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January 2007

## Review Outlook



### Tax Quiz

Rita is attaching a copy of the declarations page in her homeowners insurance bill to her 2006 Louisiana return. Why? *The answer is at the end of this newsletter, but read the articles first.*

## Reflection and Resolution

The start of a new year is a time for reflection and resolution - reflection about the events of the past year and resolution about the future. As I turn the last page of my 2006 calendar, I am surprised at how unusually fast the year seems to have gone by. I guess the old adage is true that time really does fly when you're having fun!

In 2006, the firm successfully faced many challenges and transitions. It was also another year of great progress for us. We recruited 16 new professionals to our staff, more than replacing our losses from the fall of 2005, albeit under very trying circumstances. And, by the way, I am not only excited about the number we've recruited; I am excited about the energy and enthusiasm of these bright young professionals. We are poised to continue meeting our commitment of providing you with the highest quality and timely service that has been the hallmark of our firm for almost 85 years.



I feel great satisfaction in the way we helped many of you through some of your own challenges and transitions this past year. Together, we addressed many issues affecting your financial health; everything from negotiating insurance recoveries to taking advantage of tax breaks, to seizing opportunities for mergers and acquisitions. While some of you still have tough decisions to make, I am proud that you chose to involve us to help you make the decisions and implement the plans needed to move forward.

Bourgeois Bennett is totally committed to the recovery of New Orleans and the region. More importantly, we  
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*Bourgeois Bennett is a member of AGN International, a prestigious network of almost 200 accounting and consulting firms with nearly 400 offices around the world. Our affiliation with AGN allows us to collaborate with the foremost authorities in taxation, auditing and business management across the globe.*

## A Refund and a Credit

This year taxpayers may have the opportunity to qualify for a one-time federal refund and a new Louisiana tax credit.

### Federal Telephone Excise Tax Refund

Several federal court decisions have held that the federal telephone excise tax does not apply to long-distance service. The IRS is following these decisions and refunding the portion of the tax charged on long-distance calls. The IRS is also refunding taxes collected on telephone service under plans that do not differentiate between long distance and local calls.

The refund applies to taxes paid on bills for the period after February 28, 2003 and before August 1, 2006. In general, taxpayers must determine how much excise tax they paid on long distance services during that period. The refund is claimed on the taxpayer's 2006 tax return.

To make this computation easier, the IRS has announced two simplified methods to compute the refund. One method applies to individuals and the other to businesses (including individuals with rental property or unincorporated businesses) and to tax-exempt organizations.

For individuals, the Service has announced standard refund amounts based on the number of exemptions claimed by the taxpayer on his or her 2006 federal tax

return. The standard amounts are \$30 for a person filing with one exemption, \$40 for two exemptions, \$50 for three exemptions and \$60 for four or more exemptions.

For businesses and tax exempt organizations, the IRS has announced a formula that will allow them to estimate their federal telephone excise tax refunds by



comparing two telephone bills from 2006 to determine the percentage of their telephone expenses attributable to the long-distance excise tax. The bills they should use are the bill with a statement date in April 2006 and the bill with a statement date in September 2006. They must first figure the telephone tax as a percentage of their April 2006 telephone bills (which included the excise tax for both local and long-

distance service) and their September 2006 telephone bills (which only included the tax on local service). The difference between these two percentages should then be applied to the quarterly or annual telephone expenses to determine the amount of their refunds.

The refund is capped at 2 percent of the total telephone expense for businesses and tax-exempt organizations with 250 or fewer employees – which covers more than 99 percent of all businesses. The refund is capped at 1 percent for those with more than 250 employees.

To request this refund, businesses (including sole proprietors, corporations, and partnerships) and tax-

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## **A Refund and a Credit** *Continued from page 2*

exempt organizations must complete Form 8913, Credit for Federal Telephone Excise Tax Paid.

Options for requesting this refund vary for sole proprietors who file a Schedule C with the Form 1040, depending on the gross income reported on the Schedule C. Sole proprietors who report gross income of \$25,000 or less on their Schedule C may use the standard amounts discussed above or request a refund based on their actual expenses. Sole proprietors reporting more than \$25,000 of gross income have three options: they can use the standard amounts which cover both personal and business expenses, they can use the formula for their business expenses and actual for their personal ones, or they can choose to use actual amounts for both business and personal.

Similar rules depending on the amount of gross income reported on Schedule F or Schedule E apply to farmers and individual owners of rental property. Trusts and fiduciaries may not use the standard amount available to individuals. They can use the business formula to figure their refunds or request the actual amount paid.

