

Client Tell

Blackburn, Childers, and Steagall, PLC
Certified Public Accountants and Consultants

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Blackburn, Childers, and Steagall, PLC Quarterly Newsletter

TN Franchise & Excise Taxes 101

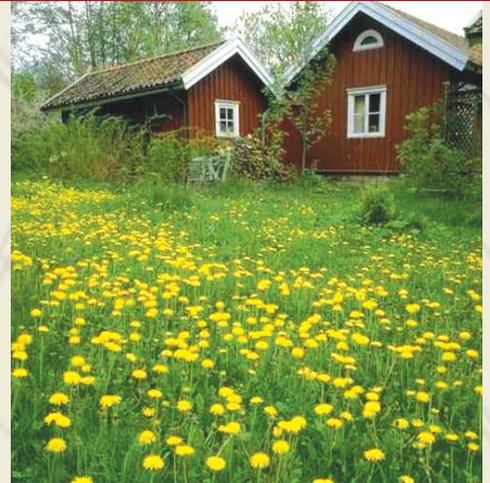
The State of Tennessee imposes two taxes for the privilege of doing business within its boundaries. These taxes are the excise tax and the franchise tax and they are imposed on corporations and most limited liability companies. General partnerships and sole proprietorships are not subject to these taxes. The excise tax is based on the net income of the company for the tax year. The franchise tax is an asset based tax on the greater of net worth of the company or the book value of real and tangible personal property owned or used in Tennessee at the end of the taxable period.

Although the franchise and excise tax are two separate taxes generally, any taxpayer that is liable for one will also be liable for the other. Entities liable for these taxes will compute and pay the tax on one form filed with the State of Tennessee (Form FAE 170). Form FAE 170 is due 3 1/2 months after the entity's year end. A return is required for every fiscal closing of the books of each taxpayer and will coincide with each federal return filing period.

If you are doing business in the State of Tennessee you are liable for these taxes, unless you are a partnership or sole proprietorship. The following entities are examples of some types of businesses which are liable for the franchise and excise tax: corporations, subchapter S corporations, limited liability company, professional limited liability company, registered limited liability partnerships, limited partnerships and real estate investment trusts. It is important to note that out-of-state corporations doing business in Tennessee are also subject to the franchise, excise tax even if they are not incorporated or domesticated in Tennessee.

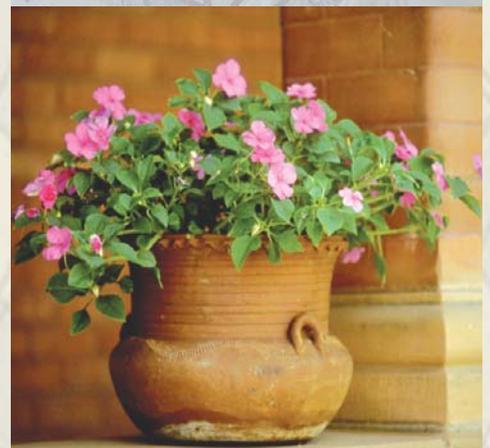
There are some exemptions to filing franchise and excise tax. For example, certain limited liability companies, limited partnerships and limited liability partnerships whose activities are at least 66% farming or holding personal residences where one or more of its partners or members reside are exempt. Non-corporate entities that are at least 95% family owned and at least 66.67% of the entity's income is derived from activities that produce passive investment income or a combination of farming and passive investment income are also exempt.

(cont'd on page 4)



Inside this Issue

- Page 2 Viewpoint
- Page 3 Who Drafted Your Will?
- Page 4 Franchise & Excise Tax 101
- Page 5 Insight into Estate & Gift Tax
- Page 6 Backing up your Personal Files
- Page 7 Personal Lines, My Chat With...
- Page 8 Tax Calendar, Viewpoint cont'd





Viewpoint

Tommy
Greer

AICPA's Top Technologies for 2006

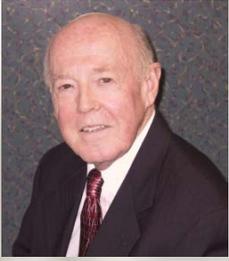


Initial results on the AICPA's Top Technologies for 2006 are in, with information security taking the top spot for the fourth year in a row. Four new technologies made the list for the first time this year:

