

# POSSIBILITIES

INSIGHTS FOR BUSINESSES & INDIVIDUALS

JUNE 2011

## Coordinating Vacations with Seminars Seven Cost-Saving Rules

*Are you planning to attend a seminar this summer? Thinking about coordinating a vacation at the same time, with your spouse and maybe even the kids? It is common to incur travel expenses partly for business reasons and partly for a vacation. Different rules apply to the allocation of expenses when travel is entirely within the U.S. versus travel that is partially or completely outside the U.S. Be sure to review the following rules before making reservations because your cost could be more than you expected.*

### **Rule 1** Deductible Meals and Second-Tier Miscellaneous Itemized Deductions

Only 50 percent of the cost of deductible meals is actually deductible. Also, all unreimbursed travel expenses paid by the taxpayer as an employee, represent second-tier miscellaneous itemized deductions, deductible only to the extent they exceed the aggregate 2 percent of the taxpayer's adjusted gross income.

### **Rule 2** Traveling to and from your Business Destination (within the U.S.)

If your vacation is at the same location as your seminar, your actual costs of travel (plane ticket, taxi to and from the airport or parking expenses) are deductible for yourself. The cost of meals, lodging and entertainment incurred during the vacation are not deductible. If the trip doesn't involve conducting business and is only for the purpose of attending a seminar, the IRS carefully checks the nature of the meetings to ensure the entire trip is not a

vacation. The IRS can disallow the deduction of all expenses if it determines the entire trip was primarily personal and only a small portion of the seminar was actually conducted in a classroom setting.

### **Rule 3** Travel Expenses for Spouse and Dependents

No income tax deduction is allowed for travel expenses paid or incurred with respect to a spouse, dependent or other individual accompanying the taxpayer, unless:

- The spouse, dependent or other individual is an employee of the taxpayer
- The travel of the spouse, dependent or other individual is for a bona fide business purpose and
- The expenses would otherwise be deductible by the spouse, dependent or other individual

### **Rule 4** Attending a Seminar on a Cruise Ship

An individual attending a seminar on a cruise ship may deduct ordinary and necessary expenses only if:

- Reporting requirements are satisfied
- The seminar was directly connected to the active conduct of his or her trade or business
- The cruise ship is registered in the U.S.
- All ports of call on the cruise are located in the U.S. or its possessions

When all requirements are met, the maximum deduction with respect to cruises beginning in any calendar year available per individual



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CPAs & BUSINESS ADVISORS

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## Understanding Your Options

# When it Comes to Paying for College

*Financial aid is money given by colleges and federal and state governments to help students pay for college or graduate school. This money is in the form of loans, grants, scholarships and work-study. Loans and work-study must be repaid either through financial obligation (loans) or service to the college (work-study). By contrast, grants and scholarships do not have to be repaid. There are two financial aid applications.*

### FAFSA

The FAFSA is used by the federal government and colleges when federal financial aid funds are being distributed. The FAFSA is available at high school guidance counselor offices or college financial aid offices. Applications must be filed by FAFSA's stated deadlines, which vary by state and can be found at [www.fafsa.edu.gov](http://www.fafsa.edu.gov). There are four ways to file:

- Manually complete the form and mail it to the regional processor listed on the form
- File electronically through the college (not all colleges have this capability)
- File electronically using the U.S. Department of Education's FAFSA Express software, available for download at [www.ed.gov](http://www.ed.gov)
- File at [www.fafsa.ed.gov](http://www.fafsa.ed.gov)

### PROFILE

The PROFILE is used by most colleges (approximately 3,000) when their own funds are being distributed. The PROFILE is available at high school guidance counselor offices, college financial aid offices, or on the Internet at [www.finaid.org](http://www.finaid.org). Applications must be filed by PROFILE stated deadlines, which vary by state and can be found at [www.finaid.org](http://www.finaid.org). There is a processing fee for filing the PROFILE application.

