

# POSSIBILITIES

INSIGHTS FOR BUSINESSES & INDIVIDUALS

OCTOBER 2015



## Retirement Planning: It's Really About Cash Flow

If you take time to think about it, retirement planning is really not about retirement, it's about cash flow. It's about doing things to create, or preserve, the largest amount of cash flow potential you can, at any point in time, so whenever you decide to "retire," (however you define that event) you will have enough cash flow available to allow you to meet your lifestyle desires and requirements without completely depleting your assets.

As a result, big or small, all items involving cash need to be considered and planned on the cash flow creation and preservation journey. The sooner you start the journey, the better.

Here are a few moves that could help you create, or enhance, your retirement cash flow potential as 2015 comes to an end.

### Open Enrollment Coming Soon

If you are enrolled in Medicare, you should have received a copy of "Medicare & You 2016," the official U.S. government Medicare handbook, signaling the Medicare open enrollment period for 2016 is fast approaching.

Medicare open enrollment, which starts on October 15, 2015, and runs through December 7, 2015, allows Medicare beneficiaries to change their Part D prescription drug plan, the Part B supplement insurance provider, or select to use a Part C Medicare Advantage Plan.

A change to your current plan selections is not required, which means dismissing the opportunity the open enrollment period provides and just moving down the road is easy. Instead, think of the open enrollment period as a cash saving event. You need to invest some time

looking for changes that might have been made to your current Part D plan for 2016.

Drug prices change from year to year; some go up and some go down. Drugs can be added or removed from a plan. And, the cost sharing rates (the percentage you pay for a particular drug) can change, typically to a higher pay percentage. All those items could dramatically change the coverage and cost that you would pay if you don't spend the time to investigate your situation, particularly if you are using any specialty drugs.

Checking with your doctor to see if a generic drug could be used in place of a specialty drug to lower your prescription cost is a good step. The costs you pay may not be important to you until you hit the dreaded "donut hole," the point you cover all the costs of your prescription drug use. The donut hole starts at \$3,310 for 2016, and you don't exit the hole until your out-of-pocket drug costs reach \$4,850, so keeping costs down helps prevent you from ever reaching the donut hole in the first place. Use the Medicare Plan Finder at [www.medicare.gov/find-a-plan](http://www.medicare.gov/find-a-plan) to check out your current and new plans and have a list of all your prescriptions available to input.

### Plan for Minimum Required Distributions

IRAs and 401(k) plans allow contributed funds to grow tax free, just not forever.

### Annual Required Minimum Distributions

(RMD) are designed to decrease the amount of funds allowed to grow tax free in IRAs and 401(k) plans, reducing the investable amount based on your average life expectancy according to IRS tables.

Unless you are still working and are covered by a current employer's plan, you must start taking

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## What is CRM?

CRM, or customer relationship management, is a common phrase heard in the business world today. It has become a blanket buzz term for managing your customers, but its real value runs much deeper.

All businesses are built on a foundation of quality relationships. In today's increasingly competitive marketplace, a successful business will be the business that provides the best service and remains top of mind in their target audiences. To capitalize on this elusive revenue stream, these businesses understand their ideal customer and target them effectively with personalized messaging and helpful information to encourage them through the buying process.

Enter CRM.

### Creating a Total Picture

A CRM solution enables your business to interact with customers and prospects in a more meaningful, valuable way, managing and tracking data in a central location to streamline connection opportunities across your business. While typically thought of as sales or marketing specific, a CRM is a strategic business solution leveraged to attract and retain customers, and to be effective it should be integrated across your organization to create a 360-degree view of your customer. Everyone from sales, service, and support to project managers and executive leaders can benefit from this holistic relationship review, capturing contact details, account activity, opportunity tracking, and status updates on support requests, marketing campaigns or outstanding orders.

In this way, a CRM tool becomes much more than just a digital address book for managing your customers' e-mails; it becomes a vital nerve in your business's ecosystem. The ability to share timely, accurate data across your business to synchronize and simplify every touchpoint in your "value chain" of sales, marketing and support increases operational efficiency, improves customer experience and enables continued growth. When teams are privy to the same key information in a centralized system, you gain clearer insights into the path of your customers and the business processes at each stage of the relationship, allowing you to streamline workflows and improve departmental cohesiveness.