- **Assurance and compliance**
- **Information technology governance**
- **Privacy management**
- **Spyware detection and removal**

Voters were asked to rank the technologies they felt would most influence the accounting profession in the next 12 months from among 39 options. Here are the most 10 important issues named by respondents:

- **Information security.** The hardware, software, processes and procedures in place to protect information systems from internal and external threats. It includes routers, perimeter firewalls, IP strategy, intrusion detection and reporting, content filtering, anti-virus, anti-spyware, password management, vulnerability assessment, patch management, personal firewalls, wireless security strategies, data encryption, locked facilities and user education.
- **Assurance and compliance applications (for example, SOX 404, ERM).** This new entry encompasses collaboration and compliance tools that enable various stockholders to monitor, document, assess, test and report on compliance with specified controls.
- **Disaster and business continuity planning.** The development, monitoring and updating of the process by which organizations plan for continuity of their business in the event of a loss of business information resources due to impairments such as theft, virus infestation, weather damage, accidents or other malicious destruction. This includes business continuation and contingency planning.
- **IT governance.** This new entry involves a structure of relationships and processes to direct and control the enterprise to achieve its goals by adding value while balancing risk versus return over IT and its processes.
- **Privacy management.** Privacy encompasses the rights and obligations of individuals and organizations with respect to the collection, use, disclosure and retention of personal information. As more information and processes are being converted to a digital format, this information must be protected from unauthorized users and from unauthorized usage by those with access to the data. This includes complying with local, state, national and international laws.
- **Digital identity and authentication technologies.** These provide a way to ensure that the user who attempts to perform functions in a system is in fact the user who is authorized to do so. It includes hardware and software solutions that enable the electronic verification of a user's identity or a message's validity (digital certificates are an example). This technology includes the use of bar codes, magnetic stripe, biometrics, tokens and access control for authentication, non-repudiation, and authorization.
- **Wireless Technologies.** Connectivity and transfer of data between devices via the airwaves; that is, without physical connectivity. Wireless technologies include Bluetooth (PAN), infrared, WiFi (802.11 WLAN), Wi-Max (802.160, 2.5G&3G (WWAN) and satellite.
- **Application and data integration.** Using current and emerging technologies including .NET, Web-services, Java, XML & Ajax, to facilitate integration of data between heterogeneous applications. An example would be to update a field in one application and have it automatically synchronize with other applications. This allows organizations to select and seamlessly integrate "best of breed" applications.



Who Drafted Your Will?

At recent Gallop poll shows 50% of Americans have Wills. This is not correct. Everyone has a Will! The key question is – Who prepared your Will? The poll is correct that 50% drafted their own Wills or had them drafted by an attorney while the other 50% had Wills drafted by the State of their domicile. What many people don't realize is that if you die intestate (without a Will) then your property is divested by the laws of the state in which you reside. Usually this causes results which are not in accordance with the wishes of the most recently departed. So the moral of this story is everyone reaching their majority should have a Will drafted by a competent attorney. There are do-it-yourself kits available, but I do not recommend it for most people.

A Will, of course, only covers property owned by the decedent (in their name alone). This means that life insurance, jointly held property, property passing by contracts where there is a designated beneficiary such as retirement plans, IRAs, etc. are not covered by the Will. These assets do not go through the process called probate wherein the courts are involved in establishing the disposition of the property in accordance with the provisions of the Will. The more property one owns, the more complicated becomes the process. Therefore, for those people who are of substantial means we definitely recommend getting an attorney who is very competent in this area and indeed may make a specialty out of drafting Wills.

As a help in understanding Wills and what you need to think about before you see an attorney, here is a brief outline:

Preparation of a Will is necessary for the following reasons:

1. To be sure of who gets what
2. To provide your beneficiaries with protection and guidance
3. To avoid needless delays, confusion, and cost
4. To minimize the tax that will be paid on your estate

In the preparation of a Will there are several important considerations. Listed below are some things that you should be considering prior to making an appointment with an attorney.

