



DEAN, DORTON & FORD

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NEWSLETTER

SPRING 2007



A Tribute to Joe Ford

July 16, 1952 - February 4, 2007

Sadly, our long-time colleague, Joe Ford, died of complications from cancer on February 4th at his home in Lexington. A Louisville native and a 1974 graduate of the University of Kentucky, Joe joined our firm in 1980. He was one of the three original shareholders of Dean, Dorton & Ford, P.S.C. when we formed that entity in 1982.

Joe was a key contributor to the success of our firm, helping it grow from fewer than five people to its current staffing of over 100. Until the very end of his struggle with cancer, Joe enjoyed being at work, gained strength from his interaction with clients he served, and enjoyed the camaraderie he had with his co-workers.

Among clients and colleagues, Joe was known for providing excellent client service. His outstanding business sense benefited both the firm and our clients. Joe was not only a valued business advisor, but he often developed close personal bonds with clients. Whether it was his years of experience, his professional presence, his warm smile, or a combination of these factors, Joe put his clients at ease and gave them confidence that they were being served well. Within our firm, Joe served on our Board of Directors and provided leadership and management to many areas of our practice.

Outside the office, Joe gave invaluable time to St. Joseph HealthCare and Lexington Catholic High School. He was a member of St. Joseph's Board of Directors, chaired its Finance Committee, and was a member of the Executive Committee. Said St. Joseph HealthCare President and Chief Executive Officer, Eugene A. Woods: "Joe truly exemplified the service mission of St. Joseph HealthCare and was a role model in his very unassuming way." At Lexington Catholic, he served in many capacities, including as Chairman of the Board of Trustees. All five of his children graduated from Lexington Catholic, and Joe spent many hours helping the school. He played a significant role in the establishment of its football program—an effort that was recognized in 1999 when the school named its state-of-the-art football facility the Joseph K. Ford Stadium. Lexington Catholic President David Hardin observed that the school and the community had lost a "dear and faithful man" upon Joe's passing.

Joe is survived by his wife Gini; four sons and two daughters-in-law, Kevin and his wife, Mary Ellen, Joey and his wife, Angela, Jeffrey, and Justin; a daughter, Kristin; two sisters; and two grandchildren.

We at Dean, Dorton & Ford and all those who were blessed to know and have a relationship with Joe appreciate his life and will miss him greatly.

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Common Control Procedures for Payroll

Our payroll, employee benefits, and related liabilities internal controls checklist includes 34 questions. My top ten are:

- Are persons preparing payroll independent of other payroll and personnel duties (e.g., timekeeping, distribution of checks, and hiring employees) and restricted from access to other payroll data or cash?
- Are responsibilities for payroll accounting separated from the general ledger function?
- Is access restricted to:
 - Blank payroll checks?
 - Facsimile signature plates (if used)?
 - Personnel records?
- Are employees with payroll responsibilities required to take vacations, and are other employees required to perform those functions when an employee is absent?
- Is access to computerized payroll records limited to those with a logical need for such access?
- Are prenumbered payroll checks used, the sequence accounted for, and unissued checks controlled?
- Are there adequate authorization, approval, and documentation procedures regarding changes in employment (additions and terminations), in salary and wage rates, and in amounts of payroll deductions?
- Is payment of wages in cash prohibited, except in prescribed circumstances?
- Are procedures in place to ensure that other withholdings, such as 401(k) and cafeteria plan withholdings, are remitted in a timely manner?
- If payroll is processed by an outside service organization, are controls in place to ensure that:
 - Time records submitted for processing are complete and accurate, and appropriate control totals are maintained for subsequent reconciliation to payroll registers?
 - All other payroll information provided to the service organization (pay rates, withholdings, etc.) is authorized, and all authorized information is communicated?
 - Payroll registers produced by the service organization are reviewed, reconciled to control totals, and approved by the owner/manager or other appropriate person?
 - Total of paychecks and/or direct deposits agrees with payroll registers?

If you'd like to discuss payroll or other internal controls for your company, please call us.

• **David Richard**, drrichard@ddfky.com

The matters discussed in these articles provide general information only. You should consult with us about your specific situation before undertaking action based on such general information.

People News

Professional and Community Activities and Accomplishments

Paula Hanson is serving as Treasurer of the Commerce Lexington Board of Directors.

Amanda Thompson is chairing the Survivors' Committee for the American Cancer Society's Relay for Life for Fayette County.

Jaclyn Badeau became a licensed CPA in January 2007.

Doug Dean has been elected to the Board of Directors of the Blue Grass Community Foundation.

