Stop by Booth #643 to say hello and visit with them. They will be passing out a little taste of summer at our booth, so do come over!

Visit <http://www.holidayshowcase.org/> for more information and to register for the show.

Contact us at info@legacycpas.com if you'd like a complimentary ticket to the event.

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