Providing actionable information on your customers across traditional silos improves not only your internal productivity, but also creates a better experience for your customer on the other end of a support call, or a prospect needing your service or product. As your business needs change, a dynamic CRM will expand to incorporate more sophisticated functionality, enabling further collaboration across your organization. E-mail integration, social media tracking, workflow and marketing automation, and digestible reporting on profitability and your current sales pipeline combine to provide a complete picture of the health of your business's relationships.

### Optimize Your Business

If you are one of the numerous businesses out there today that does not have a simple and—more importantly—accurate way to access your current customer information, whether to capture an up-to-date mailing list for an upcoming promotion or to cross-sell to a targeted buyer group based on order history, a CRM is your "better way" business solution. Taking advantage of the opportunities within your existing contact pool is a strategic method for improving your business's bottom-line while effectively managing your internal resources; however, a slew of disconnected Excel spreadsheets and outdated contact lists will not optimize your business.

A CRM solution focuses your marketing efforts through the lens of your sales strategy and business processes to ensure that the right message is reaching the right individuals at the right time throughout the customer lifecycle. It is about nurturing your customer base to develop long-term, profitable relationships through valuable exchanges during every interaction, and in the Digital Age, that is a business solution that deserves the hype.

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## Kyazma Business Consulting Joins Eide Bailly

Kyazma Business Consulting of Lehi, Utah, joined Eide Bailly on Aug. 3, adding Hans Hendershot, principal, and 35 staff to our firm.

Kyazma brings a new technology solution to our clients—Salesforce, a leading cloud customer relationship management solution.

Hans said joining Eide Bailly was an opportunity to enhance service to clients.

"Becoming part of Eide Bailly gives us more resources and propels us into new geographies, so we can grow our Salesforce practice and build our capabilities. By leveraging the structure of a larger firm, we can focus on our clients and increase our level of service," said Hans.

### *Retirement Planning — continued from page 1*

an RMD by December 31 of the year that you turn 70 ½. However, there is a grace period for the first RMD that allows the December 31 date for income reporting to be extended until April 1 of the following year.

It may sound like a great opportunity to delay being taxed on your RMD, and it is, except there is no delay in taxing the second RMD, resulting in two RMDs being taxed in the same year. That may not be a problem, but if the extra income in the second year throws your income high enough to be subject to the Medicare high-income surcharge levels (currently \$85,000 if single and \$170,000 if married filing jointly) you will be asked to pay higher premiums for Part B and D Medicare coverage. Also, you will want to watch your tax brackets since the extra income in the second year may push your taxable income into a higher bracket.

Standard Medicare Part B premiums will likely remain at \$104.90 for lower-income current participants in 2016 due to the economy not running at inflationary rates, and new participants could see standard rates of \$159.30. But, the high income surcharge group could see premiums and surcharge increases of more than 50 percent. In one example we've seen, a person with a 2016 individual income of \$214,000 could see monthly premiums increase to more than \$500, up from \$336.

As you can see, income tax planning not only saves income taxes, it also provides the opportunity to save on Medicare premiums.

One last thing about RMD that is usually learned the hard way: make sure you specify with your IRA or 401(k) plan administrator which investment asset should be reduced to make up your RMD amount. Not all, but some, IRA or 401(k) plan administrators use a method of pro rata reduction of all investment assets in compiling the funds needed to make a RMD. If they use this method, they could end up reducing future earnings potential or even creating a non-deductible loss. Make it a “best practice” to be proactive in advising your administrator on your choice of the investments to be reduced for making the RMD, even if your choice is more of a suggestion for a fully managed account.

#### **Consider a longer-term mortgage**

Conventional wisdom says that paying off a home mortgage with a shorter-term mortgage is the way it should be done. You usually get a lower interest rate on the shorter-term debt. This allows more of the payment to be applied to the debt, with the goal of paying the total debt off either before or shortly into the “using cash” period of retirement, thereby eliminating the cash outflow of the mortgage payment sooner.