***EB Recommends:*** *For more information, you can go to the IRS website, [www.irs.gov](http://www.irs.gov), or call Ted Stacey in our New Orleans office.*

### **Louisiana Credit**

The Louisiana Citizens Property Insurance Corporation (LA Citizens) is the state-run property insurance company. The Company has incurred a deficit due to the losses from Hurricanes Katrina and Rita.

Taxpayers paying their property insurance premiums since July, 2006 have paid a special assessment to help LA Citizens cover this deficit.

The December, 2006 Special Session of the Legislature authorized a refundable income tax credit for these LA Citizens regular assessments. To find out whether you have paid the assessment, look at the “declaration page” of your homeowner’s insurance premium notice. You may have paid one or both of the Louisiana Citizens FAIR Plan Regular Assessment or the Louisiana Citizens Coastal Plan Regular Assessment. Either you or your escrow agent must actually have paid the assessment (when you paid your homeowner’s insurance premium) in 2006 for you to claim the credit on your 2006 return (a new claim form, R-540INS, will be available for taxpayers who do not have to file a Louisiana return).

If you file a Louisiana personal income tax return and are entitled to claim this credit, you will list the credit on Schedule F, Line 9. This line is entitled “Other Credits.” Write “LA Citizens Assessment” in the space provided. If you do not file electronically, a copy of your homeowner’s insurance Declaration Page that shows the separate line item charges for the LA Citizens assessments must be attached to the return. If you file electronically, keep your homeowner’s insurance Declaration Page that shows the separate line item charges for the LA Citizens assessments for 4 years.

***EB Recommends:*** *If we prepare your return, please bring your insurance premium declarations page with you. We are not authorized to claim the credit on your Louisiana return without it.*

## Smith Named Director of A&A

The Members of Bourgeois Bennett are pleased to announce that Eric D. Smith, CPA has been named as Director of Accounting and Auditing. He came to the firm following graduation from UNO in 1978 and was admitted to membership in 1991. Eric's industry specialties include oil and gas, healthcare and law firm administration and marine transportation. His consulting, audit and tax planning skills assist corporations, partnerships and individuals.



## Reflection and Resolution *Continued from page 1*

work and play here. We fully understand that our future success depends on yours. We stand ready to do whatever it takes to help you succeed. Additionally, reflective of the growth experienced in our Houma office, we look forward to moving to new larger space in the Atrium Building early in 2007.

We are very grateful for your support and the confidence you have shown in us. Our business has grown and prospered over all these years because we work hard to satisfy our clients' needs and they, in turn, tell their friends about the good job we did. The greatest compliments you have paid us are the referrals to your colleagues and acquaintances. Please know that we sincerely appreciate those referrals as you continue to spread the word.

As I look at the first page of my new calendar, I am excited about what lies ahead. What is done is done! The slate is clean, and we have only the future to look forward to. The choices and decisions we make today

can only affect our prospects, not what lies in the past. Please call us for help in seizing those opportunities that are presented to you.

From where I sit, 2007 promises to be another great year! I sincerely hope the New Year will bring each of you health, happiness and prosperity. – **Ralph C. Cox, Jr., Managing Member**

## Firm News

We are delighted to welcome Matt Morey and Alaina Jones to the Audit Department.

Laurie Carriere, Audit Manager, has been named Treasurer of the Holy Cross High School Board of Directors. She also chairs its Business Affairs Committee.

## Believe It or Not

Yes, it's that time again - time to start gathering the information needed to prepare your 2006 income tax returns. Here are some thoughts:

- This month you will be receiving many documents that affect your 2006 return, including W-2s, interest statements, brokerage annual statements, etc. Gather them together in one location. If your brokerage statement shows stock sales, but does not provide any information regarding the purchase date and price for the securities sold, pull this information from your files or call your broker.
- If you have not completed your 2005 return, make doing so a priority. Individual 2005 returns extended because of Hurricane Katrina are due April 16<sup>th</sup>, the same date your 2006 return is due. (Note that there will be no further extension beyond April 16<sup>th</sup> for these 2005 returns).
- Start by reviewing your 2005 return. This will remind you of the information and data you will



need. If we prepare your individual income tax return, we will be sending you a Tax Organizer that can serve as a handy guide. However, we cannot send you a 2006 Organizer until your 2005 return is completed.