### Financial Aid Programs

There are several types of financial aid programs. The most common financial aid programs are those offered by the federal government. The main federal programs are as follows:

### Pell Grant and Supplemental Educational Opportunity Grant (SEOG)

—The Pell Grant is available to undergraduate students. It is an entitlement program, which means the grant is available to all students who qualify. The SEOG is reserved for undergraduate students with the most financial need (Pell Grant recipients are given priority).

**Stafford Loan**—The federal Stafford Loan is a low-interest loan made to both undergraduate and graduate students. Your lender can be either the federal government or a private financial institution, depending on which lending program a particular college participates in.

**Perkins Loan**—The Perkins Loan is a low-interest loan available to both undergraduate and graduate students. Like the SEOG, the Perkins Loan program is campus-based, which means each college receives a certain amount of money for this program, and you borrow the money directly from the college.

**The PLUS Loan**—The PLUS Loan is a non-need-based program; that is, you can qualify without financial need. The loan is for parents with good credit histories who want to help pay for their child's education, and for graduate and professional students.

**Work-Study**—The federal work-study program is a need-based program that subsidizes jobs for both undergraduate and graduate students. Often, these jobs involve community service work and can be related to your course of study. ■

### CONTACT

- Talk to your local Eide Bailly financial advisor
- Call 866.740.4100 for more information

There are several types of financial aid programs. The most common financial aid programs are those offered by the federal government.



## Estate Planning

# It's Not Just About Tax

*Our fast-paced world allows us to be highly mobile and extremely active. We are typically aware of the benefits an exciting lifestyle affords, but an unexpected tragedy can quickly change our lifestyle. This is particularly true when dealing with specific life-changing events. However, proper planning can ease the pain.*

Young adults may think that estate planning is only for parents or grandparents. However, estate planning isn't just about saving estate tax when someone dies. It is about making important life choices, especially when children are involved.

Planning, including estate planning, usually starts by asking, "What if?" This question is used to generate thoughts about life events, especially devastating situations, before they actually happen. For example, "what if" a young couple—the parents of two children ages two and seven—travels together without the children. There is an accident and the parents die. Without proper planning, the court may select guardians for the children the couple would not have chosen.

Then, "what if" another young couple, again traveling together, is involved in an accident and the husband survives, but the wife (a stay-at-home mother) dies. Will the husband be able to afford assistance to raise the children, while maintaining the lifestyle the children are used to having?

These are examples of situations no one likes to think about. The "what if" questions provide a foundation for estate planning, which has nothing to do with estate tax, but everything to do with preparing ourselves to move forward following an unthinkable life event. These questions need to be addressed and updated periodically, so a current answer is available should such an unthinkable life event take place. These questions also deal with the true assets of a person's estate.

An attorney will assist with drafting the appropriate documents to record decisions made, but the real work is in the planning and decision process. The first step is to consider the facts, formalize the questions that need to be addressed and facilitate a discussion focusing on possible life events in order to create a plan with well-thought out decisions.

Discussions related to guardianship are probably the most emotional. *Is a grandparent the best choice? Are they too old? Would a sibling be a better choice? Do they have their own children? Would additional children present a problem? Do we need to have someone protect the children's financial interest who is indifferent from the guardian?* The decision of guardianship is dependent on many factors, even before considering the legal issues. Factors like age, relationship, location, personal situations and financial resources make up a limited list of all items to consider in selecting a guardian.

Asking questions about child care assistance focuses on the need for life insurance. Having the resources necessary to assist with child care functions and a stable family lifestyle after an untimely death is extremely important.

A difference in planning for a younger generation is the potential for frequencies of lifestyle changes. As a result, the planning process needs to include these potential change items and procedures to make sure decisions are continually monitored and updated to help ensure desired results. Now is the time to start thinking about and planning for the truly important assets and responsibilities in your life. ■



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Estate planning isn't just about saving estate tax when someone dies. It is about making important life choices, especially when children are involved.

## Optimize Social Security Benefits

Once you reach your full retirement age, there is no offset with regard to earned income. At full age, you can earn as much as you want and still collect full benefits.