Given the current economy, except for a few growing housing markets, home values are not soaring, and some are even decreasing.

Consequently, the home is viewed less as an investment and more as a comfortable place to live. Add in the lower interest rates still available for home mortgages, and it sets up an opportunity to rebalance some cash outflow and perhaps even set up future increases in cash flow possibilities. But, it will require discipline in application.

To illustrate the concept, assume a home with a value of \$500,000, five years into a \$250,000, 15-year, 4.5 percent loan, requiring no escrow for insurance or taxes. The monthly debt payment would be \$1,912.48. Also assume that the home is anticipated to be sold in five years to downsize or to move into an assisted living facility.

If the home were to be refinanced with a new 30-year, 3.8% mortgage loan, the monthly payment, again with no escrow requirements, would be \$1,164.89. And, yes, the closing costs would need to be factored in, but this is a \$747.59 reduction in the current monthly cash outflow, that doesn't stop any appreciation that might come on the home. But, before you close the new loan, do some comparisons of the anticipated net cash that would be received under the old and new mortgage loans at the anticipated sale in five years to understand how the new loan would affect the net cash to be received.

And here is where the discipline comes in; use the excess cash flow that has been created so that it is not wasted.

Rather than use the funds for current living expenses, the mortgage savings should be used to:

- Pay down other debt that carries a higher interest rate than the mortgage
- Fund a retirement account to grow the funds tax free
- Set up an emergency cash fund
- Fund long-term care insurance
- Create future non-risk earnings in some way

While this concept is not for everyone, it should be considered when the underlying facts support it.

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# Significant Changes Around the Corner for Compilation and Review Reporting

In October 2014, the Statements on Standards for Accounting and Review Services (SSARS) were completely revised with the issuance of SSARS 21. The revised, clarified standards will change the content and presentation of all accountant's reports on compiled and reviewed financial statements. Another notable change is the differentiation between accounting services (preparation of financial statements) and reporting services (compilation or review services).

## Effective Date

SSARS 21 is effective for reviews, compilations and engagements to prepare financial statements for periods ending on or after December 15, 2015.

## What Business Owners Should Expect

Most of the implementation of SSARS 21 will take place behind the scenes as accountants perform individual engagements, but business owners will notice a few changes:

1. *Updated reports.* Under the clarified standards, the standard compilation report will be shortened from three paragraphs to one. The standard review report will remain four paragraphs long but will now include titles for each section of the report and additional wording regarding management's responsibility for the financial statements.
2. *Preparation of financial statements.* The updated guidance defines the preparation of financial statements as a separate

type of nonattest service. An engagement to prepare financial statements differs from a compilation engagement in several ways. In a preparation engagement, an accountant prepares financial statements, but does not include an accountant's report; rather, each page of the prepared financial statement must include a statement that no assurance is being provided. Additionally, the accountant is not required to determine or disclose whether he or she is independent.

3. *Engagement letters.* Regardless of the level of service (prepared, compiled or reviewed financial statements), accountants will be required to obtain an engagement letter signed by management and the accountant.

If you have questions about how these changes might impact your compilation or review engagement, please contact an Eide Bailly professional.

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## Utah Firm James & Co. to Join Eide Bailly

James & Co., Business Advisors/CPAs of Ogden, Utah, will become part of Eide Bailly on Nov. 2.

Dan E. James, president and CPA, and his team of 10 staff members will join our Ogden office and bring Eide Bailly's Utah practice, which also includes Salt Lake City and Lehi, to 21 partners and 114 staff. Our total professional count will rise to 1,633, which includes 237 partners, with the union.

"We have built a strong presence in Utah over the past few years and become the first regional CPA firm in the state," said Dave Stende, CEO and managing partner of Eide Bailly. "The addition of James & Co. furthers our goals of building industry niches and relevant service specialties to help clients with more of their business needs."

James said the move will be good for both the clients and the staff of James & Co.

"Joining Eide Bailly will give us the structure and resources to do



Downtown Ogden at sunset

even more for our clients, and our current staff will have more opportunities for upward advancement and leadership roles. We are very excited about our future," James said.

