



STATEMENTS

Second Quarter 2011



Your On-Demand Finance Department

by Richard DelleFave, Senior

Cloud computing. We've all seen the ads in the *Journal* - slightly Dali-esque dripping clouds in vaguely day-glo colors, with cryptic sentence fragments. And you think, "I should find out what this is all about before it overtakes me." Well, like many brilliant ideas, it's brilliantly simple: metered service of sophisticated products made widely available through the flatness of the net.

RINA's consulting department saw the trend to metered service of specialized knowledge several years ago and has been steadily investing in people and technology to bring its benefits to you. Think of us as your on-demand finance department. When a Fortune 500 company needs to value an acquisition or analyze an equity stake in another company, they turn to their in-house staff of MBAs and valuation experts. RINA's consulting department, with its staff including MBAs, Masters in Finance, Tax and Accounting, as well as Accredited Business Valuation experts, brings the same talents to the table - but

you pay only for the services you need and only when you need them.

Here's a recent example. Dan Miller, one of our real estate clients, received a hotel chain's proposal to build on his property. Before meeting with the chain, he asked us to evaluate the hotel's five - year cash flow projection. Utilizing cutting-edge cash flow projection software, RINA's team with 13 years of hotel experience compared the

proposal to the actual financial statements of 52 California hotels with sales in the projected range. With the significant differences now identified, we prepared a new series of five-year projections using the differences as variables. Our report to Dan pinpointed the proposal's most sensitive assumptions and then offered alternative cash flows based on our analysis. After reviewing RINA's report, Dan asked us to present it at his meeting with the chain.

When asked to comment on this experience, Dan said *"I didn't realize until recently that RINA, who has been my CPA for my entire professional life, has services that go beyond what you normally think of as accountants. I have a pro forma on the addition of a boutique hotel to an existing property, an artisan built building that has a lot of charm. RINA reviewed the pro forma and raised some questions about the second year growth in income. We met with the Chief Operating Officer, a founder of the hotel group, and reviewed the material. He explained why it got such a boost in year two. The meeting lasted an hour or so and helped get some traction to the numbers and we got to see just how hands on the Chief Operating Officer is with the numbers and their operations. It was reassuring and gave me confidence in going further with the proposed project."*

Some of the greatest fortunes of the 20th century were made in times exactly like ours - a landscape of devalued assets coupled with historically low interest rates. The trick, of course, is to determine which of those assets will appreciate and how to leverage their purchase. For that, you need 21st century resources. Since RINA firmly believes that our future is aligned with yours, we have invested in these resources and can offer them to you - to help you grow your business, to evaluate new opportunities and maybe to build one of the 21st century's great fortunes.

For more information, please contact your RINA representative.

"I didn't realize until recently that RINA, who has been my CPA for my entire professional life, has services that go beyond what you normally think of as accountants..."

— Dan Miller

INSIDE THIS ISSUE

Client Corner	Page 2
Transfer Pricing	Page 2
Estate & Gift Tax Changes in the 2010 Tax Relief Act	Page 3

IRS Announces Second Voluntary Disclosure Initiative for Offshore Assets	Page 3
RINA Gives Back	Page 4
Second Quarter Calendar	Page 4



Estate & Gift Tax Changes in the 2010 Tax Relief Act

by Jamsheed Gandhi, Stockholder

The 2010 Tax Relief Act provides taxpayers with considerable short-term relief, and among other changes, the Act reduces estate, gift and generation-skipping transfer (GST) taxes for 2011 and 2012. The Act preserves estate tax repeal for 2010, but in a roundabout way: estates wanting zero estate tax for 2010 must elect that option, along with the less favorable modified carryover basis rules that were set to apply for 2010. Otherwise, by default, the estate tax is revived for 2010, with a \$5 million exemption, a top tax rate of 35%, and a step-up in basis. Also, for estates of decedents dying after December 31, 2010, a deceased spouse's unused exemption may be shifted to the surviving spouse. However, these generous rules may only be available temporarily, as much harsher rules are slated to return after 2012, unless Congress intervenes.