*Odds are good—even for the “under 40 crowd”—that Social Security will still be there when they reach retirement. It may not look the same, but it almost certainly will be there. So, we need to focus on factors to help us make the most of what Social Security has to offer.*

Normal retirement age (more commonly known as full retirement age) is based on a formula that recognizes increasing life expectancies. Today’s 65-year-olds have life expectancies of the average man living to age 83 and the average woman to age 85. In addition, about half of retiring couples will have one partner who lives well into his or her 90s.

As retirees live longer, their retirement savings, investment assets and fixed income streams are under additional pressure to perform. Not only does their money need to last longer, it needs to continue to grow so their purchasing power isn’t eroded by inflation.

### When to Claim Benefits

You can claim your Social Security retirement benefits as early as age 62, or as late as age 70. For workers born in 1960 or later, full retirement age is 67. Those born in 1937 or earlier have already qualified for full retirement benefits at age 65. For those born between 1938 and 1959, full retirement is somewhere between age 65 years and two months and age 66 years and 10 months, depending on the year you were born. For more details, refer to your annual Social Security statement, or go to [www.ssa.gov](http://www.ssa.gov).

### Long-term Inflation

Social Security has built-in inflation protection in the form of an annual Cost-of-Living

Adjustment (COLA). This increase has been in place since 1975, is calculated annually in the third calendar quarter and is based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The annual COLA helps ensure recipients have at least a modest opportunity to maintain their purchasing power over a long period of time. As you review your options and determine your cash flow needs, it may be beneficial to delay your Social Security claim as long as possible in order to lock in an overall higher monthly check.

### Current Income Needs and Whether You Will Continue to Work

If you’re still working, benefits received prior to your full retirement age may push you past the current income limit (\$14,160 in 2011) and trigger an offset against current income. Any benefits received will be reduced by one dollar for every two dollars earned above the income limit, except in the year you reach full retirement age. In that year, the income limit is \$37,680 (in 2011) and your benefit will be reduced by one dollar for every three dollars earned above the limit—but only for the months prior to your birthday month. For more detailed information, go to [www.socialsecurity.gov/pubs/10003.html](http://www.socialsecurity.gov/pubs/10003.html).

If you surpass the income limit and the government withholds a portion of your Social Security benefit, you won’t actually lose the money. Instead, when you reach full retirement age, your benefit payment will be recalculated to include the extra dollars you were forced to give up during prior months. Still, your benefit amount won’t be as high as it would have been if you had waited until full retirement age. Rather, your recalculated benefit amount is your original (reduced) early benefit amount, plus life expectancy-amortized value of the money that was withheld. So, if you are under full retirement age and still working, consider whether you can live without Social Security in the short term. If you can, you may be better off to delay, and then start your benefits at a later date with a higher monthly amount.



Once you reach your full retirement age, there is no offset with regard to earned income. At full age, you can earn as much as you want and still collect full benefits. For some people, this is attractive. But, if you're healthy and plan to keep working for a few more years or even months, why not continue to delay your Social Security benefits? Remember, the longer you wait—up to age 70—the higher your monthly check will ultimately be.

### **The Break-Even Point for Claiming Early, At Full Age or as Late as Possible**

The break-even point is a primary consideration for some people. This varies based on history of earned income, date of birth and additional factors unique to the situation. In general, if a person claimed benefits at his or her full retirement age (we'll use 66 as an example), it would take approximately 12 years to break even or collect as much in total as he or she collected if he or she had claimed benefits starting at 62. With a higher monthly benefit—and with the larger monthly amount locked in for the rest of your life—you come out further ahead for every additional month you live beyond the break-even point.

Claiming Social Security at age 70 results in a later break-even point—past age 80 for many people—but beyond the break-even point, you would enjoy an ongoing monthly paycheck that's about 33 percent higher than if you had started collecting at “full age.”

For some, it might make more sense to delay Social Security for as long as possible and to give yourself a higher ongoing stream of income for the rest of your life. For a moderate to high wage-earner who delays until age 70 and then lives into his or her mid 90s, the difference in total benefits collected can be well over \$100,000—and that's without including the difference between the exponential COLA adjustment to the lower and higher benefit amounts.

