Shannon & Associates LLP
Certified Public Accountants
Management Consultants

Client Advisor

COMMITTED TO YOUR SUCCESS

Fall 2012

AS BUSINESS FRAUD STATISTICS GROW, SHANNON & ASSOCIATES AFFILIATES WITH RED FLAG REPORTING

With a typical organization losing 5% of its revenue to fraud each year, it's no wonder that Shannon & Associates, one of the area's largest accounting firms, has affiliated its business with Red Flag Reporting services.

The *2012 Report to the Nations on Occupational Fraud and Abuse* by the Association of Certified Fraud Examiners (ACFE) reported an average loss due to fraud of $140,000 per victim, with more than 20% of victims losing at least $1,000,000. The result of these findings is a concerted effort on the part of Shannon & Associates with the education and training of their employees and clients on fraud prevention, detection, and proactive reporting.

"Unfortunately, we've seen a lot of vulnerability in clients who over-rely on audits and internal controls alone to protect themselves from fraud," states Certified Fraud Examiner and CPA Jessica Kinney of Shannon & Associates. "Businesses today need to focus on protecting their bottom line everywhere possible – not only on spreadsheets, but within their own work environments. Choosing to affiliate with Red Flag Reporting was an easy decision for us – as it is the most cost-effective anti-fraud solution and it's created for organizations of all sizes. It was the perfect fit into our portfolio because it was founded within our industry, by experts with high standards similar our own," says Jessica.

Red Flag Reporting can help clients achieve 44% less loss from fraud (than those without). In fact, the national average for loss to fraud reported by companies without a hotline is $180,000.

"Clients love it because it's a targeted, user-friendly and cost-effective solution to occupational fraud," says Raymond Dunkle, President of Red Flag Reporting. "At Red Flag Reporting, we see it as part of our job to protect a client's bottom line, and so we founded this turnkey program for our affiliated firms to be able to extend the protection to their clients as well. We're ecstatic to see the benefits of this proven system for fraud prevention being utilized by a firm with the stellar reputation that Shannon has."

Red Flag Reporting
Protecting Organizations and Their People

Red Flag Reporting was created to educate and empower employees with the tools to detect and report unethical behavior. Because tips and complaints are proven to be the number one method of fraud protection (2012 ACFE Report to the Nations on Occupational Fraud and Abuse), the anonymity that hotlines like Red Flag Reporting provides has been shown to make employees feel both protected and alleviated from burden. By adding a new service to our portfolio, Shannon & Associates is now in a unique position to build value and protect our clients.

About Shannon & Associates

Shannon & Associates is a full service accounting and consulting firm serving successful businesses and individuals across Washington, Alaska, Oregon and California. Offering industry expertise to

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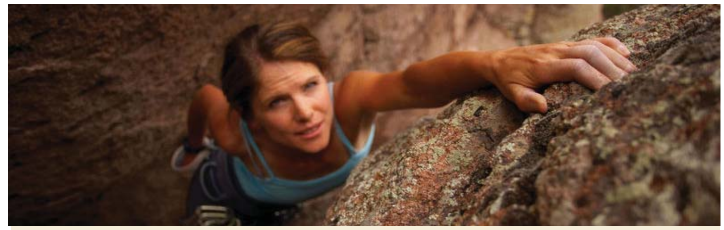
Shannon & Associates is proud to be an independent member of Nexia International, a worldwide network of independent auditors, business advisers and consultants. Nexia International is the 10th largest network of accounting firms in the world, with member firms in over 100 countries. This global representation with Nexia enables us to offer our expertise in international taxes and accounting around the world and provide top quality service to our clients with foreign and domestic financial needs.



WELLNESS PROGRAMS FOR A HEALTHIER BOTTOM LINE

About 70% of U.S. employers offer wellness initiatives, according to a recent survey conducted by the International Foundation of Employee Benefit Plans (IFEBP). Among the survey respondents, about 20% have analyzed the return on investment (ROI) from these programs. In most cases, ROI has been positive.

Employers introduce wellness initiatives in order to encourage employees to seek preventive care and to adopt healthier lifestyles. The programs might urge workers to get flu shots, for example, and to undergo various types of health screenings and risk assessments. Other common offerings include smoking cessation and weight management programs.