New People at Dean, Dorton & Ford

David Lowe, a CPA with over thirty-five years of public accounting experience, principally in tax planning and compliance, has joined our firm. David is a University of Kentucky graduate.

Chris Humphrey, a CPA and Eastern Kentucky University graduate with twenty-four years of broad-based experience in public and private accounting, also has joined DDF.

Mickey Coomes has joined DDF with over twenty-one years of experience in public accounting. Mickey also is a CPA and works mainly in tax compliance.

Michael McCreary, a CPA and graduate of Georgetown College, has joined us with over eleven years of public accounting experience, largely in tax planning and compliance.

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When Is Someone Living In Lexington Not A Resident?

Fayette County employers are required to withhold the 0.5% Fayette County Public Schools Occupational License Fee from compensation of Fayette County **residents** for work done in Fayette County. Under the applicable ordinance, a resident is a person living in the county who has shown a present intent to make Fayette County his or her **permanent** place of residence. This definition means that someone living here who does not intend to make Fayette County his or her permanent residence is not subject to the tax.

Fayette County employers should consider these situations:

- Students from outside Fayette County who are working part-time while attending local colleges and universities.
- Interns from outside Fayette County working at medical facilities, horse farms, veterinary practices, or other businesses.

- Nonresident aliens working at educational institutions, medical facilities, horse farms, and other businesses.

We are aware of one situation in which a non-U.S. citizen has been legally residing in the U.S. for over thirty years, but does not have a "green card," thus remaining a nonresident alien legally, even while being a U.S. resident for income tax purposes. This individual is not considered to be a resident for the purpose of the Fayette County Public Schools Occupational License Fee.

If a Fayette County employer has situations where the local school tax doesn't apply due to the narrow definition of resident, withholding is not required. If an employer has been withholding unnecessarily, the employee can file for refunds. Please let us know if you would like our assistance with this issue.

• **David Lowe**, dlowe@ddfky.com

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Tax Pointers and Reminders

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In the midst of this tax-filing season, we'd like to bring a few matters to your attention.

- **Telephone excise tax refunds.** Because improper Federal excise taxes were being charged on long distance telephone service, those taxes paid from March 2003 through July 2006 are now being refunded. Refunds are being made via credits on 2006 income tax returns. Individuals have this choice for determining their refunds:

(1) Claim a standard amount, ranging from \$30 to \$60, based on number of exemptions claimed; or

(2) Locate their telephone bills for the 41 months involved, and claim the actual amount of excise tax paid on long-distance service for those months.

Businesses also have a choice between determining the actual amount paid or using a shortcut method which involves computations based on the April 2006 and September 2006 telephone bills. In applying the shortcut method, the refund is capped at 2% of total telephone expense for businesses with fewer than 250 employees and at 1% for those with more employees.

- **Charitable contributions must be substantiated.** Monetary contributions up to \$250 may be substantiated by a cancelled check or a written communication from the donee showing the name of the donee and the date and amount of the contribution. For contributions of \$250 or more, a cancelled check is not sufficient, and the donor must receive a statement from the donee showing the amount of money or a description of property contributed and a statement regarding benefits the donee received in exchange for the gift (or "none" if none were received). Substantiation must be received prior to filing your return.

- **Charitable contributions of property worth more than \$5,000 involve strict appraisal requirements.** In order to claim a deduction for contributions of property (other than marketable securities) worth more than \$5,000, donors

must obtain a "qualified appraisal" from a "qualified appraiser." This has been true for some time, but the Pension Protection Act of 2006 significantly tightens these requirements. If you make a contribution of property worth more than \$5,000, please contact us about complying with these new requirements.

- The Kentucky individual income tax return includes a line to report **use tax on purchases from out-of-state retailers.** If you purchased items online or from a catalog and did not pay sales tax on those items, you would report the use tax on this line.

- For 2006, **elementary and secondary school teachers** again are allowed an "above-the-line" deduction of up to \$250 for classroom materials paid from their own funds.

- **Federal and Kentucky returns ordinarily due on April 15 are due this year on Tuesday, April 17.** April 15, 2007 falls on a Sunday, pushing the deadline to Monday. Monday, April 16, is Emancipation Day, pushing the deadline to Tuesday.

- If you gave more than \$11,000 to any one person in 2006, you are required to file a **gift tax return** by April 17, 2007.