### **Evaluating Your Health and Family History of Longevity**

Do you have reason to believe that you won't live to your average life expectancy because of known medical conditions or family history? If you don't expect to live beyond age 75, you should probably start your benefits as early as possible. Your monthly check won't be as high, but you'll stand a better chance of maximizing the number of checks you receive.

If you expect to live well into your 80s or beyond, you may want to delay your benefits for as long as possible—all the way to age 70. Your monthly check will be much larger and, once you pass the break-even point, you'll be further and further ahead of where you would have been by claiming social security earlier.

### **Bottom Line**

Don't wait until the last minute to evaluate your Social Security options and don't make a hasty decision about your benefits. Talk with your financial and tax advisors. They'll help you consider all options and make the decision that's best for you—now, and for the rest of your life! ■



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## Case Study

# Refinancing Bank Loans

*Recently, a non-profit I work with refinanced its mortgage. This experience offers a lesson to be learned during a time of turmoil in real estate and banking.*

In 2007, the non-profit renovated its building and borrowed \$7 million from a major national bank. Not having a relationship with this bank, lenders were skeptical about making the loan. The bank required prior debt to be paid off, an environmental study and credit checks. The non-profit raised sufficient funds to begin the renovation without the construction loan in place. Six months passed before the construction loan and subsequent mortgage were in place. The mortgage was a 15 year loan with five-year prepayment penalties and a balloon payment at maturity.

Recently, the finance committee became concerned about the increasing federal government debt and the real potential for dramatically increased future interest rates. They also were concerned about the uncertainty of obtaining refinancing when the balloon payment occurred. The non-profit approached a reputable and financially sound local bank, which gladly made a refinancing proposal. However, the current loan holder also jumped on refinancing the current loan.

Initially, the national bank proposed to simply lower the interest rate from 6.07 to 4.95 percent, reflecting the fall of interest rates resulting from the current housing collapse and mortgage crisis. The non-profit rejected that offer and countered with its own proposal, consisting of a term loan with a 15-year amortization and a total payoff at that time. This would avoid the balloon payment and the future need to refinance in an uncertain market place.

In a couple of weeks, the bank agreed. While the 15-year loan would entail additional monthly payments of \$5,000, the bank employed an interest rate of 5.02 percent. The deal was signed within a week and closed a week later. The interest rate was better than the local bank and had absolutely no closing or other costs.

Since the initial mortgage of three years ago, the non-profit did a number of things right, including:

- Raising enough money through the end of the construction period to both pay down \$2 million on the construction loan and set up a maintenance reserve of \$1 million.
- Proving to the lender the competence of the board and management team.
- Demonstrating the ability to raise fees, generate future revenues and positive cash flows.
- Completing the renovation on budget and on time.
- Developing a five-year capital spending plan that would not require additional borrowing.
- Paying all bills in a timely manner.

Despite turmoil in the banking and real estate industry, banks are dedicated to giving good loans to competent borrowers and will definitely respond to competitive forces. This was a win-win solution for all parties. ■



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## YOUR FEDERAL TAXPAYER RECEIPT

### Find out how your tax dollars are being spent!

Enter your 2010 tax payment for social security, Medicare and income tax, and the taxpayer receipt will give you a breakdown of how your tax dollars are spent.

[www.whitehouse.gov/issues/taxes/tax-receipt](http://www.whitehouse.gov/issues/taxes/tax-receipt)

## Where is Private Company Accounting Going?

*In the early 1970s, the Financial Accounting Standards Board (FASB) was created to set all new accounting standards for public, private and non-profit entities. Today, that process is still going on. However, in the last 40 years, the process has changed in several significant ways.*

First, FASB has increasingly added significant complexity to the accounting rules, thereby making compliance more difficult. For example, accounting rules for derivatives have gotten so complex, they are understood by a very small number of accountants.

