



TAX SECTION E-ALERT

October 17, 2006

IRS To Help GAAP Basis Taxpayers Clean Up Tax Accruals as FIN 48 Disclosures Loom

You need to know about [FIN 48, Accounting for Uncertainty in Income Taxes](#). This interpretation applies to all GAAP clients – including closely-held businesses – and requires a higher standard for accruing a tax benefit in financial statements than the IRS imposes on tax returns to avoid a penalty.

For tax years beginning after December 15, 2006, the tax accrual may only contain positions that meet the “more-likely-than-not” standard, and **any variances must be disclosed in the financial statements**. This means more work for you on the tax accrual, as you evaluate even garden-variety issues such as unreasonable compensation, or expensing versus capitalization. It also means that positions taken on the return (or that were taken in any open year) which don’t meet the “more-likely-than-not” standard will be disclosed and will likely be subject to increased IRS scrutiny.

For calendar year corporations, the new rules would seem to initially take effect with first quarter 2007 results. However, the new rules require calendar year corporations to have a “clean” starting point for their tax accounts at January 1, 2007. In other words, the deferred tax asset and deferred tax liability accounts on that date must be determined in accordance with the standards of FIN 48.

The IRS has recognized that some taxpayers may wish to request a greatly accelerated examination and resolution before the end of their current financial statement accounting year of “uncertain tax positions” taken in filed returns and/or expected to be taken in tax returns yet to be filed. According to information received by the AICPA, the IRS has put procedures in place to quickly respond to taxpayer requests to resolve some uncertain tax positions prior to the end of their current financial statement accounting year. The Service will use existing procedures in an expedited manner to assist taxpayers that request this service and has asked IRS personnel to make the evaluation of these requests top priority. The IRS will work with taxpayers and their representatives to resolve these issues in an environment of collaboration and transparency. Appeals and Counsel will also engage in the process as appropriate.

The IRS has provided [guidance and direction](#) to field teams for taxpayers under examination. The Service has also established procedures for taxpayers whose returns are not under examination as well as for taxpayers whose returns have not yet been filed.

With no measure of the demand for expedited processing, the Service will make every attempt to provide this service in a way that also achieves substantial compliance. However, because this will require a closing agreement, companies not currently under audit are unlikely to be able to complete the process before January 1, 2007.

The challenge for taxpayers will be to identify those issues which are material and which can be resolved with IRS in a timely manner. In the final analysis, it is the CPA's call about the adequacy of the client's tax reserves. Accordingly, the client's need to resolve outstanding tax issues by year-end may present a valuable practice opportunity for CPAs.

A [summary of FIN 48](#) from the [AICPA CPE course on Accounting for Income Taxes](#) is available in the on AICPA Tax Center Website. The course [text product number 732792; DVD/Manual product number 182791] is available with a **10 percent TAX SECTION MEMBER DISCOUNT** until November 15 by entering COUPON CODE RDI.

Continuing Gramm-Leach-Bliley Requirements

As reported in the [October 2, 2006, Tax Section E-Alert](#), the AICPA has secured legislative relief for CPAs from the Gramm-Leach-Bliley Act privacy disclosure requirement. However, we are still required to comply with the Act's "Safeguards" rules.

Most of us already have sufficient protections in place to protect client confidential information, and because CPAs do not present the problem that GLB was intended to address, you probably won't have FTC agents surrounding your office for a surprise document inspection. In addition to complying with a federal statute, this documentation provides a worthwhile opportunity to review and improve your firm's procedures.

Generally, you are required to develop and maintain a comprehensive **written** information-security program that addresses administrative, technical, and physical safeguards that are appropriate to your practice. The plan must also identify an individual who coordinates the information security program. The [FTC regulations](#) [see Parts 314.3 and 314.4 on page 36494] provide details of risks that you should consider in developing the plan, including employee training and management; information systems; and detecting, preventing and responding to problems. The plan should be designed to control risks. Plan procedures should be monitored and tested regularly, and adjustments made for any identified problems or for changes in circumstances. The plan should also provide for the oversight of external service providers, making sure that they are taking appropriate safeguards, contractually where appropriate.

Proposed BV Standards Re-Exposed

The Business Valuation Committee of the Consulting Services Executive Committee has [re-proposed business valuation standards](#) for a second time. The standards cover an engagement (or part of an engagement) that determines the value of a business, an interest in a business, security or an intangible asset, including tax engagements.

Comments on the exposure draft are due by December 15, 2006, and should be submitted to BVSTDS@aicpa.org.

IRS Increases Housing Amounts for Foreign Earned Income Exclusion

[IRS Notice 2006-87](#) provides details of the housing reimbursement amounts that can be excluded under section 911. In general for 2006, U.S. citizens living abroad can exclude the

first \$82,400 of foreign earned income, plus a housing allowance of \$11,536 or the amount provided in the notice. For certain cities with very high housing costs, the notice allows a higher housing exclusion, such as in Hong Kong [\$101,116], Tokyo [\$72,516], Milan [\$66,616], Paris [\$66,116], London [\$58,916], and Geneva [\$57,116]. These housing exclusion amounts are in addition to the \$82,400 foreign earned income exclusion.

These changes are retroactive to January 1, 2006, so expats, especially those in high-housing cost countries, should review their planning and recalculate their foreign earned income and housing exclusion and any gross-up calculations.

Webcast on Pension Protection Act and IRAs

The AICPA will present an audio-only webcast on October 31, 2006, on the *Pension Protection Act of 2006*, specifically IRA and qualified plan distributions. [Click here](#) for more information or to register.

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