- Many taxpayers look through their bank statements to find deductible expenses and payments. Don't forget to look through your January and February, 2007 statements to find 2006 checks that cleared late and estimated tax payments you may have made in January, 2007.
- If you claimed a casualty loss on your 2005 return, see if anything happened in 2006 that would affect that loss. For example, if you claimed a loss assuming you would be receiving \$100,000 reimbursement from your insurance company, but you actually received only \$75,000 in 2006, you may have an additional casualty loss to deduct on your 2006 return.
- Businesses should remember that they need to deliver Forms W-2 to their employees in January, as well as independent contractor statements (Form 1099-MISC) and other information returns. Individuals paying any household employee wages of \$1,500 or more must also provide the employee with a Form W-2 in January.
- There are no automatic hurricane extensions in effect now. Accordingly, calendar-year 2006 corporation federal returns will be due March 15, 2007 and 2006 calendar-year partnership, trust and individual returns will be due April 16, 2007. Taxpayers can request an additional six-month period to file these

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## Buy-Sell Agreements – What Are They and Why Do I Need A Valuation Professional?

*By Buddy Long, Director, Business Valuation Services*

Buy-sell agreements are a mechanism for owners of a closely-held business to transfer ownership interests in that business to others. Those “others” generally represent existing business partners, including family members.

The structure of buy-sell agreements is critical to the smooth transition of a business from one owner to another. Unfortunately, however, very often these agreements are crafted without appropriate professional input and the end result differs widely from the original owners’ intent.



For example, we have been contacted, in a litigation context, to interpret the meaning of terms contained in buy-sell agreements such as “book value.” Why? Because the wording used in the agreements was unclear. Succinct definitions developed as a part of the “buy-sell agreement” process can eliminate, or at least minimize, ambiguities. Without clarification, these ambiguities can result in expensive litigation.

On other occasions, buy-sell agreements resort to rules-of-thumb which set out formulas for the derivation of the value of a business. In many cases, either the “rule of thumb” is inappropriate or the dynamics of

the company or industry are such that the formula approach required becomes meaningless. In one of our cases, the result was that the widow, who was supposed to benefit from the agreement, had to face expensive litigation to receive her share of the true value of the business her deceased husband had worked so hard to create. This expensive and emotional process could possibly have been avoided had a valuation professional been on board at the time the agreement was written.

***E*** *Recommends: Always involve a valuation professional in the development of buy-sell agreements to insure the wishes of the parties properly translate to the document. And, since taxes are always an issue*

*in the structure of these transactions, consider the involvement of a tax professional. If have questions or need assistance with your buy-sell agreement, contact Buddy Long in our Metairie office.*

### Speak 2 U?

We are happy to discuss taxes and tax planning, personal and business financial health, information technology and other topics with community organizations. If you need a speaker for your upcoming meeting, please contact Janice Chaffin at 504.831.4949 or [janice@bb-cpa.com](mailto:janice@bb-cpa.com).

## Are You Sharing Wireless With Your Neighbors?

*By Les Nettleton – Director of Information Technology Services*

I received an interesting phone call the other day from my friend Josh. He wanted to network his two home computers together and share one Internet connection. To do this wirelessly, he purchased a wireless router at one of the large local office supply stores for about \$75. His wireless capable notebook computer saw the router and immediately connected to it.

“I am amazed at how easy it is to set up. Within ten minutes of opening the box, I was up and running,” he said excitedly. But, when I asked what security settings he had chosen, there was silence. He had no idea what I was talking about. Turns out, Josh had simply accepted the default settings of his wireless router. Bad idea. Although he was easily able to access his network and Internet connection, anyone else with a wireless enabled computer within several hundred feet would be able to as well!

Unfortunately, Josh is not alone in misunderstanding the need for strong wireless security. It’s a common mistake in both home and small business environments. Using an unsecured wireless device is like running an extension cord from your home or small business to your street and inviting everyone to share your electricity on your dime. Anyone in the near vicinity can operate on your network, surf the Internet and send and receive e-mails on an unsecured device. And, assuming your computers are shared to operate in a network environment, you also give open, free access to files on your hard drive.

While entire books written on a myriad of ways to secure a wireless environment, there are a few basic steps everyone who sets up a wireless device should



take to add a minimal amount of security to your system. These can be accomplished from the setup screen of your device.

First, change the SSID (Service Set Identifier). The SSID is the name of your wireless device and comes from the factory with a default setting, usually the name of the manufacturer. All devices on a wireless network must employ the same SSID in order to communicate with each other. Change the SSID to a word that means something to you.

Next DISABLE the SSID Broadcast function. The default is ENABLE. When the Broadcast function is enabled, a computer with its wireless card activated will automatically see the device when it is within the signal range. Once the Broadcast function is disabled, a computer wishing to connect to the network would have to know the SSID name of the device (now

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## Are You Sharing Wireless With Your Neighbors?

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you see the reason for changing the SSID). These two simple tasks have virtually hidden your wireless device from prying eyes.

