TAX & FINANCIAL SOURCE

Watkins, Meegan, Drury & Company, L.L.C.
Clear Vision, Powerful Results
Certified Public Accountants • Business & Financial Advisors
www.WatkinsMeegan.com

Bridging the GAAP to International Financial Reporting Standards

In July 2007, the Securities and Exchange Commission (SEC) proposed that U.S. companies prepare for the impending transition to the International Financial Reporting Standards (IFRS). This transition has become pertinent to U.S companies, as U.S. GAAP is no longer an accepted set of accounting standards outside of the U.S. Because more companies, large and small, are tapping into international markets, the SEC has released for public comment a roadmap toward the adoption of IFRS for use in the U.S. In 2011, the SEC will decide whether some or all public companies should convert to IFRS by 2014. The SEC's decision will be guided primarily by progress toward seven milestones laid out in its roadmap. Those milestones include the level of familiarity with IFRS attained by U.S. users and preparers of financial statements, the cost and practicality of a complete transition to IFRS, and the International Accounting Standard Board's (IASB) progress in improving IFRS. If the SEC mandates a transition to IFRS for publicly traded companies, most privately held companies will likely convert to IFRS shortly thereafter.

"IFRS is the set of standards and interpretations adopted by the IASB and is utilized by more than 100 jurisdictions around the world"

IFRS is the set of standards and interpretations adopted by the IASB and is utilized by more than 100 jurisdictions around the world, including the European Union, Hong Kong, Australia, India, Russia, and Singapore. IFRS is designed as a set of global accounting standards so investors can more easily compare the financial condition of reporting entities around the world. Furthermore, IFRS provides financial accounting standards for developing and smaller countries unable to create their own accounting standards.

From a conceptual standpoint, IFRS is considered a principles-based set of accounting standards and the IASB has issued little application guidance. As a result, IFRS is comprised of substantially fewer pronouncements than U.S. GAAP, which is considered rules-based. Besides the conceptual differences, there are many material differences in the actual reporting of financial information, which the IASB and the Financial Accounting Standards Board (FASB) plan to address as they converge these two standards. Following are some examples of such material differences:

- Under IFRS, a balance sheet and an income statement must contain certain minimum information, but there is no precise format in which that information must be presented;

(CONTINUED ON PG. 4)

TAX & FINANCIAL
SOURCE

The Watkins, Meegan, Drury & Company, L.L.C. Tax & Financial Source welcomes feedback and suggestions for articles to assist business leaders and other professionals in meeting their organizations' objectives. If you wish to submit an idea, request use of any information in this issue, or be added to our mailing list, please contact Kevin Jones at (301) 664-8164. Or e-mail us at Kevin.Jones@WatkinsMeegan.com

HOW TO CONTACT US:

7700 Wisconsin Avenue
Suite 500
Bethesda, MD 20814-3556
(301) 654-7555
FAX (301) 656-9115

8000 Towers Crescent Drive
Suite 950
Vienna, VA 22182-6208
(703) 761-4848
FAX (703) 761-4812

888 Bestgate Road
Suite 401
Annapolis, MD 21401
(410) 571-7766
FAX (410) 571-7764

www.WatkinsMeegan.com

TAX CALENDAR

January

The social security and Medicare rates for 2009 are a combined 7.65 percent for the employee and 7.65 percent for the employer's matching share, a total tax of 15.30 percent on the first $106,800 of social security and Medicare earnings, plus 1.45 percent each (employee and employer), a total tax of 2.9 percent for Medicare-only wages in excess of $106,800.

Thursday, January 15, is the due date for the final quarterly installment of your estimated individual income tax (including self-employment and alternative minimum tax) for 2008. You can skip the January 15 payment provided you file your Form 1040 and pay any balance due on or before Monday, February 2.

Thursday, January 15, is the deadline for employers to deposit income, Medicare, and social security taxes withheld from their employees' salaries in December 2008 if the monthly depositor rules apply.

February

You are liable for FUTA taxes if you paid wages of $1,500 or more in any calendar quarter of the current or previous year or employed one or more persons on at least one day in each of 20 or more weeks during last year. If you deposited all of the FUTA tax when due, you have until Wednesday, February 11, to file the return.

Monday, February 2, is the deadline for employers to file quarterly Form 941 for income, Medicare, and social security taxes withheld from their employees' salaries in October, November, and December. If taxes were deposited in full when due, the employer has until Wednesday, February 11, to file the return.

Monday, February 2, is the deadline for designated small employers to file the new annual Form 944 and pay any social security, Medicare, and federal withholding for their employees for the year 2008.

Monday, February 2, is the due date for employers subject to the federal unemployment tax (FUTA) to file an annual return for 2008. Use Form 940 or 940-EZ.

Monday, February 2, is the deadline for employers to furnish each employee with Form W-2 (Copy B for the employee's Form 1040 and Copy C for his or her own records, as well as copies for any state or city returns) showing wages paid and taxes withheld in 2008. The originals (Copy A) of the Forms W-2, along with a Form W-3 *(Transmittal of Wage and Tax Statements)*, must be filed with the Social Security Administration by Monday, March 2, 2009.

Monday, February 2, is also the last day for businesses to furnish Form 1099 information returns for 2008 (Copy B) to recipients of $10 or more of dividends, royalties, or interest, or $600 or more of payments of such items as rents, commissions, fees, prizes, and other compensation to non-employees. You are also required to file Copy A of Forms 1099, along with a Form 1096 transmittal, with your Internal Revenue Service Center by Monday, March 2, if filing on paper or magnetic media (Wednesday, April 1, if filing electronically).