Lower Rate & Higher Exemption for 2011 & 2012

For estates of individuals dying in 2009, the top estate tax rate was 45% and there was a \$3.5 million exemption. The top rate was to rise to 55% for estates of individuals dying after 2010, and the exemption was to be \$1 million. For 2011 and 2012, the 2010 Tax Relief Act reduces the top rate to 35%. It also increases the exemption to \$5 million for 2011 with a further increase for inflation in 2012. But these changes are also transitory; after 2012, the top rate will be 55%, and the exemption will be reduced to \$1 million, unless Congress steps in and modifies the law.

Special Tax Saving Choice for 2010

The 2010 Tax Relief Act allows estates of decedents who died in 2010 to choose between (1) estate tax (based on a \$5 million exemption and 35% top rate) and a step-up in basis, or (2) no estate tax and modified carryover basis. Basis is the yardstick for measuring income tax gain or loss when an asset is sold. With a step-up in basis, pre-death gain is eliminated because the basis in the heir's hands is increased to the date of death value of the asset. On the other hand, with a modified carryover basis, an heir gets the decedent's original basis, plus certain increases, which can be substantial. Even so, if the decedent had a relatively low basis and significant assets, some pre-death gain may be taxed when the heir sells the property. These concerns factor into the special choice for 2010. The executor should make whichever choice would produce the lowest combined estate and income taxes for the estate and its beneficiaries. This would depend, among other factors, on the decedent's basis in the assets immediately before death and how soon the estate beneficiaries may sell the assets.

Gift Tax Changes

Years ago, the gift tax and the estate tax were unified—they shared a single exemption and were subject to the same rates. This was not the case in recent years. For example, in 2010, the top gift tax rate was 35% and the exemption was \$1 million. For gifts made after December 31, 2010, the gift tax and estate tax are reunified and an overall \$5 million exemption applies.

GST Tax Changes

The GST tax is an additional tax on gifts and bequests to grandchildren when their parents are still alive. The 2010 Tax Relief Act lowers GST taxes for 2011 and 2012 by increasing the exemption amount from \$1 million to \$5 million (as indexed after 2011) and reducing the rate from 55% to 35%.

New Portability Feature

Under the 2010 Tax Relief Act, any exemption that remains unused as of the death of a spouse who dies after December 31, 2010 and before January 1, 2013 is generally available for use by the surviving spouse in addition to his or her own \$5 million exemption for taxable transfers made during life or at death. Under prior law, the exemption of the first spouse to die would be lost if not used. This could happen where the spouse with resources below the exemption amount died before the richer spouse. One way to address that was to set up a trust for the poorer spouse. The portability rule may make setting up a trust unnecessary in some cases; however, there still may be other reasons to employ credit shelter trusts. For example, a credit shelter trust may protect appreciation occurring between the death of the first spouse and the death of the second spouse from being subject to estate tax. Such a trust also can protect against creditors. Plus, the transferred exemption may be lost if the surviving spouse remarries and is again widowed.

Conclusion

While the estate tax relief in the new law is substantial, it is also ephemeral. Tax reduction by way of estate planning will remain to be a critical and important consideration for taxpayers. Even if taxes are not a concern because an estate is below the exemption level, it is important to have a proper estate plan to ensure that the needs of intended beneficiaries are met. With the increased exemption and relatively low asset values, the current environment creates enhanced opportunities to move more assets to the next generation.

Please call your RINA representative to discuss how these benefits may apply to your particular situation.

Portions reprinted from PPC ThomsonReuters, 2011



IRS Announces Second Voluntary Disclosure Initiative for Offshore Assets

by Yung-Ming Ling, Tax Manager

Many of us are familiar with the voluntary disclosure procedures or the "amnesty program" for foreign bank accounts introduced by the IRS in 2009. Unfortunately this initiative ended on

October 15, 2009. Many taxpayers were left wondering if they missed an opportunity to disclose their offshore assets without the threat of severe penalties. The IRS recently announced a new

voluntary disclosure initiative which will be available through August 31, 2011 ("2011 initiative").

The 2011 initiative carries a higher maximum penalty compared to the 2009 initiative. The penalty amount ranges from 5% to 25% of the maximum aggregated account balance during the year. Similar to the 2009 initiative, taxpayers who voluntarily disclose offshore asset ownership will not face criminal prosecution.

CONTINUED ON PAGE 4



Client Corner

Rubicon Bakery

by Pamela Raumer, Business Development Director



Bakers at Rubicon Bakery.