In order to boost participation in wellness programs, companies typically provide incentives. Employers might offer employees a lower contribution to the company health plan if employees take certain preventive measures or take part in a fitness program. Further lures could include tangible rewards such as gift cards, cash bonuses, and merchandise ranging from iPods to flat screen TVs.

Virtue's rewards

With such incentives, plus the hiring of an outside firm to administer the program, wellness initiatives can be expensive. Nevertheless, those outlays not only can result in a healthier, more productive workforce, they also can more than pay for themselves. "For every dollar spent on wellness initiatives, most organizations see between $1 to $3 decreases in their overall health care costs," the IFEBP concludes.

Why is the ROI so impressive? Employees who participate in wellness programs generally wind up in better health: they lead more wholesome lifestyles, and they may detect medical conditions before they become serious. Eventually, company-wide expenses for medications and procedures will decline, or grow at a slower pace, resulting in lower health care costs. Other financial benefits include reduced sick leave as well as lower claims for workers' compensation and disability management.

Business owners who introduce such initiatives should be patient. You can expect it to take three years or more for the cost savings to become apparent. Even sooner, though, you might see a boost in morale as employees hear the message that you want them to get well and stay well.

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manufacturers, distributors, financial institutions, not for profits, retail, construction and family or closely-held companies. Our services include traditional accounting, auditing and tax expanding to estates and trusts, international tax, employee benefit plan audits and plan administration, accounting and ERP software, state and local taxes, mergers and acquisitions, forensic accounting including fraud prevention and awareness.

About Red Flag Reporting

Red Flag Reporting's mission is to protect organizations and their people from damages caused by financial fraud and employee misconduct. Developed by experienced fraud investigators and human resources consultants, Red Flag Reporting is a highly effective program to detect and stop costly problems such as embezzlement, false billing, misuse of appropriations and accounting irregularities. The program also addresses employee protection, raising red flags before a work condition leads to a litigious situation. More information contact Certified Fraud Examiner, Jessica Kinney, CPA, CFE at 253-852-8500 or JKinney@Shannon-cpas.com.

INVESTING ON MARGIN INCREASES RISK AND POTENTIAL REWARDS

Although stocks have been volatile lately, they have been attractive long-term investments. The broad U.S. stock market has returned approximately 10% a year for the past 25, 30, 35, and 50 years; that's still true after the bear markets of 2000–2002 and 2008–2009. If you have a long-time horizon and can tolerate periodic slides, you probably should hold some of your portfolio in stocks or stock funds.

Investors who can tolerate stock market risks may be able to enhance returns by investing on margin, or borrowing from their broker to buy securities using their own holdings to secure the loan. Assuming that stocks continue to rise, long-term, margin investing can increase your exposure and your overall gains. You shouldn't overlook the risks of margin investing, but you also should realize that tax advantages may push your investment results toward the plus side.

Double play

When you invest on margin, you borrow money to buy securities. Once you set up a margin account with your brokerage firm, the firm will lend you money, secured by your holdings there. Base interest rates on margin loans might be in the 6%–7% range now, but you can pay more or less if you have a small or large account with the firm.

Typically, the maximum margin allowed on stocks is 50%. By borrowing, say, $50,000 on margin, you can buy as much as $100,000 worth of stocks. Then you'll stand to gain or lose twice as much as you would if you had not invested on margin.

Where do the tax benefits come in? The interest you pay on a margin loan may be tax deductible.

Example: Say you get a margin loan at a 6.5% interest rate, and your effective tax rate (federal, state, local) is 35%. With a 35% tax deduction, your net borrowing cost is 4.225%: 65% of 6.5%. If your after-tax investment returns from the assets bought on margin top 4.225%, you'll benefit from using the margin loan. Based on long-term stock market results, investing on margin can be a reasonable strategy for those who can tolerate the risk.

Moreover, the tax savings from deducting margin interest come right away. For many stock market investors, substantial taxes are deferred for many years, until they sell the shares, and favorable long-term capital gains rates may apply.

Although the numbers may seem favorable, don't downplay the risks involved with investing on margin. If your investments lose value, you may get a margin call—a demand for more cash or securities in your brokerage account. If you don't provide the cash or securities that your broker requires, the firm can sell securities from your account and use the proceeds for loan repayment.

One way to reduce this risk is to use less margin—20% or 30%, perhaps, instead of 50%. You'll own less stock, but you'll also have less chance of receiving a margin call.