- **Extension procedures.** Individuals who need additional time to file income tax returns for 2006 may apply for an automatic extension of time to file until October 15, 2007. The extension of time to file is not an extension of time to pay. Failure to pay tax shown on your return is subject to interest and a 0.5% per month failure-to-pay penalty. You should make a good faith effort to estimate the amount of tax due and accurately report that amount on your extension form. Failure to do so can invalidate your extension and result in imposition of the failure-to-file penalty - a whopping 5% per month of the balance due. You can underestimate the tax by up to 10% on the extension form without incurring penalties, but interest still applies.

- **IRA contributions** for 2006 may be made up to April 17, 2007. **Self-employed retirement plan contributions** for 2006 may be made up to the due date of your 2006 return, including extensions, if applicable.

- **Kentucky residents** are allowed to deduct after-tax payments they've made of **health and**

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Tax Pointers and Reminders

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long-term care insurance, without regard to limits that apply for federal income tax purposes. Our clients for whom this may apply should provide us with their 2006 payments of these types.

- **Time to adjust your Kentucky estimated tax payments as Kentucky's entity-level income taxation of flow-through entities ceases in 2007.** As we reported in our Fall 2006 newsletter, limited liability entities treated as pass-

through entities for federal tax purposes will regain their pass-through nature for Kentucky purposes beginning in 2007. Net income will no longer be taxed at the pass-through entity level, but pass-through entities will still be subject to a tax based on gross receipts or gross profits (formerly the AMC, now called the Limited Liability Entity Tax). Owners, rather than their pass-through entities, will need to pay estimated income tax for 2007.

Medicare Premiums Now Tied to Income

The flat monthly cost for the standard Medicare Part B premium in 2007 is \$93.50. For the first time, however, a supplemental premium applies to those whose modified adjusted gross income ("MAGI") for the second preceding year exceeds certain levels. MAGI essentially is AGI plus tax exempt interest income.

The supplemental cost, depending on income tax filing status and MAGI, can be quite substantial in relation to the standard premium. The maximum monthly supplemental cost for 2007, \$67.90, applies when MAGI exceeds \$400,000 on a joint return or \$200,000 on a single return. When MAGI is less than \$160,000 on a joint return or \$80,000 on a single return, only the standard premium applies. When MAGI is more than \$160,000 joint/\$80,000 single, but less than \$400,000 joint/\$200,000 single, supplemental charges less than the maximum are applied.

The supplemental cost for 2007 is only part of the story: 2007 supplemental charges are just one-third of the increase being phased-in ratably over 2007, 2008, and 2009. By 2009, those being charged the maximum supplemental premium can expect to be paying well over \$3,000 per year for Medicare Part B coverage.

Supplemental premiums, like standard premiums, are withheld from social security benefits.



Dean, Dorton & Ford Again Recognized as One of the Best Places to Work in Kentucky

We are very pleased to announce that, for the third consecutive year, our firm has been named one of the "Best Places to Work in Kentucky" by the Kentucky Society for Human Resource Management and the Kentucky Chamber of Commerce. We endeavor to make DDF's work environment challenging, pleasant, and conducive to professional and personal growth, and we appreciate the positive feedback this survey provides.

Uncashed Payroll Checks

Employers are required to report uncashed payroll checks that are greater than \$50 and have been outstanding for more than three years. During July or August 2007, employers must attempt to notify payees of their uncashed checks at their last known address. If they cannot locate payees, they must remit the face amount of each unclaimed payroll check, along with the Kentucky Holder Report Form for the reporting period 7/1/06 - 6/30/07, to the Kentucky Department of Treasury by November 1, 2007. For more information, contact the Office of the State Treasurer at (502) 564-4722.

