



In This Issue

■ Practice Management

How to Regain Control of Your Firm's Finances from Your Bookkeeper

Ensuring Your Firm Survives a Disaster

■ Financial Planning

Tips for Recently Married or Divorced Taxpayers

Taking Advantage of the Dependent Child Tax Credit as a Noncustodial Parent

Many divorced parents who do not have custody of their children may still be eligible to take advantage of the dependent child tax credit depending on the facts surrounding their divorce. For divorced parents who reach such an agreement and whose states allow it, the tax credit may be applied by each parent in alternating years. However, in order to remain eligible for the tax credit, you must follow the IRS regulations accurately with each return you submit when taking a deduction for the dependent child tax credit.

Recently, the United States Tax Court heard a case regarding an agreement reached by two divorced individuals whereby one party, Mr. Joseph D. Lease, was granted permission to take advantage of the child tax credit during odd-numbered years as long as he was current on his child support payments. His ex-wife, Ms. Mary E. Lease, had custody of their child per the divorce decree issued by the state of Iowa.

As part of the divorce decree, Ms. Lease was required to complete and deliver IRS Form 8332, Release of Claim to Exemption for Child of Divorced or Separated Parents, to Mr. Lease by January 31 of each year after 1995. It is important to note that neither Mr. nor Ms. Lease signed the divorce decree as it was signed by both parties' attorneys and the presiding judge.

(Continued on page 2)

Taking Advantage of the Dependent Child Tax Credit

(Continued from page 1)

Following the divorce, Ms. Lease never delivered a single signed Form 8332 to Mr. Lease. Mr. Lease, however, took advantage of the child tax credit in years 1995, 1997 and 1999. In 2006, Mr. Lease filed Form 1040 and claimed a dependency exemption deduction and a child tax credit for his child on his 2005 tax return but attached a copy of his divorce decree instead of Form 8332.

The Court found that Mr. Lease was ineligible for a tax advantage of the child tax credit

because the divorce decree was not signed by Ms. Lease. Furthermore, the tax code provides several specific requirements that must be met in order for a noncustodial parent to claim the child tax deduction which Form 8332 is designed specifically to meet. The following must appear on any document whereby the custodial party releases his or her right to take advantage of the child tax credit:

1. Name of the child,
2. Name and Social Security number of the noncustodial parent claiming the deduction,
3. Social Security number of the custodial parent,

4. Signature of the custodial parent,
5. Date of the custodial parent's signature, and
6. Year(s) for which the claims were released.

Therefore, because Ms. Lease did not sign the divorce decree, it does not meet the requirements set forth by the IRS.

Attorneys often consult us regarding divorce issues, and we are available to discuss these and any other matters. If you have any questions regarding the child tax credit, please do not hesitate to contact us today.

How to Regain Control of Your Firm's Finances from Your Bookkeeper



All law firms must have ready access to their financial information in

order to continue to run a sound business. What do you do, however, if your bookkeeper keeps your books hidden from you, either by not releasing information in a timely manner or by creating incomprehensible financial data that he or she is unwilling to explain? Some of our clients have run into this problem in the past and we'd like to share with you several steps you can take to ensure that your firm remains in your hands.

First and foremost, the owner or partner in a firm charged with making a majority of the firm's financial decisions must understand the basic mechanics of bookkeeping and financial management for law firms. Obtaining this level of knowledge oftentimes will help

partners decipher complex financial statements or at least give them the ammunition to ask well-thought-out, educated questions.

Along with learning the basic mechanics, the partner should learn as much as he or she can about the accounting software utilized by his or her firm. Because accounting software differs not only by developer but also by version, learning this software may be key in not only understanding your firm's financial reports, but also in making decisions affecting the firm's finances.

If your software or accounting procedures are out of date, we would encourage you to consider upgrading them. When upgrading your software, ensure that you send all staff members and partners who may have to interact with this software for appropriate training. Each individual involved with the software may benefit by knowing for what purposes others in the firm are using the software. Also, reeval-

uating responsibilities and policies when upgrading your accounting software is usually a good idea.

While no one likes to think his or her employees may be dishonest, it is absolutely vital that your accounting procedures have safeguards in place to protect from employee theft. Our firm can help you develop these systems or review your existing systems.

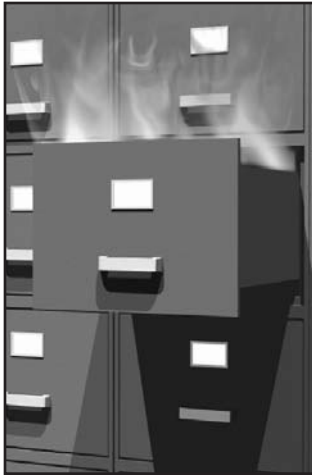
Finally, if your bookkeeper is truly holding you hostage in your own firm, review your expectations for the position with him or her. Oftentimes reminding your bookkeeper that he or she works for you – and not the other way around – can change the dynamic in the office.

Our firm's expert advisers are available to help your firm review its current accounting procedures. If you would like assistance in this area, call us today.