1. Naming your executor
2. Funeral instructions
3. Specific bequests
4. Any special provisions for spouse and dependents
5. Possibility of charitable bequests
6. Provisions in the event of a family disaster (all killed)
7. Possible use of Trusts
8. Any special management instructions
9. Appointing a guardian for minor children

(Continued on page 4)

(Who Drafted Your Will? cont'd from page 3)

There are other documents that are needed in this day and age. They are as follows:

1. Durable Power of Attorney – A document giving one person the right to act on behalf of a principal
2. Durable Power of Attorney for Health Care – Same as above except restricted to health care
3. Living Will – Written instructions as to medical treatment if you cannot speak for yourself
4. Trusts – These can be set up while you are alive or set up by provisions of your Will



The above comments are meant to introduce the first steps in estate planning. It is the intent that you realize this exercise is for everyone – not just the wealthy. One more thought! I have seen colossal messes resulting from people dying intestate. If you truly love those who are closest to you – then preparing a Will is a “must do” activity.



By
**Debbie
Maney**

TN Franchise & Excise Tax 101

cont'd from front page

Now, how is the tax calculated? The **excise** tax is a 6.5% tax on the net earnings from business done in Tennessee for the year. Net earnings (losses) are defined as federal taxable income (loss), before the net operating loss deduction and special deductions provided for in the Internal Revenue Code, plus or minus certain additions or deductions as required by state law.

The **franchise** tax rate is 25 cents per \$100, or major fraction thereof, applied to the greater of a taxpayer's net worth or the book value of property owned or used in Tennessee at the close of the tax year covered by the required return. The minimum franchise tax payable each year is \$100. Even if your business is inactive or has had its charter or other registration forfeited, but has not been legally dissolved, it is not relieved from filing a return and paying the minimum franchise tax.

The measure of the franchise tax levied will not be less than the actual book value (cost less accumulated depreciation) of real and tangible property, including prepaid supplies and inventory, owned or used in Tennessee, excluding exempt inventory and two-thirds of the capital investment used to qualify for the jobs tax credit. The value of any property under construction is not included in the tax base.

If you do not own the property, but instead are renting, the value of rental property and therefore your asset's base for the franchise tax will be determined by multiplying the net annual rental by the following multiples: real property x 8, machinery and equipment used in manufacturing x 3, furniture and office machinery and equipment x 2, delivery or mobile equipment x 1. The formula in effect creates an asset which is included for taxation purposes.

This seems pretty straight forward. However, there are additional items to consider if you are renting real property under a Triple Net Lease. First, let's define a Triple Net Lease. A Triple Net Lease is a lease in which the lessee pays rent to the lessor, as well as taxes, insurance, and other expenses that arise for the property. Therefore, the rental factor for a business operating under such a lease is not as simple as obtaining the amount of rent paid during the year. The rental factor, for Tennessee Franchise Tax purposes, will include not only the rent paid for the year but also other items paid such as interest, taxes, fire and general liability insurance.

Therefore, when submitting information to Blackburn, Childers & Steagall for preparation of your Company's income tax return, please remember to include documentation that details the costs for all the items outlined above. If you any questions about any of the above, feel free to call our office.





By Wade
Farmer

Insight Into Estate and Gift Tax from an IRS Perspective

In November of 2005, I participated in the TSCPA Federal Tax Committee Liaison meeting with the Internal Revenue Service. The meeting covered a wide range of topics, including an update on estate and gift tax. The following is a summary of that segment of the meeting.

Marty Horn of the IRS opened with an overview of the administrative side of estate and gift tax. He stated that several years ago all estate and gift tax returns as well as extensions to file/pay were centralized to the Cincinnati Service Center. The Cincinnati location has a staff of 110 to process estate and gift tax returns. Horn stated that 114,000 estate tax returns were filed nationwide in 2002 and that the Service estimates 60,000 estate tax returns will be filed in 2006. The decrease in the number of returns filed was due to the continued increase in the amount of the unified credit. Horn also mentioned that revenue from estate tax for 2002 was 25 billion and 22 billion in 2005.

Tennessee has five IRS estate tax attorneys with 450 nationwide. Two of the Tennessee attorneys are eligible for retirement, but the Service has no current plans to replace these employees due to the above mentioned reduction in inheritance tax returns filed. Nationwide, the IRS is not building the estate tax return staff due to the possibility of repeal and the increase in credit. Horn also noted that approximately 40% of estate tax attorneys nationwide are eligible for retirement. The current staff and workload numbers result in an average of nine months to complete an audit once the return is selected for review.

