Your Future is Our Focus

RINA
accountancy corporation

STATEMENTS

First Quarter 2009

President's Message — CHANGE … FOCUS … RESULTS

By Ed Fahey

The tough economy and upcoming presidential inauguration in Washington remind us that things change. Our future plans need to factor in variables that are different than those we contemplated during the last few years. Often these variables force us to get back to what we do best. As we move into 2009, RINA is confident that we are prepared to meet the challenges of the coming year.

Focusing on our strengths is one of the key elements of RINA's strategic plan. That focus starts with our people. Our investment in our employees led to being named a Best Place to Work in the Bay Area which positively impacted staff retention and recruiting. In turn, our ability to consistently serve you with knowledgeable, capable professionals was enhanced.

We also looked at our processes. Over the past year, we have implemented several important systems to help us manage work flow internally in order to satisfy our clients' needs in a timely manner. We are taking advantage of technologies that streamline work flow and enable us to work smarter.

Our niche initiatives in Real Estate, Food and Beverage, Not-For-Profits and Employee Benefit Plans further developed our industry expertise, enhancing our ability to serve in these arenas. As evidenced by client satisfaction surveys, we have demonstrated our ability to add value beyond tax returns and financial statements to help our clients navigate these tough times.

Your business can also benefit from a focus on strengths. Take the time to analyze your competitive advantages and play to your strengths. The confidence of knowing you are doing what you do best will help relieve some of the anxiety of these difficult and changing times.

We at RINA offer our best wishes to you for the New Year.

Latest Tax Law Changes

By the RINA Tax Department

On October 3, 2008, President Bush signed The Emergency Economic Stabilization Act of 2008 (EESA), which contains a wide-range of tax law changes benefitting both individuals and businesses. Some of the changes enacted are described below.

2008 AMT Patch
Once again, Congress has raised the **AMT exemption amount,** to reflect inflation and to keep the numbers of taxpayers subject to the AMT from increasing:

	2007	2008 *with patch*	2008 *without patch*
Married filing jointly	$66,250	**$69,950**	$45,000
Single & Head of House	44,350	**46,200**	33,750
Married filing separate	33,125	**34,975**	22,500

If you were not subject to the AMT in 2007, the 2008 patch will likely mean the same absent significant income changes. Additionally, you will be able to apply nonrefundable credits, like childcare and education expenses, against AMT liability.

Assistance for Homeowners in Foreclosure or Short Sale
While discharge of a mortgage usually results in taxable income of the mortgage amount, the EESA provides relief from this liability

CONTINUED ON PAGE 3

INSIDE THIS ISSUE

Client Profile

Selway Machine Tool Company

by Pamela Raumer, Business Development Director

Bill Selway, CEO of Selway Machine Tool Company runs a successful family owned business by developing trusting relationships with his staff, vendors, advisors and customers. Selway Machine Tool Company was founded by Bill's Father, Roy Selway in 1963. The story is that Roy went to the bank to obtain a loan to buy the business and the loan officer asked what his collateral would be. Roy responded "My eight children" – he got the loan and the rest is history.

Selway sells a complete line of machine tools and accessories on the West Coast with locations in California, Nevada, Oregon and Washington. They represent over ten of the finest brand names in the machine tool industry. Customers are supported with local service technicians, application engineering, showrooms, after sale training and special finance packages. They were recently awarded "Largest Dealer in the World" by Toyota Machinery.

Bill is currently working with his management team to transition the business to the next generation which includes his three nephews, a son-in-law and the son of his former CFO. This transition includes teaching the next generation how to run a business and look for opportunities to expand. Bill is also looking to expand in Asia, as well as other parts of the United States. While his five year plan is to grow the business by 50%, his goal is to maintain the family atmosphere that has positively impacted the success of the business and of which he is very proud.

Bill hired RINA in the early eighties because he "felt a caring and concern" that was not provided by the larger accounting firms. He was looking for a relationship that went beyond the traditional business relationship and found that with Tom Chapman (now retired) and Jim Kohles. For more detailed information about Selway Machine Tool Company, visit their website at www.selwaytool.com

> **"RINA is concerned about where we are, where we are going and how we are going to get there. Jim provides solutions that are tailored to my business and I trust him tremendously."**
>
> *– Bill Selway, Owner*

Good News on Using FLPs and LLCs for Estate Planning Purposes

By Rick Evans, Manager

For a number of years the IRS has successfully attacked the use of family limited partnerships (FLPs) and limited liability companies (LLCs), as a tax avoidance device by applying IRC 2036. Under this rule, if the FLP or LLC did not have a valid business purpose, the assets transferred to the FLP are brought back into the decedent's estate for estate tax purposes.