NEW MEDICARE TAX UNDER THE HEALTHCARE REFORM LAW

The Patient Protection and Affordable Care Act ("the Act") contains tax increases that will go into effect for tax years beginning after December 31, 2012. One such tax is an additional hospital insurance tax ("Additional Medicare Tax") for higher-earning self-employed and working taxpayers. Recently, the IRS released guidance containing some frequently asked questions and answers that provide affected employers with the information necessary to meet new withholding requirements.

Additional Medicare tax liability

Under the Act, an individual is subject to an Additional Medicare Tax of 0.9% if his or her wages, other compensation, and/or self-employment income (together with those of a spouse, if filing a joint return) exceed the following threshold amounts based on the individual's or couple's federal income tax filing status:

Filing Status	***Wage Threshold***
Married, jointly	$250,000
Married, separately	$125,000
Single	$200,000
Head of Household*	$200,000
Qualifying Widow*	$200,000

Thus, all earnings that are subject to the current 1.45% Medicare Tax are subject to the Additional Medicare Tax of 0.9% to the extent the earnings paid are in excess of the applicable threshold for the individual's filing status. In effect, this change increases the Medicare Tax rate on those "excess" earnings from 1.45% to 2.35%.

Example: Michael, who is single, earns $220,000 in 2013 from his employer. His Medicare Tax will be $2,900 ($200,000 x 1.45%) plus $470 ($20,000 x 2.35%), for a total of $3,370.

Note that the Additional Medicare Tax only applies to the employee or self-employed person's portion of the Medicare Tax. The employer's portion continues to be 1.45% of earnings.

Self-employed individuals pay the Additional Medicare Tax as part of their self-employment tax liability.

*with qualifying person or dependent child

Employer's withholding requirement

The guidance provides that, under the Act, an employer is required to withhold the Additional Medicare Tax on wages or compensation it pays to an employee in excess of $200,000 in a calendar year. This is so despite the fact that the taxpayer may not be subject to the Additional Medicare Tax (for instance, if the individual, together with her or his spouse, is not subject to the Additional Medicare Tax because their joint earnings do not exceed the $250,000 threshold applicable to married couples filing a joint return).

No notification required

Note that an employer is not required to notify an employee of the additional withholding requirement that may apply on account of the Additional Medicare Tax. Also, an employee may not request additional withholding specifically for the Additional Medicare Tax even if the employee expects to owe an Additional Medicare Tax liability (for example, if the individual earns less than $200,000 but, together with her or his spouse, the couple will earn more than the $250,000 joint filer threshold). An employee may, however, adjust her or his income tax withholding amount by filing a new IRS Form W-4, and any excess withholding will be applied toward the individual's overall federal tax liability, including the Additional Medicare Tax.

We can help

We can provide employers with information and guidance with respect to the collection of the Additional Medicare Tax. Contact us today.

Thank you for your referrals!

We appreciate the confidence you have in our services to recommend us to other individuals and businesses.

CORPORATE MINUTES CAN PROVIDE TIMELY ASSISTANCE

If you're a business owner with a company structured as a corporation, certain formalities must be followed. For instance, you must hold regular meetings of shareholders and directors. At these meetings, you should formally document important company decisions. Without thorough minutes, your company could lose its status as a corporation, and shareholders might lose the limited liability that corporations can provide.

Accurate minutes may protect the company and key individuals from future litigation. If the minutes show valid reasons for taking certain actions, unhappy shareholders or employees may be discouraged from pursuing lawsuits if those actions yield poor results. In addition, you, as a business owner, may avoid potential tax traps by keeping good minutes.

Debt versus equity

You probably contributed cash to your company at its creation or at a later date. Were those contributions debt or equity? You may prefer to have your contributions classified as debt because money you receive from the company in the future may be treated as tax deductible interest payments on the debt. If your contribution is classified as equity, the payments you receive may be treated as nondeductible dividends. Although qualified dividend income currently is taxed at low rates, which may be attractive to the owner, there's no guarantee that this will continue in the future (especially for high-income taxpayers).

If you prefer your contributions to be treated as debt, you should make sure your corporate minutes state that you have made a loan to your company. Your minutes might explain that banks are reluctant to lend to small businesses in a slow economy, so you are stepping in with a needed loan.

You should execute a formal loan agreement between yourself and the company, stating the interest rate and the repayment terms. Record the loan details in your corporate minutes. At future meetings, make sure the minutes state that the loan terms are being observed or give reasons why you and your company have decided to restructure the loan.