Rubicon Bakery was founded in Richmond in 1995 by Rubicon Programs. In 2009, Rubicon Programs sold Rubicon Bakery to Andrew Stoloff. Originally, the bakery was a nonprofit program focused solely on job creation in a low-income neighborhood. However, as the bakery grew successful, it was transformed into a social enterprise and is now for profit. The bakery has doubled its sales and grown from 16 full-time employees to 40 full-time employees. For 16 years, Rubicon Bakery has been making all-natural bakery products from scratch. They mix small batches of fresh, premium ingredients and finish each product by hand to create irresistible desserts. Andrew recently hired a R & D Pastry Chef to be able to focus on new innovative products for their

customers who are national retailers. Rubicon is a wholesale only bakery and is focused on acquiring more national retailers. Their current customers are all over the western United States.

Andrew originally became involved with the Bakery to help find a buyer. He really liked what he saw and couldn't find anyone who wanted to maintain the social aspect of the bakery. Andrew advised "That's what was actually appealing to me—to be able to provide careers for hard-to-employ employees". Andrew is very proud of his dedicated staff - some of them have been working in the bakery since it was founded 16 years ago. According to Andrew, "the employees are treated like an extended family".

Andrew's background is on Wall Street, where he worked for Morgan Stanley for a number of years. When he left Wall Street, he didn't look back. In 1996, he founded the Red Tractor Café in Dublin where "Slow Food is Served Fast". It was a natural progression for Andrew to buy the bakery.

For more information about the delectable treats at Rubicon Bakery, visit their website at www.rubiconbakery.com.



Transfer Pricing

by Tom Neff, Stockholder

Recently, there has been a great deal of news surrounding the IRS' increased focus on international tax compliance, most notably the IRS reorganization in August, 2010. The primary change under this plan was the addition of 875 employees to the existing staff of 600 in a new "Large Business and International Division." According to IRS Commissioner Doug Shulman, the realignment will strengthen international tax compliance in several ways, including centralizing and enhancing the IRS' focus on transfer pricing.

In general, transfer pricing involves the price at which goods, intangibles, services and capital are transferred across tax borders between related entities. The question is whether the price charged in such transactions is "arm's length" – i.e., the price that would have resulted if two independent parties to the transaction had agreed to the price.

Corporations today routinely have business operations all over the world. For example, a chip manufacturer might have its headquarters in Taiwan, a manufacturing plant in China and be conducting R&D in the United Kingdom. In order to sell its goods to U.S. computer manufacturers, this manufacturer would normally not sell directly from its Taiwanese entity to the U.S. customer. Instead, it might establish a separate U.S. legal entity to serve as its distributor in the U.S.

There are many reasons for this. An independent distributor may not have sufficient knowledge of the product to provide specialized training to its sales staff while the manufacturer would. Moreover, the independent distributor might not want to deal with the complexities of import/export trade.

The transfer pricing rules were established in order to prevent controlled parties from manipulating intercompany prices to lower their worldwide tax liability. Using the example from above, let's assume the Taiwanese manufacturer is taxed at an effective rate of 20%, and the U.S. distributor is taxed at a 35% rate. It is easy to see where the company could, on a worldwide basis, significantly reduce its overall tax liability by charging an inflated price on the sale of its product from the Taiwanese manufacturer to the U.S. distributor.

This ability to shift income to lower tax jurisdictions has recently come to light in an article from Bloomberg.com, which discussed a strategy employed by Google (as well as other companies) called the "Double Irish". This strategy enabled Google to shift income from the U.S. and Europe by establishing entities in Ireland and Bermuda, and then paying royalties to those entities. Ireland currently has one of the lowest corporate tax rates in Europe, and Bermuda is a popular tax haven. Google, with the help of their tax advisers, received the consent of the IRS to operate under this structure, which allowed the company to defer significant taxes over the last three years.

The U.S. Internal Revenue Code contains guidelines which prescribe methods to be used to determine an arm's length price for the transfer of goods, intangibles, services and capital; each of the methods is based on what a comparable, uncontrolled company would charge, or how much profit they would typically earn, under similar circumstances.

If your U.S. business has related party transactions with cross-border entities, you should contact your RINA representative to discuss how we can assist you in determining an arm's length price for these transactions.

RINA Second Quarter

APRIL

April 1

- Alameda, Contra Costa, Los Angeles, Marin, Napa, Sacramento, Santa Clara, San Francisco, San Mateo, Solano and Sonoma counties business property tax statements due.