A landmark case, Estate of Mirowski v. Commissioner, T.C. Memo 2008-74 (March 26, 2008) thwarted the IRS's ability to continue to successfully attack these entities. The court found that Ms. Mirowski met the "bona fide sale" exception in IRC 2036(a), as she had legitimate and significant non-tax purposes for forming and transferring assets to the LLC, and subsequently gifting an interest to her three daughters. The Judge found the following reasons to be valid and supported by the evidence:

1. Joint management of the family's assets by her daughters and eventually her grandchildren.
2. Maintenance of the bulk of the family's assets in a single pool of assets.
3. Each daughter and, eventually, each grandchild were provided for on an equal basis.
4. Sufficient assets were retained outside of the LLC for Ms. Mirowski's anticipated financial obligations.
5. At all relevant times, including after Ms. Mirowski's death, the LLC was a valid functioning investment operation and had been managing the business matters related to the LLC assets, including related litigation.
6. Ms. Mirowski's capital account was properly maintained and credited with her contributions.

While the IRS will continue to attack these types of entities, properly structured FLPs and LLCs will continue to be great vehicles to use to transfer assets at significant discounts to subsequent generations. Taxpayers can avoid challenges by the courts and the IRS by using a team of professionals to advise them at each step in forming, operating and defending the FLP or LLC.

For more information on the above, please contact your RINA advisor.

Latest Tax Law Changes

CONTINUED FROM PAGE 1

through 2012 for mortgages up to $2 million ($1million for married filing separately). Note that the relief provisions for mortgage debt *do not* apply to home equity lines of credit.

Leasehold, Restaurant and Retail Improvements
Instead of depreciating improvements over 39 years, the EESA allows 15 year depreciation for property placed in service before December 31, 2009 - good news for lessors/lessees making improvements to leasehold facilities. The EESA gives similar 15 year treatment to restaurant property, *including buildings and improvements*, and certain retail facilities.

Tax Free IRA Distributions to Charity
The popular program allowing tax-free distributions from IRAs and Roth IRAs of up to $100,000 to charity has been extended to December 31, 2009. For taxpayers older than 70 ½, the distribution is tax-free, counts against your required withdrawal and is excludable from your gross income.

Energy Credits
The EESA contains numerous provisions relating to energy issues. Highlights include the following tax credits:

- $500 for homeowner energy efficiency – insulation, windows, doors, air conditioners, furnaces, hot water heaters
- Credits from $50 to $250 for energy efficient appliances
- 30% of total cost of qualifying solar energy property for individuals and businesses, no longer capped at $2000 for individuals
- Credit of up to $4000 for qualified wind energy property

Incentive Stock Options- Relief from the AMT
If you exercised an ISO and the value of the stock fell, you may have found yourself owing AMT taxes. The EESA suspends that AMT liability for ISO's prior to 2008 and provides for accelerated refund of amounts already paid through tax credits.

The above is just a small portion of the changes in the tax laws recently enacted. Given the current economic challenges we are experiencing and the election of a new president, it is highly likely additional legislation will be enacted during the next months.

If you have any questions regarding how these tax benefits can be used to lower your tax bill, please do not hesitate to call your RINA representative.

New Form 990

By Patrick Blas, Audit Supervisor

The Internal Revenue Service has released a new Form 990, effective for tax years beginning on or after January 1, 2008, to make it easier for the agency and the public to track the finances, governance and accomplishments of tax-exempt organizations. The IRS developed this new form under three guiding principles: 1) to enhance transparency, 2) to promote tax compliance, and 3) to minimize the reporting burden on filing organizations.

However, many believe that larger organizations may find that the new form to be much more complex and burdensome than the previous Form 990. While the previous version of the form included nine pages, two schedules, and thirty-six potential attachments, the redesigned Form 990 includes an eleven page core form and sixteen schedules. Many of the new schedules highlight areas of emphasis by the IRS and are intended to increase transparency in reporting. For example, Schedule J-Compensation Information asks questions regarding the process and data used to establish CEO/Executive Director compensation (i.e. a compensation committee, compensation study or a survey).

The new form also asks many questions that if answered "no" by the organization will raise the question "why not".

The new Form 990 will ask for new and more detailed information about executive compensation and benefits administration, board practices, non-cash contributions, tax-exempt bonds, and organization policies regarding conflict of interest, to name a few.

A sample of specific items includes:

- A listing of highest compensated independent contractors to the organization
- A separate schedule for each employee earning in excess of $150,000 per year including compensation, benefits, travel, housing allowances, discretionary spending accounts and personal services or memberships
- Adoption of policies regarding conflict of interest, whistleblower protection, document retention and destruction
- Disclosure of family and business relationships among officers, directors, trustees and key employees

The new form also asks many questions that, if answered "no" by the organization, will raise the question "why not". For example organizations are asked if they have conflicts-of-interest, whistleblower, or document retention and destruction policies, but they are not required to have those policies. We expect organizations and their boards will be kept busy over the next year drafting policies.

