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September/October 2007

Review Outlook



Tax Quiz

The lucky guy who caught Barry Bonds' 756th homerun said he couldn't afford to keep it. Why? *The answer was in our July, 2006 issue. We've repeated it at the end of this newsletter, but don't look until you have read the articles inside.*

The Louisiana Legislature Was Busy

Spending issues may have been a major topic at the recent Louisiana legislative session, but numerous tax bills were passed as well. Here is a summary of a few of them.

Louisiana Citizens Property Insurance Corporation Credit – You may have noticed a special assessment on your homeowners', renters' and other insurance policies for the Louisiana Citizens Property Insurance Corporation. This assessment funds the state's own insurance company of last resort. Taxpayers paying this assessment in 2006 could claim a credit for the amount of the assessment on their 2006 Louisiana tax returns. Taxpayers paying the assessment in 2007 have an additional option. They can still wait to claim a credit on their 2007 return, but they can now opt to claim the refund on a separately-filed Form R-540INS, "Request for Refund of Louisiana Citizens Property Insurance Corporation Assessment". A different form is available for non-individuals.

LRA Payments – Your LRA payment may be taxable on your federal return if the total of your insurance proceeds, the LRA payment and other compensation

exceeds your basis (cost) in your residence or if you claimed a casualty loss for storm damage on your 2004 or 2005 return. Under Act 247, such income will not be taxable on Louisiana returns.

Sales Tax Holiday – The sales tax holiday on the first Friday and Saturday of August will be an annual event.

Itemized Deductions – Under the Stelly Plan, Louisiana taxpayers could no longer deduct itemized deductions on their state returns, something victims of Katrina
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Going, Going, It's Outathere

Matt Murphy walked into the ballpark an ordinary individual. He walked out something more. He



would go into the record books as the person who caught Barry Bond's 756th homerun.

It didn't take long for Matt to realize he couldn't afford to keep the ball. Why? Go back to our July 2006 Review & Outlook. As we mentioned in that issue, suppose you buy a used piano for \$250.

You later find \$51,000 cash hidden in it. That \$51,000 is taxable income. The reason is that the Internal Revenue Code basically says that all income of any kind is taxable unless there is a specific provision in the Code saying that it is not. There is no such special provision excluding your \$51,000 from income.

The same holds true for Matt's baseball. As soon as it cleared the outfield fence, it became a valuable item and taxable income for whoever caught it. There is no provision in the Internal Revenue Code saying it's not income. If Matt keeps the ball, he'd need to find some way to pay the tax on the value of the ball, which experts suggest could be \$500,000 or more. The tax would likely be at ordinary income rates, as high as 35%.

Matt can't solve his problem by donating the ball to the Hall of Fame at Cooperstown. Matt's charitable deduction would be limited to 30% of his income. That means he'd still have to pay tax on 70% of the value of the ball. It's true that he can carry the remaining 70% of his total deduction to future years, but each year he'd be limited to 30% of his income, and unless he makes a career out of catching famous balls, we can assume his income will be a lot less after this year.

Thus, Matt concluded he couldn't afford to keep the ball.

Now go back to the Tax Quiz on page one of this newsletter and answer it.

Review & Outlook Update

In our July/August issue, we mentioned that the IRS had ruled that Louisiana taxpayers whose houses were destroyed by Katrina would need to sell their remaining land by August 28, 2007 to be eligible to exclude any gain from the sale under Section 121 of the Internal Revenue Code. Section 121 allows qualifying taxpayers to exclude up to \$250,000 of gain (\$500,000 for a joint return) on the sale of a principal residence.

Shortly before the August 28th deadline, and long after we had gone to press, the IRS extended this deadline another year. **Katrina victims now have until August 28, 2008 to sell their lots and remain eligible for the \$250,000/\$500,000 exclusion.**

Be Cautious This Political Season

By now you should be aware that political donations are not deductible. That deduction was eliminated years ago.

This does not mean the IRS is not interested in political activity – far from it. In recent months, the Service has reminded charitable organizations that the law strictly limits their involvement in any political activity. Under the Internal Revenue Code, charitable organizations are prohibited from directly or indirectly participating in, or intervening in, any political campaign on behalf of (or in opposition to) any candidate for elective office. Violation of this rule can result in a revocation of the organization's exempt status.

This does not mean that your organization cannot participate in some ways. For example, your group could hold a public forum and invite all of the candidates for a specific elective office to debate the issues at the meeting. But you could get in trouble if you invited one candidate to speak to a well-attended annual meeting, while inviting the other candidate to address a sparsely-attended general meeting.

Similarly, the rules do not mean your organization's president cannot endorse a specific candidate. However, he or she cannot do so in his or her role as

president or member of the organization.

Your organization can also take positions on public policy issues as long as the organization does not appear to be endorsing or opposing a particular candidate. Tread carefully here, however.