Regardless of whether you make a loan to your company, you may decide to borrow from the business once it begins to generate positive cash flow. Loan proceeds aren't subject to income tax. Again, by drawing up and following a formal loan agreement, backed up by an explanation in the corporate meetings, you may be able to protect yourself from an IRS assertion that you have actually received taxable compensation or dividends.

Reasonable compensation

If you own a young business, you may be taking only a modest salary. The same might be true even if you own an established company in a slow economy. By doing so, you're leaving more cash in the company to finance its growth or survival. Such actions are common, but you could suffer adverse tax consequence as a result.

Example: For years, Sheila Turner nursed her business to health, taking just enough salary to pay her basic living expenses.

In 2012, her company is thriving, so Sheila raises her annual compensation from $40,000 to $240,000.

If the IRS audits the tax return filed by Sheila's corporation, an examiner might contend that Sheila's huge increase in compensation was unreasonable. The IRS agent could conclude that $120,000 was ample compensation, for someone running this type of company, while recasting the other $120,000 paid to Sheila as a nondeductible dividend.

In this situation, Sheila could use comprehensive corporate minutes as a defense. Suppose that the company's minutes, dating back to 2008, state that Sheila had taken a lower-than-justified salary in order to help the company survive in troubled times. The minutes might show that the corporation's directors had agreed, at periodic meetings, that Sheila would be entitled to higher compensation once the company prospered.

In this scenario, Sheila could produce the historic corporate minutes to show an IRS agent that her reported salary was reasonable. Therefore, you should make sure that your company's minutes note that you are taking a below-market salary, when that's the case; such minutes might support corporate tax deductions for generous compensation in the future.

BENEFITS OF MAKING GIFTS BEFORE 2013

We want to make you aware of a window of opportunity to take advantage of a historically high exclusion amount for lifetime gifts. The amount you can currently transfer, either during life or at death, without incurring any gift, estate, or Generation-skipping Transfer (GST) tax, is $5.12 million. Unless Congress changes the law, this amount, which is referred to as the applicable exclusion amount, is scheduled to drop to only $1 million in 2013. In other words, if your net worth is more than $1 million, more of your assets are likely to be subject to estate taxes. Furthermore, although the top gift, estate, and GST tax rate (it's a unified tax system) is only 35% this year, it is scheduled to jump to 55% in 2013 (60% for certain estates valued over $10 million). As you can see, the opportunity to protect more of your assets against gift and estate tax is soon disappearing.

If you're not comfortable with giving the full $5.12 million (that amount may not be appropriate, depending on your net worth, as well as your lifestyle needs and desires), you can transfer lesser amounts and still benefit from future estate tax savings.

Furthermore, you don't have to use any of your applicable exclusion amount for gifts if you make what are known as "annual exclusion gifts" to your children or other donees. The annual exclusion, which is adjusted for inflation each year, is $13,000 for 2012. The exclusion covers gifts on a per-donee, per-year basis. Thus, if you have three children, you can transfer a total of $39,000 to them every year with no federal gift taxes. If you're married with three children, you and your spouse can each gift this amount, for a total of $78,000. If those are the only gifts you make during the year, you won't even need to file a federal gift tax return.

If you are married with separate property, gifts to donees made during a year can be treated as split between the husband and wife, even if the cash or gift property is actually given to a donee by only one of them.

If you are comfortable with giving away more than your $13,000 annual exclusion amount, the excess will be a taxable gift. But in all likelihood, your otherwise taxable gift won't result in a gift tax liability because it will be protected by your $5.12 million applicable exclusion amount. However, as you use this amount to protect against gift tax, it reduces (or eliminates) the amount available to protect against the federal estate tax at your death. That's because of the way the unified estate and gift tax systems add taxable gifts back to an individual's estate at death.

If you are charitably inclined, there are tax-advantaged ways to make a gift to a favorite charity while enjoying the income from that gift for your lifetime.

Keep in mind that transferring assets during your lifetime doesn't remove the entire value at your death. Instead, it removes all appreciation and income earned on the asset after the date of the gift. For property that is likely to appreciate, the sooner it's given away, the better for minimizing estate taxes. This is especially important in light of changes that are coming in just a few months that may cause a dramatic increase to your future estate taxes.

If you would like to discuss the role lifetime gifts can play in your overall estate plan or have any additional questions, please call.

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