Monday, February 2, is the deadline for partnerships to provide Form 8308 to the parties involved in the exchange of a partnership interest which included unrealized receivables or substantially appreciated inventory.

Monday, February 2, is the deadline to file Form 720, *Quarterly Federal Excise Tax Return*, for the fourth quarter of 2008.

Monday, February 16, is the deadline for employers to deposit income, Medicare, and social security taxes withheld from their employees' salaries in January if the monthly depositor rules apply.

Monday, February 16, is the date for all employers to begin withholding income tax from the pay of any employee who claimed exemption from withholding in 2008, but did not provide a new Form W-4 to continue exemption in 2009.

2009 Waiver of Required Minimum Distribution

Due to the economic crisis, Congress has attempted to provide relief for retired persons subject to the Required Minimum Distribution rules. Congress recently passed a Temporary Waiver of Required Minimum Distribution for Certain Retirement Plans and Accounts in 2009. This waiver specifically affects traditional IRA, SEP, SIMPLE accounts, employer sponsored retirement plans, such as 401(k), 403(b), and/or 457(b) accounts and Profit Sharing accounts, and inherited IRA accounts. The law does not grant relief to defined benefit plans offered by an employer. This article explains the general rules and guidelines regarding the statutory obligation of a retirement account owner to distribute a certain amount from his/her retirement account and the recent effects of the waiver for 2009.

The Required Minimum Distribution (RMD) provision is a mechanism to prevent retirement account owners from enjoying indefinite tax-deferred growth from a retirement account. The RMD provision generally requires a retiree over the age of 70 to withdraw a minimum distribution from his or her retirement plan account. If, however, the owner of the retirement plan has not retired by the age of 70, he or she is then able to postpone the withdrawal of the RMD in the year of retirement. In the case of a 5 percent or greater owner of a business sponsoring the retirement plan, the retirement account owner is obligated to take the RMD at the age of 70 regardless of whether he or she is retired. Therefore, the postponement rule does not apply to individual retirement accounts held by a 5 percent or greater business owner sponsoring such retirement plans. If a retirement account owner fails to withdraw the RMD, an excise tax of 50 percent on the amount that should have been withdrawn will be assessed.

The first RMD is required to be distributed by December 31st of the year you reach age 70 or by April 1st of the year following the year in which you reach age 70 or the year of retirement, otherwise known as the required beginning date. For example, if you turn 70 in 2008, you have until April 1, 2009, to distribute your 2008 RMD. To calculate the RMD required to be distributed on the required beginning date, the account owner divides the previous year end FMV of the retirement account by the distribution period. The distribution period is determined by one of the three life expectancy tables provided by the IRS: (1) single life expectancy, (2) joint and last survivor expectancy, or (3) uniform lifetime.

A person with multiple retirement accounts is required to make RMD that equals the aggregate of the accounts divided by the appropriate distribution period, which may be paid out from all or one of the retirement accounts. The RMD for employer sponsored retirement accounts and IRA accounts are computed separately, and you would be required to take the appropriate amount from each type of account.

In early December 2008, Congress passed pension provisions relating to the economic crisis; more specifically, a provision affecting the RMD rule. Congress has passed, and President Bush is expected to sign, a Temporary Waiver of the Required Minimum Distribution rules for 2009. In other words, any annual RMD for 2009 is not required to be made. Any retirement account owner will then be required to resume making RMD distributions for the calendar year 2010. To illustrate, if you are required to distribute RMD for the 2009 calendar year because you turned 70 1/2 in 2009, you do not have to take this distribution, even if you would have elected to postpone such distribution until April 1, 2010.

The RMD requirement will resume for the 2010 calendar year. Continuing the example above, the retirement account owner turning 70 1/2 in 2009 will start to take the RMD in the 2010 calendar year no later than December 31, 2010. When determining the amount of the RMD to be taken for those affected by the temporary waiver, as in our example, the required beginning date will still be April 1, 2010.

If you have any questions or concerns regarding required minimum distributions in general or the Temporary Waiver of Requirement Minimum Distribution Rules for Certain Retirement Plans and Accounts, please contact your account executive.

Watkins, Meegan, Drury
& Company, L.L.C.
Clear Vision, Powerful Results

7700 Wisconsin Ave., Suite 500
Bethesda, MD 20814-3556

PRSRT STD
U.S. POSTAGE PAID
PERMIT NO. 2375
Southern, MD

IN THIS ISSUE:

(CONTINUED FROM PG. 1)

- For inventory valuation, IFRS allows an entity to reverse inventory write-downs in certain circumstances and prohibits the LIFO method, but U.S. GAAP does not;

- Although U.S. GAAP generally includes only interest in its definition of borrowing costs related to assets with a substantial time to completion, IFRS also includes certain ancillary costs and exchange differences that are regarded as an adjustment of interest and allows, but does not mandate, capitalization of those borrowing costs;

- IFRS guidance regarding revenue recognition is consistent with U.S. GAAP, but contains limited detail or industry specific guidance; and

- IFRS grants a 12-month waiver before the balance sheet date for debt covenant violations, while U.S. GAAP allows curing debt covenant violations after year-end.

These are just a few of the material differences that are being reviewed before the announcement of the transition date. What does all this mean for you and your company? Until the SEC designates a mandatory date for a shift to IFRS for publicly traded companies, this transition will not have a substantial effect on your financial statements. If the SEC does require a shift, then your company may wish to consider a transition to IFRS in its financial reporting to maintain competitiveness in its industry, even if your company does not report to the SEC. In the meantime, our firm and its CPAs are involved in comprehensive training and education programs and will be ready to assist your company with the transition when the time comes.

Please contact us if you would like to discuss IFRS and the effects it may have on your business.