Finally, these rules also apply to your website. Here's an example from the IRS: "Church P, a section 501(c)(3) organization, maintains a web site that includes such information as biographies of its ministers, times of services, details of community outreach programs, and activities of members of its congregation. B, a member of the congregation of Church P, is running for a seat on the town council. Shortly before the election, Church P posts the following message on its web site, 'Lend your support to B, your fellow parishioner, in Tuesday's election for town council.' Church P has intervened in a political campaign on behalf of B."

B recommends: *Your charitable organization must take extreme care that its activities do not involve political intervention. For more information, look for FS-2006-17 (Fact Sheet 2006-17) on the IRS website, www.irs.gov.*

Buy-Sell Agreements

By Buddy Long, Director – Business Valuation Services

Buy-sell agreements are contracts by and among the owners of a business and, in many cases, the business itself. They establish the mechanism whereby equity interests in the business are transferred, generally, to other owners or to the business itself. They also establish the price at which these businesses are transferred or the manner in which the price is defined and determined. The agreements are designed to trigger when retirement, disability, death, divorce and/or other termination of employment occurs.



Three types of buy-sell agreements are used most extensively:

Cross-purchase Agreements. This type of contract provides for the transfer of ownership interests in a business to other owners of that business. The agreement can provide that the transferee owners receive either a pro-rata amount of the transferor's interest or it can provide that some owners get a larger share than others (thus posing dilution issues for the owners whose percent interest in the business declines as a result).

Entity-purchase Agreements. An entity-purchase agreement provides that the business acquires the interest of the withdrawing owner. Under this scenario, since all remaining business owners generally retain their ownership interests, they usually end up with a greater percentage of the ownership of the business.

Hybrid Agreements. These agreements provide opportunities for both the owners and the business to acquire the ownership interest of the withdrawing owner.

Arguably, one of the most important aspects of the buy-sell agreement is the determination of price. The price at which ownership is transferred can be based on a fixed price, a formula or even a process, in which, for example, a mechanism is established whereby an appraiser is selected and provided with the guidelines he/she is to use in the valuation process.

In many cases we have seen significant deficiencies in these agreements manifest themselves in such ways as omission of issues such as the treatment of discounts (marketability and lack of control). Also, the definition of value may not be properly spelled out or not clearly understood.

Buy-sell agreements are a critical planning technique that, all too often, are not addressed with the insight and understanding they require to function properly. Unfortunately, this can lead to frustration and even legal proceedings.

B recommends: *Be sure you enlist the services of an experienced valuation professional when developing corporate governance documents, particularly buy-sell agreements. If you need assistance in this area, please contact Buddy Long in our Metairie office.*

One is OK, two is good, but three is better!

By Les Nettleton, Director of Information Technology Services

While watching a John Wayne western, I noticed some of the cowboys carried two six-shooters, one on each hip. Whenever a gun fight erupted, they had the advantage over the less fortunate who only carried one gun. The two-gun cowboys were not only able to fire more shots than their single gun counterparts - they also could fire in two different directions at once.

Yes, the “more is better” logic is sweeping the technology world. As with those six-shooters, multiple monitor setups are becoming the norm for the average worker. Here at Bourgeois Bennett, all staff members have dual monitors. And, we are investigating the possibility of installing three monitors on some of our staff’s desks.

The technology to accomplish multiple monitor setups is here. All laptops now come with an external monitor output on board, allowing you to easily attach any standard computer monitor to the laptop. Windows XP and Vista both handle the setup of dual monitors nicely. The strategy is to move from a Clone environment, where your desktop is replicated on both monitors, to an Extended Monitor setup. The Extended Monitor configuration allows your separate monitors to act like one very wide monitor. In this configuration, your mouse moves off the edge of one screen onto the adjacent edge of the other screen. This feature allows you to drag an application, such as Word or Excel, to the other screen. Once the application is brought to a new screen, maximized to the full size of the screen and then closed, that application will remember where it last was closed and will now open on the new location.

With this setup I can leave Outlook opened on one

monitor to be able to constantly monitor my e-mails and work on applications on the other monitor. I can have Word opened on one screen and Excel opened on the other. This allows me to easily copy and paste between the two programs.

By implementing a dual monitor solution, I have taken my technological desktop and expanded it, giving myself more working area. Remember, Microsoft calls the working area on your screen a “desktop”. Why not have the biggest desktop possible?

Triple monitors have also moved into the corporate environment. This is being done using various software and hardware solutions that have recently come into the market. However the next generation of laptops will come with the capability to handle dual monitor output, allowing you to attach two monitors to the back of the laptop, thereby giving you three monitors.