# Affordable Care Act: Employer Reporting Requirements Update

Beginning in 2015, the Affordable Care Act (ACA) requires employers with 50 or more full-time equivalent employees (i.e., “applicable large employers” or ALEs) to file forms 1094-C and 1095-C with the IRS, as well as provide a copy of the 1095-C to each of their full-time employees. If the employer has a self-funded plan, they will also need to give part-time employees who enroll in that coverage a form 1095-C. Note: Small employers with self-funded plans need to file similar forms. These forms are called 1094-B and 1095-B.

## Form Details

These new forms are more complex because of the various reliefs available under the ACA and are required by all ALEs, whether or not they offer insurance. This IRS requirement determines whether an employer owes payments under the employer shared responsibility provisions (commonly referred to as the “pay or play penalties”). In addition, these forms will allow employees to determine whether or not they are eligible for the premium tax credit. The forms provide detail to the IRS, the employer and the employees about offers of health coverage the employer made to full-time employees and part-time employees as noted above.

The forms are not due to employees until January 31, 2016, and to the IRS by February 29, 2016, if paper filed, or March 31, 2016, if e-filed. However, it is important for businesses to start the process of gathering the needed information for these forms now. The new health care coverage reporting is made on a calendar-year basis, regardless of the health plan year-end. It also requires month-by-month reporting information, as the status of the employee can change within the reporting year.

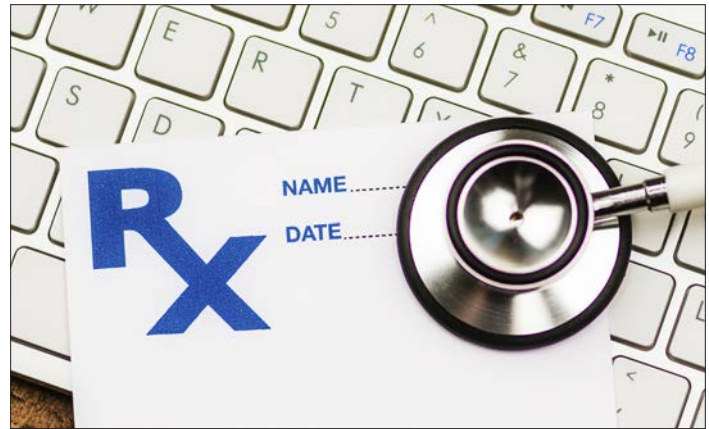
## Penalties

The IRS has noted, as they do with most new reporting requirements, that the penalties for failure to file or furnish complete and accurate information (penalties range from \$50 per form to \$250 per form) may be waived for those employers acting in good faith. For other circumstances, employers will need to deal with the penalties based on their facts for not complying with the rules. A word of caution: these forms will have an impact on the employees’ individual tax returns, so it is important that businesses provide accurate information.

## Questions to Ask

Time is truly of the essence in understanding and planning how to comply with this reporting requirement, as the time between now and the first reporting date will evaporate quickly.

Employers are bound to have many questions related to the ACA. The following are a few for you to consider.



- Is your business an ALE? If so, do any of the transition reliefs available for 2015 apply to you?
- Are you aware of the projected impacts the Affordable Care Act may have on your business? Keep in mind there are many rules to understand, not just the “pay or play” rules that affect businesses with 50 or more employees.
- Is your business utilizing the correct measurement period?
- Is your business considering health care plan options but unsure of where to begin?
- Have you considered the long-term effects of your business’s health insurance costs?
- Which option would be the most beneficial for your business: providing employee coverage, sending employees to the exchange and paying the mandatory fees, or developing a new hybrid plan?
- Are you looking to provide an affordable employee health plan while limiting the cost to your business?
- Are you aware of the necessary forms you need to complete to remain compliant with the ACA?
- Do you need assistance completing Form 1095-C and 1094-C?

For assistance in completing the new forms, please contact your Eide Bailly professional, reach us at 855.220.8634 or [HealthCareReform@eidebailly.com](mailto:HealthCareReform@eidebailly.com), or visit [www.eidebailly.com/FormAssistance](http://www.eidebailly.com/FormAssistance).