Ensuring Your Firm Survives a Disaster

Fires, floods, hurricanes and tornadoes can devastate the areas that they affect – both physically and economically. Disasters such as these can cripple – and possibly eliminate – your firm if you are not properly prepared to deal with the potential results such disasters can wreak. Developing a comprehensive, accurate and well-thought-out plan can ensure that your firm will survive the most heinous natural disaster. While the benefits of planning for natural disasters are clear, a concerted effort must be taken in order to ensure the plan's success. The Internal Revenue Service (IRS) has developed the following points to help ensure that your firm survives a natural disaster:

- Get informed about the hazards and emergencies and learn what to do for specific hazards
- Develop an emergency plan
- Learn where to seek shelter from all types of hazards
- Back up your computer data regularly
- Decide how you will communicate with employees, customers and others
- Use cell phones, walkie-talkies or other devices that do not rely on electricity as a backup to your telecommunications system
- Collect and assemble a disaster supplies kit; include a portable generator
- Identify the community warning systems and evacuation routes



- Include required information from your community and school plans
- Practice and maintain your plan

Backing up client records and tax and financial data is a crucial step that must be thought about in detail before a plan is in place. Consulting your financial advisor is a good first step to ensuring that you are storing and maintaining your records safely and correctly. In addition, keeping electronic copies of these documents is a great way to

safeguard them as paper is easily destroyed during many disasters. Law firms should also develop back-up procedures for client records that take into account the fact that paper is easily destroyed during a disaster. Remember that when choosing where to store these records, proximity to your home or practice should not be a primary concern as many locations near your home or practice may be difficult or impossible to reach following a disaster.

The IRS also suggests that documenting your valuable items – such as office equipment – is a vital step in any disaster preparedness plan. Disaster loss workbooks for both individuals (Publication 584) and businesses (Publication 584-B) that will help you document your valuables room by room, are published by the IRS and available from us or the Service at www.irs.gov.

We can assist you after a disaster by providing you with a copy of

your tax returns and other tax-related documents or by making you aware of certain tax deductions that are allowed for practices and individuals affected by a specific disaster. This can improve your cash flow situation.

We also suggest that you develop IT solutions that will help you overcome travel restrictions and other anomalies that will make it difficult for employees to get to work following a natural disaster. The ability to telecommute, for instance, could be invaluable to your practice if it affords key employees the opportunity to work from home when the office is inaccessible.

In addition, ensure that you have purchased enough – and the correct types of – insurance to protect your firm's equipment and property for any disaster that may affect your area. If you do not have business income interruption or extra expense insurance, it may be wise to consider purchasing these. Also, be sure to know what your insurance will and will not cover – particularly as it relates to disasters. Consult your insurance agent to be absolutely clear about the details of your insurance plan or contact a member of our firm who can help you review your policy and needs.

Disaster preparedness plans should be reviewed annually. Drills and training sessions should be conducted periodically, as well, in an effort to keep your preparedness at its peak level. Consulting a financial advisor in this capacity is a good idea as business situations – and tax laws – change regularly.

Tips for Recently Married or Divorced Taxpayers

As legal counsel, you may be involved in the beginning or end of a marriage. In both cases, couples should make sure that their personally identifiable information is up to date so that dealing with the government during the tax-return process will be easier.

When a couple ties the knot, there are a few recommendations that they should follow to ensure that their tax season goes as smoothly as possible. Failure to follow these relatively simple suggestions can lead to problems down the road, such as the IRS not being able to confirm the receipt of a tax return.

Newlyweds and the recently divorced should ensure the name on their tax return matches the

name registered with the Social Security Administration (SSA). A mismatch could unexpectedly delay a tax refund.

For recently married taxpayers, the tax scenario begins when the bride says, "I do." If she takes her husband's last name, but does not tell the SSA about the name change, a complication may result. If the couple files a joint tax return with her new name, the IRS computers will not be able to match the new name with the Social Security Number (SSN).

After a divorce, a woman who had taken her husband's name and made that change known to the SSA should contact the SSA if she reassumes a previous name.

It is easy to inform the SSA of a name change by filing Form SS-5 at a local SSA office. It usually takes two weeks to have the change verified. Our firm can provide you with a copy of the form.

Generally, taxpayers must provide SSNs for each dependent claimed on the tax return. For adopted children without SSNs, the parents can apply for an Adoption Taxpayer Identification Number, or ATIN, by filing Form W-7A with the IRS. The ATIN is a temporary number used in place of the SSN on the tax return.

Following these simple tips will make your tax return process much easier. If you would like to speak to one of our experts on this subject, please call our office.

The Profit Counselor has been created to serve your needs. We are available to answer any questions you have regarding your business or personal affairs. If there are topics you would like to see covered in *The Profit Counselor*, please let us know.

Although every reasonable effort has been made to achieve accuracy in this publication, its editorial content is necessarily general in nature. Always consult your professional advisor before acting on this information.

THE PROFIT
COUNSELOR



CERTIFIED PUBLIC
ACCOUNTANTS
& ASSOCIATES

ACCOUNTING, BUSINESS
AND TAX ADVISORS

33 FLAGLER AVE.
STUART, FL 34994

PRSRT STD
U.S. POSTAGE
PAID
Stuart, FL
Permit No. 138