Second, pushed by Congress after the failure of Enron and other major public companies in 2002, the Securities and Exchange Commission (SEC) has gained increasing influence over the rules making FASB processes. Since the U.S. accounting system is heavily rules-based, the rules have proliferated with SEC support and have been increasingly geared toward large public, rather than smaller private, companies. This made it more difficult for private companies to do all of their own accounting and they have become increasingly dependent upon their outside CPA.

Lastly, the SEC has pushed for converging U.S. accounting rules with those of Europe. This has resulted in FASB being pushed to rewrite U.S. accounting rules to conform to foreign principles based accounting standards.

In response, several accounting groups came together to form the Blue Ribbon Panel to study the problem. Comprised of academicians and representatives from public accounting firms and private companies, the panel has recommended that a new private company board be established to make accounting rules solely for private companies. The new board would represent the private company sector and be sensitive to private company needs. The goal is to simplify current and future accounting rules and make them easier to apply.

However, the future of such a private company accounting board is now being debated. While the panel sought significant input from private company stakeholders, it does have critics within and without. Internally, dissenting views exist. Externally, a prominent group representing financial executives dismissed the need for a board separate from FASB, and instead recommended a new standing committee of private company stakeholders to advise FASB. They argue this approach will save costs, be more efficient and have an equivalent impact on Generally Accepted Accounting Principles (GAAP) for private companies. In the meantime, private company GAAP continues to be made by the FASB. Stay tuned! ■



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## MEET OUR NEWEST PARTNERS

*On May 1, Eide Bailly accepted six staff members into its partnership, bringing the total number of partners/principals to 168. Join us in congratulating the following individuals.*

**Rudy Rudolph**, CPA, Boulder, Colo., partner, specializes in tax and business planning, mergers and acquisitions, profit improvement analysis and forecasting.

**Ryan Shirley**, CPA, Denver partner, has more than 10 years public accounting experience serving the manufacturing, wholesale/retail, dealerships, extraction, franchises and software development industries.

**Shannon Breuer**, CPA, CEBS, Fargo, N.D., partner, has more than 13 years public accounting experience specializing in the real estate industry.

**Brian Stavenger**, CPA, Fargo partner, has more than nine years public accounting experience specializing in the government and non-profit industries.

**Tim McCutcheon**, CPA, Golden, Colo., partner, has more than 32 years public accounting experience. He specializes in non-profit organizations.

**Rick Alexander**, CPA, Oklahoma City partner, has more than 20 years experience providing services for hospitals, government and non-profit organizations.

**Rob Leslie**, CPA, Phoenix partner, has more than 25 years experience specializing in the non-profit industry.

**Ben Ellingson**, CPA, Sioux Falls, S.D., partner, has more than 10 years experience providing services to the construction, manufacturing, wholesale/retail distribution and non-profit industries.

**Tom Madison**, CFA, CPA, Sioux Falls partner, has more than nine years public accounting experience providing services to the non-profit, construction, manufacturing and wholesale/retail industries. ■



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### *Cost-Saving Rules—from page 1*

per year is \$2,000, regardless of whether the individual attends one or more cruise ship meetings in the calendar year.

#### **Rule 5 Seminars Outside North America**

No expense deduction is allowed for attending a seminar held outside North America unless the taxpayer establishes the meeting is directly related to the active conduct of his or her trade or business, or it is reasonable for the meeting to be held outside North America.

#### **Rule 6 Traveling to and from your Business Destination (outside the U.S.)**

If the entire time outside the U.S. is spent on business activities, including a seminar, all travel expenses of getting to and from the business destination are deductible. The entire time is considered allocable to business if either:

- The traveler doesn't have substantial control over arranging the business trip outside the U.S., or

- Taking a personal vacation wasn't a consideration in deciding to make a trip outside the U.S.

#### **Rule 7 Foreign Travel Expenses**

Several exceptions apply to the foreign travel expense allocation rules required when an individual engages in non-business activity abroad. The allocation rules are not applicable to expenses of travel outside the U.S. if they do not exceed one week and less than 25 percent of the total time was spent on non-business activities. For this purpose, one week means seven consecutive days, excluding the departure day but including the return day. ■



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