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## By Any Other Name, It's Still Tax Legislation

With a name like The Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 (which we will call the Highway Bill), you might not think that this legislation, which is necessary to deal with a lack of money in the Highway Trust Fund, would contain income tax provisions, but it does. There is not enough money in the Highway Trust Fund to pay for the extension, and dedicated sources of funds won't cover the cost; therefore, mostly income tax provisions are required to help pay for part of the funding requirements created by the new legislation.

### Temporary and Permanent

The Highway Bill is estimated to cost \$8 billion, and the new tax provisions are anticipated to make up \$4 billion – \$5 billion of that funding requirement. It is a temporary bill, running only through October 29, 2015, but it does put new permanent tax provisions in place.

Permanent tax changes in the Highway Bill cover a wide group of affected taxpayers dealing with excise taxes on liquefied natural and compressed natural gas, the ability to transfer excess pension assets, return extension dates and overstatement of basis Statute of Limitation issues; however, the main items of concern focus on three areas of reporting.

### Mortgage Interest

Starting with information forms furnished after December 31, 2016, more information will be required when reporting mortgage interest information, including:

- The outstanding mortgage principal amount as of the beginning of the calendar year
- The date the mortgage was made
- The address of the property securing the mortgage

Why the need for additional information? The Internal Revenue Service and Congress believe the additional information will allow the IRS to better identify taxpayer abuse of the mortgage interest deduction, thereby increasing tax collections, or what the IRS terms “revenue,” by almost \$2 billion over a 10-year period of time.

### Partnerships

Effective for 2016 tax returns, partnerships, which are currently filed on the 15th day of the fourth month following the tax year-end, will change to file returns by the 15th day of the third month following the tax year-end. In addition, regular C corporations (non-S corporation), which are currently filed by the 15th day of the third month following the tax year-end, will change to file returns by the 15th day of the fourth month following the tax year-end. S corporations, which currently file on the 15th day of the third month following the tax year-end, will not change filing dates. And, a special rule for C corporations with a fiscal year of June 30 delays the change to the new reporting dates until tax years beginning after

2025 (that's not a typo. We can speculate, but the reason why is unclear).

Why the change? There was anticipation of fewer amended returns by individuals if the partnership information was required earlier. It is thought this will reduce taxpayers costs related to preparation and the IRS in processing costs.

### Estate Asset Values

There is also a new tax item involving the reporting of estate asset values to beneficiaries and the IRS. The change was to have been effective upon signing of the Highway Bill, which was done by the president on July 31, 2015; however, on August 21, 2015, the IRS issued Notice 2015-57 that delayed the filing requirement of the new reports until February 29, 2016. That does not mean estates having a filing requirement between July 31, 2015, and February 29, 2016, don't need to file. They will still file, just on February 29, 2016. The delay is designed to allow the IRS time to develop the information they want filed by the estate.

Again, why is this change deemed necessary? It is designed to address the consistency in reporting by the estate and the beneficiaries related to tax basis items. The asset tax value reported in an estate, whether valued at the date of death or the alternate valuation date, generally becomes the tax basis of the asset in the hands of the beneficiary. However, Congress and the IRS were concerned that beneficiaries were using higher basis amounts, and with no way to easily check the asset and value coming from the estate against the amounts used by the beneficiaries, tax revenues were being reduced.

The new reporting requirement by the executor (personal representative) of an estate to the beneficiaries and the IRS when required after the February 29, 2016, catch-up date will be due no later than the earlier of (1.) 30 days after the due date for filing the estate tax return, with extension, or (2.) 30 days after the actual filing of the estate tax return. It is anticipated that having the ability to track the movement and values of the estate assets through the reporting by beneficiaries will generate approximately \$1.5 billion in new tax revenue collections by the IRS.

All which leaves us to conclude this: A piece of legislation by any other name is probably tax legislation, so keep alert.