Comments in regard to what could cause an estate tax return to be selected for audit were made as follows:

- Lack of completeness to the return in regard to items such as appraisals.
- Large amounts of real estate or closely held companies.
- The existence of family limited partnerships.
- Valuation questions.
- The Service also selects returns where the charitable or marital deduction may have failed.

Roy Wyatt of the IRS advised that 8,000 estate returns were filed in 2004 that contained limited partnerships. He considered that amount relatively small. The IRS continues to make family limited partnership a special focus. The Service will use IRC Section 2036 regarding retained control to challenge these partnerships as they have had limited success with IRC Section 2703 and economic substance arguments.

Lastly advisement was given that a discount for built in or embedded gains on partnerships or corporations will not be looked on favorably by the Service.



Just a couple jokes....



Why did the accountant stare at his glass of orange juice for three hours?

Because on the box it said Concentrate.



Why was the accountant so excited that he completed a jigsaw puzzle in only 59 weeks?

Because on the box it said 8-12 Years.

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**By Don
Wallingford**

Backing Up Your Personal Files

You never really think too much about it until it happens to you. Your home computer has crashed and you are thinking to yourself, “How am I going to get all of my critical files back?!” Unfortunately, for the majority of home users, this is a typical situation and there is nothing more depressing than realizing that all of those digital photos, financial data, music, and other personal files have been lost forever. Fortunately, this doesn’t have to be the case with the many backup solutions available to consumers, two of the more popular solutions being CD/DVD backup and external hard drive backup.

Before you can begin backing up any files or information you need to decide what you want to back up. There are no set rules since deciding what you want to back up becomes a personal preference, but the general idea should be that anything that you cannot replace easily should be backed up. Here are some suggestions on what types of files and data to get you started:

-  Digital photos
-  Music
-  Bank records and other financial information
-  Software you purchased and downloaded from the Internet
-  Any personal documents

One of the more common ways that home users can backup their data is through the use of CD/DVD. A typical recordable CD is capable of storing around 700 MB of information, and recordable DVDs are able to store up to 4.7 GB (single layer) to 8.5 GB (dual layer). Backing up your personal data through recordable CDs and DVDs can be a fairly cheap and easy way to protect your vital files. CDs and DVDs make a good choice for storing your information, simply because of their small size and longevity. Most computers that you can purchase now come equipped with a recordable CD drive and for a little extra you can upgrade to a recordable DVD drive. If you don’t have a recordable CD drive, you can go to any electronics store to purchase one. Best Buy, for example, has recordable CD drives starting at \$45. Now if you are interested in recording your information to a DVD rather than a CD, Best Buy has recordable DVD drives starting around \$65. I would recommend purchasing a recordable DVD drive since they are capable of recording to both CDs and DVDs.

Another type of media home users can use to backup data is the external hard drive. The prices of external hard drives have gone down greatly compared to prices just a few years ago. You can purchase an external hard drive from Best Buy for anywhere between \$100 - \$250 depending on the capacity of the hard drive. Rather than trying to keep track of which CD/DVD contains certain data, you have all of your backup data available almost immediately. Some external hard drives have a single button located on the drive that you press to begin backup of any preset files and folders you designated when first installing the drive, making backup very simple. An important factor to remember when purchasing an external hard drive for data backup is size. You don’t want to purchase a drive that will barely store all of your data, because as time goes on the amount of data and the size of those files will increase. Most professionals would suggest buying an external hard drive that is at least two to three times the size of all of the data you are planning to back up.

Backing up your data is the only way of providing security against hardware failures and system crashes that can occur to any computer. Through the increasing popularity of CD/DVD and external hard drives, creating backups of your data is becoming easier and cheaper. Whether you decide to use CDs/DVDs for their small size and longevity or external hard drives for their increased storage space and ease of use, the important thing to keep in mind is to back up your data.

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Personal Lines



by Gina Lemons



BCS would like to offer a big welcome to the newest member of the McMurray family. **Karen McMurray's** son, Wesley, and his wife, Jennifer, daughter of Carl and Kathy Little, celebrated the birth of their first child, Owen Wesley, on January 29th.