You can also setup your wireless device to accept connections from only specific computers. Each computer's network card has a unique name called a MAC address. In Windows XP you can find your wireless network card's MAC address by clicking on START – RUN and enter COMMAND. At the new window type in IPCONFIG /ALL. Look for the Physical Address for your wireless network card. This address can be added to the Permitted MAC Addresses section of your wireless device's setup. The above settings help to physically lock down your wireless device from intrusion.

The next step will assure that the signal being sent through the air cannot be intercepted and decoded. This is done by clicking the ENABLE button on Wireless Security on the wireless device. Devices offer different type of security modes, so take a few minutes and read the device's manual on the features offered by each mode.

Don't leave the door wide open to your home network...be secure!

***E*** ***Recommends:*** *Although there are many other steps to further secure your wireless network, we urge you to accomplish the above tasks as the initial steps toward better security. If you have any questions about your wireless security, contact Les Nettleton in our Metairie office.*

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## Believe It or Not *continued from page 5*

returns, but such extensions do not extend the time to pay any tax due.

- If you claimed a casualty loss on your 2005 income tax return and have been making estimated tax payments based on your 2005 tax, remember that you may owe a substantial tax payment when you file your 2006 return or extension request, as your taxable income returns to a more normal amount.

***E*** ***Recommends:*** *We encourage you to bring your tax information to us as soon as you can this year. Because we will be completing 2005 returns at the same time we will be preparing 2006 returns, we expect this Tax Season to be hectic. The later we*

*receive your information, the greater the likelihood we will have to extend your return.*

### ***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](mailto:teds@bb-cpa.com) and insert "eBulletin" in the subject line. You will be added to the list. We do not share our lists.*

## Charitable Contributions – Act 2

In our September, 2006 issue, we mentioned that Congress included in the 2006 Pension Protection Act some provisions tightening the rules governing charitable contributions. We mentioned two of these changes in that issue. Here is another.

You are allowed a charitable deduction when you donate an undivided fractional interest in property if you are donating an undivided portion of your entire interest in the property. *Example:* Philip donates a 40% interest in a valuable painting he owns to the local art museum. The museum displays the painting for part of the year and Philip displays it at home for the rest of the year. Philip has agreed to leave the remaining 60% portion of the painting to the museum in his will. Philip can deduct the value of his contribution.

The Pension Protection Act has made a few changes in this area. First, if Philip contributes an additional 20% interest in the painting two years later, his charitable deduction is limited to the *lesser* of (1) the value of the property used to determine the charitable deduction for the initial fractional contribution, or (2) the fair market value of the property at the time of the additional contribution. In other words, Philip will not get the benefit of any increase in the value of the painting since the original contribution.

Second, Philip will lose the benefit of the charitable deduction from the contribution of the fractional interest unless he contributes his remaining interest to the donee before the *earlier* of the tenth anniversary of his original contribution or on the date of death. *Example:* Philip, as agreed, includes a provision in his will leaving the remaining portion of the painting to

the museum on his death. Philip is still living eleven years after the contribution. Under the new law, Philip must recapture the original deduction and not only pay tax on the recaptured deduction, but also must pay an additional 10% tax on the amount recaptured plus interest.

Third, Philip will not be allowed to claim a charitable deduction for the donation of a fractional interest in the painting if he, or he and the charity, do not own 100% of the property. However, the IRS has been authorized to provide rules allowing a charitable contribution deduction where all owners of the property make proportionate contributions of their interests. *Example:* Philip owns 50% of the painting and his sister owns the other 50%. Philip will not get a charitable contribution deduction if he alone contributes an undivided 20% interest in the painting. However, the result may be different if he and his sister each donate a 20% interest.

Finally, the donee must have “substantial physical possession” of the property after the initial fractional donation. Thus, if Philip retains complete possession of the painting, he gets no contribution deduction.

***E*** ***Recommends:*** *These changes apply to contributions after August 17, 2006, so they are already in effect. The bottom line is that, when making a gift to charity of an undivided fractional interest in property, be sure that the remaining interest in the property will be donated within ten years. Keep in mind that special rules apply to donations in trust, such as through charitable remainder trusts. If you have any questions, contact Ted Stacey in our New Orleans office.*



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*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.*

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### Answer to the Tax Quiz

Rita's homeowner's insurance bill includes an assessment for the Louisiana Citizens FAIR Plan. She can claim a credit for this amount on her Louisiana income tax return, but she must attach a copy of the bill showing that she paid the assessment.

### Quote of the Month Club

*“All the Congress, all the accountants and  
tax lawyers, all the judges, and a  
convention of wizards cannot tell for  
sure what the income tax law says.”*

– Walter B. Wriston