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## Accrual Accounting and the Benefits of Early Pay

An accrual method taxpayer may deduct an expense when it is paid, or when all events have occurred to establish the existence of the liability; the amount of the liability can be determined with reasonable accuracy; and economic performance has occurred. The economic performance part is frequently the limiting factor determining when an expense can be deducted. In general terms, economic performance occurs for liabilities arising from services provided to the taxpayer, when the services are provided. For liabilities, such as insurance and warranties provided to the taxpayer or rebates and refunds paid by the taxpayer, economic performance occurs when the taxpayer makes payment.

### Exceptions

Two exceptions to the general rule stated above allow taxpayers to deduct liabilities prior to the occurrence of economic performance: the 3 ½ Month Rule for service liabilities and the Recurring Item Exception for certain service and payment liabilities.

The 3 ½ Month Rule allows a deduction for a service liability to be taken at the time of payment if the taxpayer expects the service, or a ratable portion thereof, to be provided within 3 ½ months of payment. Liabilities typically qualifying for this exception include prepaid advertising, postage, conference and trade show expenses, commissions and professional fees.

The Recurring Item Exception allows taxpayers to deduct the cost of service and payment liabilities prior to the time services are provided or payment is made, if a few tests are positive. First, is the liability recurring? Did economic performance occur prior to filing the tax return for the year of deduction? And, was the amount of the liability not material, or did it result in better matching of the liability with income? Liabilities typically qualifying for the Recurring Item Exception include liabilities for insurance contracts, warranty contracts, taxes, rebates and refunds.

### Important to be Right the First Time

The 3 ½ Month Rule and the Recurring Item Exception are methods of accounting. That means taxpayers adopt these methods in the first tax year they incur a qualifying expense. If a method of accounting is established, it must continue to be used, or the taxpayer must file an accounting method change to request consent to change their method of accounting. Unfortunately, for these type of expenses, that is generally done using the non-automatic change procedures, costing more time and money to accomplish. So, getting it right the first time is important.

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## Eide Bailly adds Jason Fritts to National Tax Office



Please help us welcome Jason Fritts to Eide Bailly's National Tax Office. Jason brings more than 11 years of transfer pricing and international tax experience to the Firm.

Jason leads our transfer pricing service area and works closely with Shannon Lemmon, head of the International Tax Service area of Eide Bailly's National Tax Office, as well as others on the international tax team. Jason concentrates on helping businesses minimize transfer pricing compliance risk by providing planning, policy guidance, benchmarking, and documentation services.

For more information about transfer pricing, visit [www.eidebailly.com](http://www.eidebailly.com).



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## Resurrecting Depreciation Provisions

The higher deduction levels of Section 179, along with the bonus depreciation provision, expired December 31, 2014, as did approximately 60 other tax extender provisions. While tax legislation can be challenging to predict, recent events have given us some glimmer of hope that the lapsed depreciation provisions will be resurrected and even improved.

### Legislative Movement

The House of Representatives passed a bill in February 2015 to make the lapsed Section 179 provisions permanent, including indexing the \$500,000 maximum allowance and the \$2 million phase-out threshold for inflation starting in 2016. More recently, two new pieces of legislation have been introduced in the House. One increases bonus depreciation from 50 percent to 100 percent, and both make bonus depreciation permanent, mirroring legislation passed in the House during the last Congressional session but failing to get Senate attention.

In June, the Senate Finance Committee broached the topic of tax extenders and decided to extend 52 lapsed tax provisions, generally with a two-year extension through 2016 and retroactive application back to January 1, 2015. Items included were the extension of 50 percent bonus depreciation; extension

of the expensing limit of eligible Section 179 property to \$500,000, as well as investment-based phase-out amount to \$2 million and an expanded definition of what qualifies as Section 179 eligible property; an election to accelerate AMT credits in lieu of additional first-year depreciation; continued allowance of accelerated depreciation for business property on an American Indian reservation; and the 15-year recovery periods for qualified leasehold improvement property, qualified retail improvement property and qualified restaurant property.

### Decision Could Come Soon

Although the lapsed depreciation provisions seem likely to be extended again, permanency of bonus and Section 179 provisions are still in question and will await full Congressional action, anticipated this fall. Hopefully, this will save taxpayers and the IRS from the recent tradition of tax extender passage agony in the final week of December, if not later.

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