The best news about these changes is that this provides an educational process to help more nonprofit executive and board members understand and incorporate "best practices" in leading their organizations. To allow organizations time to adjust to the redesigned forms, the IRS is phasing in the new returns during a three year transition period.

Please consult with your trusted advisor at RINA about the form and its implications for your organization. We're here to help.

RINA First Quarter

JANUARY

January 15
- Final 2008 estimated tax payments for individuals due

FEBRUARY

February 2
- Form W-2, Wages and Tax Statement to be furnished to employees from employers
- Form 1099 to recipients of dividends, interest, non-employee compensation, etc.
- Fourth Quarter 2008 payroll and sales tax returns due
- Form 940, Federal Unemployment Tax Return for 2008 due
- Form DE7, Annual Reconciliation Return for 2008 due

MARCH

March 2
- Form W-3 Transmittal, together with Forms W-2 to Social Security Administration due
- Form 1096, together with appropriate Forms 1099 to the Internal Revenue Service due
- Oakland, Berkeley, and San Francisco City Business License returns due

March 16
- Calendar year corporation 2008 income tax returns due

***** An Important Date Coming Up *****

April 15
- Individual 2008 income tax returns due
- First installment of 2009 estimated income tax for individuals due

RINA
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

120 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

RINA Gives Back

Challenge Day at Northgate High School

By Pamela Raumer, Business Development Director

I recently participated in Northgate High School's Challenge Day along with twenty-four other adult facilitators. While spending 6 ½ hours with one hundred Northgate High School students has to be the most exhausting day that I have ever had, it was also the most rewarding. Challenge Day brings together teens from different backgrounds and cliques via experiential workshops and programs that demonstrate the possibility of finding love and connection through celebration of diversity, truth and full expression. Imagine a school where every child feels safe, loved and celebrated - a school where bullying, violence and other forms of oppression are things of the past. Creating this school is the work of Challenge Day. The students are asked to inspire each other, to be the driving force in creating the school of their dreams, to manifest the change they wish to see in the world in themselves.

Since 1987, Challenge Day has inspired hundreds of thousands of youth and adults in 450 cities, 39 U.S. states, 5 Canadian provinces, Japan, Germany and Australia. If you would like more information about the Challenge Day Program, visit their website at www.challengeday.org.

Surtec Adopt-A-Family Program

By Jody Watson, Tax Manager

Founded by Bill Fields in 1991, the Surtec Adopt-A-Family Program provides food and gifts to ensure a happier Christmas to children of needy families in the Alameda, Contra Costa and San Joaquin Counties. Each year the Surtec Adopt-A-Family program provides food and gifts for over 320 families with more than 935 children. To date, the 3,900 families with 11,275 children have benefited from this program.

The Surtec Adopt-A-Family 12th Annual Golf Classic held on October 4th 2008 at the Sunol Valley Golf Club was a top-notch run tournament. From check-in to check-out, every detail was thoughtfully and expertly handled. The golf and camaraderie was fun and exciting, but the greatest reward of all was knowing that all proceeds benefit Adopt-A-Family. This organization takes my breath away when I think of all the families in need that we help and actually make a difference in their holidays. This is a heartfelt THANK YOU from me to Surtec for organizing this tournament and sponsoring Adopt-A-Family. The tournament is an event I would not miss. In appreciation for all you do!

Featured here is Bill Fields with RINA's Joseph Brunell, Rich Laveroni, Tim Tikalsky and Jody Watson.

Real Estate Brokerage KPIs Survey

RINA continues to develop best practices in the real estate industry and is committed to sharing critical information to assist business owners in meeting their business and financial objectives. Our first Real Estate Survey identified the top three Key Performance Indicators (KPI's) - the activities that directly impact the profitability of your business. The goal of our second survey is to provide you with industry benchmarks to measure your company's performance. This survey will be coming soon and the results will be published in our quarterly RINA Real Estate Report. We hope you will take the time to participate.

Cash Out Move On Seminar

RINA, Summit Financial Group and Bridge Bank recently co-sponsored "Selling Your Business Could Be the Biggest Financial Event of Your Life!" 75 business owners and service providers enjoyed nationally known Exit Strategies speakers John Brown and Kevin Short, co-authors of the book, *Cash Out Move On*. Attendees learned the four factors that all business owners need to be aware of when selling their businesses to outside parties.

RINA, Summit Financial Group and Bridge Bank look forward to co-sponsoring another event in May 2009 – watch for the announcement!