April 18

- Form 1040, 2010 individual income tax returns due.
- Form 1065, calendar year 2010 partnership tax returns due.
- Form 1041, calendar year 2010 trust and estate income tax returns due.
- First quarter 2011 estimated tax payments due for individuals, trusts and calendar year corporations.

MAY

May 7

- Legal deadline for filing business personal property statements without penalty.

JUNE

June 15

- Second quarter 2011 estimated tax payments due for individuals, trusts and calendar year corporations.



accountancy corporation

Established 1946 • www.rina.com
Member of MGI

475 14th St., Suite 1200, Oakland, CA 94612
(510) 893-6908 / FAX: (510) 834-1522 / 1-800-RINA CPA

3200 Douglas Blvd., Suite 100, Roseville, California 95661
(916) 771-3000 / FAX: (916) 771-3252 / 1-800-570-0272

1220 Oakland Blvd., Suite 300, Walnut Creek, California 94596
(925) 210-2180 / FAX: (925) 210-2199

100 Montgomery St., Suite 2075, San Francisco, California 94104
(415) 777-4488 / FAX: (415) 777-0680

STATEMENTS is published quarterly by RINA accountancy corporation for clients, employees and associates

Any tax advice contained in the body of this newsletter was not intended or written to be used, and cannot 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.

RINA Gives Back

by Ashley Griffin, Administrative Assistant



Volunteers hand out toys to needy families at a Christmas Day celebration at Boeddeker Park in San Francisco.

On Christmas Day 2010, I participated in a very rewarding humanitarian experience: volunteering for San Francisco City Impact's 28th annual Holiday party in the Tenderloin. I had never before done volunteer work with a people-focused charity group, but this past December it was time for something new.

Upon arriving at the Tenderloin's Boeddeker Park, I was nervous and unsure of exactly what to expect. After a meeting where all of the volunteers received our job assignments, I was stationed as head of toy security, awaiting the enormous line of families that were lining up to receive a toy for each of the children that attended the event. While I thought that I would be saddened to see the faces of all of the underprivileged kids (there were over 400 children in attendance!), I was happily surprised to feel so uplifted. Each child was ecstatic to meet with Santa and receive their gifts (many of which were donated by firefighters from the SFFD). I must have been wished a Merry Christmas and flashed huge toothy smiles about 1,000 times...I'd call that a win. Even though it was raining and cold, everyone at Christmas in the Park the kids, the homeless and the other volunteers were in high spirits. The day was an incredible success! Christmas in the Park has changed my original idea of holidays being family-centric; they are now more about giving back what I can, as a nod to sincere appreciation for what I have.

In all, more than 2,400 meals were served, 400 at the park and 2,000 delivered door-to-door to those living in the Tenderloin's single-room-occupancy hotels. More than 250 volunteers helped with the effort.

City Impact hosts events much like Christmas in the Park year round, close to or on most holidays, and their volunteer event schedule can be accessed through their website at www.cityimpact911.com

IRS Announces Second Voluntary Disclosure Initiative for Offshore Assets

CONTINUED FROM PAGE 3

The minimum 5% penalty is only available to taxpayers who fall into one of two categories. In category one, the taxpayer must satisfy all four requirements as follows:

- did not open the foreign account;
- exercised minimal, infrequent contact with the account (e.g. request account balances, update account contact information);
- have not withdrawn (except for a withdrawal closing the account and transferring the funds to an account in the U.S.) more than \$1,000 from the account in any year covered by the voluntary disclosure; and
- can establish that all applicable U.S. taxes have been paid on funds deposited to the account (only account earnings have escaped U.S. taxation).

Taxpayers who qualify for the category two exemption are foreign residents who were unaware that they were U.S. citizens and therefore subject to U.S. regulation as illustrated by the example below:

A German taxpayer was born in the U.S. while her parents were working in the U.S. She was unaware of her birthplace and therefore unaware of her U.S. citizenship until she obtained her birth certificate. The taxpayer grew up in France and maintained \$85,000 in a French bank account. Based on the above circumstances the taxpayer is eligible for the reduced offshore penalty of 5%.

There is also a 12.5% penalty available to taxpayers whose offshore assets are less than \$75,000 generally when they are not eligible for the minimum 5% penalty.

Please contact your RINA tax professional to obtain more information on the 2011 initiative.