At the Johnson City/Washington County United Way Annual Meeting held January 26th, United Way members approved a new slate of Board officers for 2006. **Melissa Steagall-Jones**, partner, was elected as Board chairwoman.



Nick Clay, former Tax Department intern, graduated from East Tennessee State University in December 2005, and became a full-time member of the Tax Department January 1, 2006.



Josh Culbert, intern in the Small Business Consulting Department, and Senior at Science Hill High School was awarded one of the four Roan Scholar Awards presented for 2006. The Roan Scholar Award derives its name from the highest peak in Upper East Tennessee, Roan Mountain, which rises 6,200 feet into the sky. The award consists of full tuition to East Tennessee State University, room and board, a book allowance, a Dell laptop computer and printer, and is renewable for 3 additional years to last for the duration of the Roan Scholar's time spent pursuing a 4-year bachelor's degree. The award is given based on a high school senior's leadership performance, scholastic merit, character, physical vigor, and nomination by their school principal. The program seeks students from 15 counties and 44 high schools in the Tri-State region. Way to go Josh!!!



My Chat with Kay Pickering

by *MeLissa Crockett*

Kay began her career with Blackburn, Childers & Steagall, PLC in January 3, 2005 as a staff accountant in the Kingsport Office assisting clients in Small Business Consulting. She graduated from Northeast State Technical Community College in 2004 with an Associates Degree in applied Science – Business Management Technology and an Academic Certificate in Accounting Technology. She has since mastered her QuickBooks Certification and is currently studying for the Certified Bookkeepers Exam. Kay plans to begin classes at Milligan College in the fall of 2006.

Kay was born in Kingsport, Tennessee in 1975 and moved to Florida in 1980. Her family decided to return to Kingsport in 1990. She graduated from Sullivan South High School in Kingsport. Kay is married to Dalon Pickering and they have four children, three girls and one boy. Her girls love to play soccer and Kay enjoys softball and bowling during her spare time.



By *Chad Kisner*

Comfortable Audits

Many people hear the word audit and think some very bad thoughts. I can almost assure you comforting or comfortable are probably not real high on the list. At BCS we see the audit process from a little different perspective since we are the auditor and not the auditee. Many Americans during stressful times often enjoy items that are considered comfort foods. These foods allow the mind and body to relax and think of more joyful times in which they have eaten these items. We see ourselves and our audit process in somewhat this same manner. If your audit is a real stressor to you and your staff, it is very likely stressful for your auditor as well. We work with our clients to ensure the audit process goes as smoothly as possible each year and improves upon prior years. Working cooperatively with our clients in this manner will allow the process to be less stressful for all involved parties. I have heard before that audits are a "necessary evil". I would agree with this statement with just a bit of twist. "If you view your audit process as evil then having a good auditor is that much more necessary."



On a personal note, over the next several issues you will see some new authors in the audit section of our newsletter. I will begin sharing this article space with Kevin Peters, CPA and Rachel Squibb, CPA. Both are fine auditors and I am sure you will enjoy reading their articles as will I.



Tax Calendar Due Dates

April 17th

Form 1040 tax returns
1040 ES payments (Estimated Tax)
Form 1065 tax returns
Form 1041 tax returns

April 30th

Form 941 1st Quarter Payroll Reports and
Tennessee Unemployment

May 15th

Form 990 Tax returns

(Viewpoint Cont'd from page 1)

- **Paperless digital technologies.** Document and content management includes the process of capturing, indexing, storing, retrieving, searching and managing documents electronically, including database management (PDF and other formats). Knowledge management then brings structure and control to this information, allowing organizations to harness the intellectual capital contained in the underlying data.
- **Spyware detection and removal.** Technology that finds and gets rid of programs attempting to covertly gather and transmit confidential user information without the user's knowledge or permission. Spyware applications are typically bundled as a hidden component of freeware or shareware programs or attached to malicious Web sites. Once installed, spyware can monitor user activity, gather information about e-mail addresses, passwords and credit card numbers in the background, then transmit to someone else. Spyware can include Remote Access Trojans (RAT) and root kits.

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