After some testing, I’ve found triple monitors to be the optimal working environment. As we continue on in the digital age, more data is being scanned. If viewing of scanned images is dedicated to a particular monitor, working in the triple monitor setup allows for the other two monitors to be proprietary for running applications. The movement across the three monitors is easily accomplished and after a small adjustment to the setup, productivity increases.

Now I know what you’re asking; If three monitors are better than two, why stop there? How about four or five monitors? Although this is true in a purely technological environment, the reality is that you

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One is OK, two is good, but three is better! *Continued from page 5*

only have a limited amount of physical desk space. However there are companies that sell cluster monitors containing up to ten(!) monitors in one configuration. Designed for boardrooms, I assume that if you must have the ultimate office technology, you should expect to pay in the tens of thousands of dollars.

Since the key to this whole discussion is productivity versus cost, you should examine all possibilities before making companywide purchases. However once you've worked in the multiple monitor environment, you'll understand why John Wayne had two six-shooters.

E recommends: *If you have any questions on how to best utilize multiple monitors, please call Les Nettleton in our Metairie office.*

Firm News

We are delighted to welcome Paul Pechon, Lois Murry and Kimberly Share-Vasquez. Paul is a Manager in our Audit Department. Lois is our Firm Administrator. Kimberly joins the Tax Department as a Staff Accountant.

Recent promotions at BB: Courtney Fox, Rachel Mahler and Juli Cheramie have been promoted to Senior Accountants in the Audit Department. Susan Russell has been promoted to Senior Accountant in the Tax Department.

George Panzeca, Jr., Director, has been appointed to the American Institute of CPAs' Forensic and Litigation Services Committee.

In Memoriam

J. Cameron Henry

August 8, 2007

Bourgeois Bennett lost a dear friend and family member in August. Cameron served as Controller for 21 years. His humor, insight and loyalty were bright lights we shall miss.



The Louisiana Legislature Was Busy *Continued from page 1*

and Rita discovered when they found out they could not claim a personal casualty loss on their Louisiana return. Under new legislation, taxpayers will be able to deduct 57.5% of their excess itemized deductions in 2007, 65% in 2008 and 100% in 2009 and after.

Gift Taxes – The legislature repealed the Louisiana gift tax effective for gifts made on or after July 1, 2008. Because the gift tax is repealed only for gifts made on or after July 1, 2008, gifts made before then, including gifts made in the first half of 2008, are still subject to the gift tax rules.

B recommends: *The obvious recommendation here would seem to be to defer making taxable Louisiana gifts until July 1, 2008. However, this is not necessarily the best advice. Discuss your gifting program with your BB representative or call Marcie duQuesnay in our New Orleans office.*

Inheritance Taxes – Effective for deaths occurring after June 30, 2004, no inheritance tax has been due and no inheritance tax return or any other succession related documentation has been required to be filed with the Department of Revenue, if (1) the succession (estate) is opened in court, (2) a declaration of trust is filed in the case of an inter vivos trust, or (3) judgment of possession is rendered no later than the last day of the ninth month following the death of a decedent. The legislature has now eliminated even this requirement, beginning with successions of decedents dying after March 31, 2007. Thus, as of January 1, 2008, no inheritance tax return will be due, regardless of when the succession is opened. Inheritance tax returns will

still be required to be filed for successions of decedents dying between July 1, 2004 and March 31, 2007 unless one of the above three requirements is met within the nine-month period.

B recommends: *While the inheritance tax has been repealed, successions for decedents dying on or before March 31, 2007 should still take appropriate action within the nine-month period to avoid having to pay inheritance tax. For more information, call Marcie duQuesnay in our New Orleans office or e-mail her at marcied@bb-cpa.com.*

Property Insurance Tax Credit – A credit will be allowed against individual income tax for 7% of the premium paid for a homeowners' insurance policy, condominium owners' insurance policy, or a tenant's homeowners' insurance policy for the primary residence of the taxpayer, effective for taxable years beginning in 2008.

***eBulletin** – As a complimentary service to our clients and friends, Bourgeois Bennett provides individual and business tax information throughout the year via short email alerts. If you would like to receive our eBulletin, simply email Ted Stacey, Director of Tax Services at teds@bb-cpa.com and insert "eBulletin" in the subject line. You will be added to the list. We do not share our lists.*



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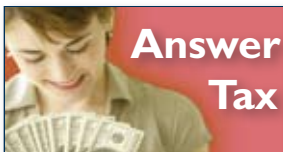
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appears in the address section of this newsletter in your email message.*

*Review and Outlook is written by our Director of Tax Services, Ted Stacey, CPA, to give you a brief overview of pertinent
topics. You should obtain professional advice before making financial or tax decisions.*



Answer to the Tax Quiz

The lucky guy is not that lucky – the value of the ball constitutes taxable income to him. He decided to sell the ball to cover his taxes.

Quote of the Month Club

*“So much of what we call
management consists of making
it difficult for people to work.”*

– Peter Drucker