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IRS Audit Activity

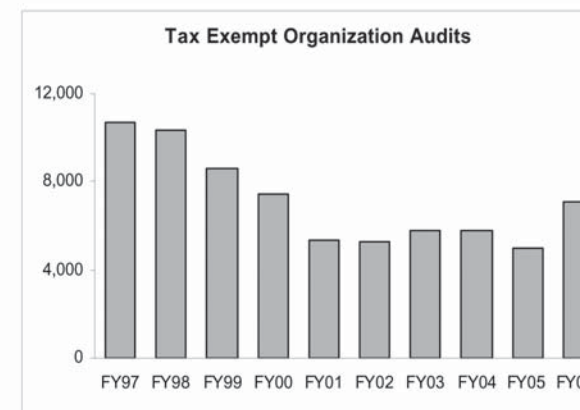
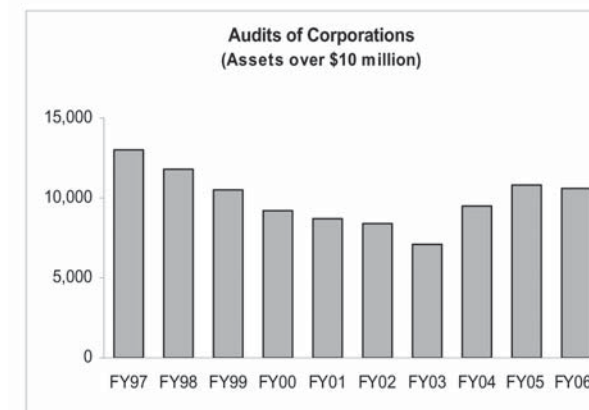
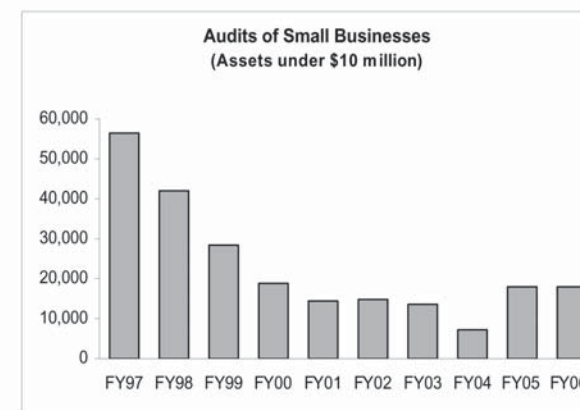
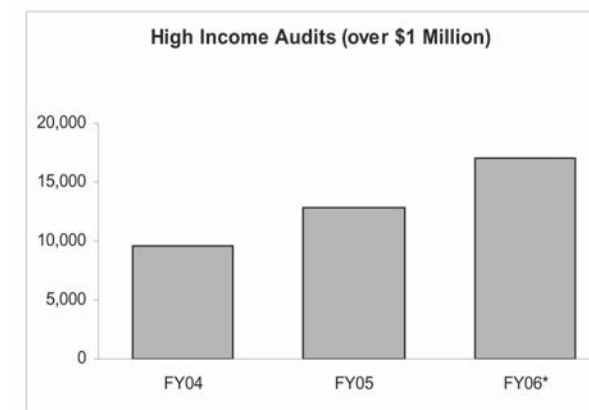
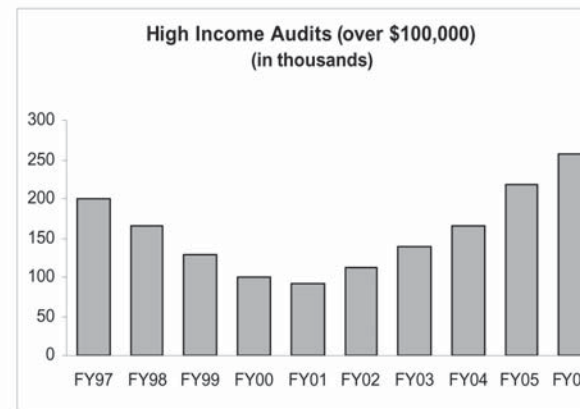
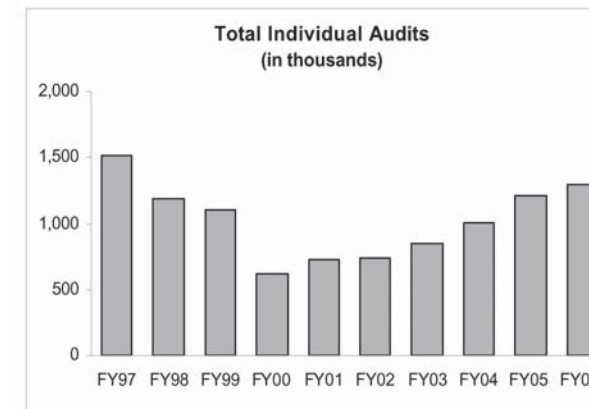
This time last year, we reported that IRS has significantly increased its enforcement efforts. This trend continues. Here are some highlights for the fiscal year ended September 2006:

- The number of field audits increased nearly 23% over the prior year.
- Audits of individuals with income of \$1 million or more increased 33%. Taxpayers in that category had a 1 in 16 chance of being audited.

- Audits of individuals with income of \$100,000 or more increased 18% to more than 257,000, reaching their highest level in more than a decade.
- Audits of S corporations increased 34% to almost 14,000, and audits of partnerships increased 15% to almost 10,000.

Please see the following graphs for more information.

- **Leigh McKee, lmckee@ddfky.com**



* FY 2006 results are preliminary.