

# DEBITS AND CREDITS

VOLUME 66 – ISSUE 4 August 2015

*Published By*

Independent Accountants Association of Illinois  
Affiliate of the National Society of Accountants



## IAAI Presents 2015

## CONTINUING PROFESSIONAL EDUCATION

	Non-Member Fee	Member Fee	
<b>Accounting Seminar</b> <b>TaxSpeaker – 16 CPE ACCOUNTING</b> <b>September 21-22, Eastland Suites</b> 1801 Eastland Drive, Bloomington, IL 61704 Hotel Reservations (309) 662-0000	\$410.00	\$360.00 <b>Early Bird Fee</b> \$325.00 <b>August 31</b>	<input type="text"/>
<b>1040 Tax Update Seminar</b> <b>Chris Bird Speaker – 14 CPE TAX &amp; 2 CPE IRS ETHICS *</b> <b>October 28-29, Decatur Conference Center</b> 4191 US Highway 36 West, Decatur, IL 62522 Hotel Reservations (217) 422-8800	\$365.00	\$315.00 <b>Early Bird Fee</b> \$280.00 <b>October 5</b>	<input type="text"/>
<b>1040 Tax Update Seminar</b> <b>TaxSpeaker – 14 CPE TAX &amp; 2 CPE IRS ETHICS *</b> <b>November 9-10, Holiday Inn Express</b> 1550 E Dundee Road, Palatine, IL 60074 Hotel Reservations (847) 934-4900	\$380.00	\$330.00 <b>Early Bird Fee</b> \$295.00 <b>October 19</b>	<input type="text"/>
<b>1040 Tax Update Seminar</b> <b>TaxSpeaker – 14 CPE TAX &amp; 2 CPE IRS ETHICS *</b> <b>December 7-8, DoubleTree by Hilton</b> 5000 W 127 <sup>th</sup> Street, Alsip, IL 60803 Hotel Reservations (708) 371-7300	\$380.00	\$330.00 <b>Early Bird Fee</b> \$295.00 <b>November 16</b>	<input type="text"/>

**\*Includes 2 Hours Ethics & 12 Regular Hours for Illinois Insurance**

Total \$ \_\_\_\_\_

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## Message from the President



As we begin the next chapter in IAAI, I want to personally thank all of you that were able to attend the 66<sup>th</sup> Annual Convention in Joliet. We had a wonderful time networking with our fellow members and their guests. Pat Sullivan gave a fabulous presentation on leadership that I hope inspired everyone in attendance to embrace his breakdown of “attitude” and become better leaders in IAAI, your office, your home, and all aspects of your life. We also had the pleasure of honoring long-time Chapter 5 member, Donald Cordano.

Don is a retired professor of Accountancy at Lewis University and a nationally recognized accounting expert. He has been and continues to be a tremendous asset to IAAI and many other organizations, including NSA and ACAT. It was truly special to be able to honor him as I was inducted President.

I am very excited about the coming year. We have a terrific slate of education events set up for you, including the Accounting Seminar and multiple 1040 Updates in a location near you. We also have been asked to team up once again with the IRS and IDOR to put on the Illinois Fed/State Seminars this fall. You will not want to miss your opportunity to learn from fabulous speakers while networking with your fellow members. Please support **YOUR** organization and attend IAAI seminars. See the “Education Corner” on page 11 for more!! Excellent education is just one of the many benefits of IAAI. We are constantly striving to better the organization and make sure your needs are met. It’s going to take hard work and commitment from all of us, but together we can continue to make IAAI bigger and better.

*WHY NOT LEAD?!*

Patrick McGinnis, President

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To the Members of the Independent Accountants Association of Illinois,

My wife, Myrna and I would like to say to all the members of the IAAI, Thank You!

Thank you for giving me the opportunity to address your Association and install your new officers at your 66<sup>th</sup> Annual Convention held in Joliet. From a beautiful evening reception held on the rooftop of the Joliet Historical Museum, through the meals, speakers and installation of your officers, we both had a wonderful time.

In looking at your brochure I found it interesting that your very first president, Orville Bacon, who served from 1949 to 1951, is listed as being from Manitowoc Wisconsin. I did resist the urge to impress this upon all of the attendees, as I’m sure there is a story behind this and perhaps someday someone can share that with me. The Pat Sullivan’s motivational talk was excellent and I’m sure everyone walked away having gained some knowledge and inspiration. In watching all the interactions between your members, there was a definite renewal of friendships and making of new friends. To me this is one the great thing about conventions and even seminars, the chance to renew old friendships and the ability to expand your networking with colleagues. If you haven’t attended the convention in the past, please give it serious consideration for next year, I guarantee you won’t regret it.

My praise goes out to Ray Heinen for a job well done and my congratulations to Pat McGinnis for accepting the responsibilities as your new president of IAAI. As well, I wish to congratulate all the new officers and state directors of your Association. And I look forward to helping you in any way I can as your NSA district governor.

Jim Weickgenant, EA, ATA

Governor, NSA District V



## State Director's Message

Hello To Summer!!!

Time for your message of the season.

Things are gearing up for an interesting season of educational offerings from NSA and IAAI. As this is being read Two IRS Nationwide Tax Forums are complete with three

more to be held. This is the annual IRS offering on various topics of interest for the tax professional. NSA is presenting TWO seminar topics. One is "Advantages and Disadvantages of Electing to be taxed as an S-Corporation" and the other is "Client Consents and Disclosures-A 'How To' for the Tax Professional". The presenters are NSA's Dream Team of GENE BELL & soon to be President KATHY HETTICK!!!! There are three more scheduled. Go to the IRS website for all the information.

August 19<sup>th</sup> thru the 22<sup>nd</sup> are the dates for NSA's 70<sup>th</sup> Annual Convention & Expo in beautiful Vancouver, British Columbia. By attending you as an NSA member have the opportunity to earn up to 14 hours of CPE along with various activities in and around the top city in Canada as recognized by Travel & Leisure Magazine.

At the business portion of the convention the will be election of officers. There are three contested races this year. The following offices are up for grabs:

"Second Vice-President" - William Silzer of VA and Brian Thompson of AR

"Secretary-Treasurer" - Curtis Lee, Jr. of NC and Vicki Mc Guar of IL (former IAAI President)

"District III Governor" - Billie Lovett of WV and Paul Thompson of VA

One may vote by attending or by proxy. All members in good standing on August 1, 2015 MUST have their proxy authorization at the NSA offices no later than 5:00pm EDT on August 7, 2015.

Lots happening and all interesting.

Enjoy your summer and when the autumn season arrives, CPE season will be in full swing!!!!

Robert L. Thoma EA,ABA,ATA,ATP. ARA  
NSA Illinois State Director

# Calendar of Events

## 2015

**August 13 6 pm Cash Bar, 6:30 pm Meeting**

*Chapter 16*

*Insurance & Investments, Larry Odelson*

Ashford House

7959 W 159th Street, Tinley Park, IL 60477

**September 3**

*Chapter 18*

*Representation Before the Collection Division of IDOR*

*Michael Whelan, JD CPA*

Wa-Pa-Ghetti's Pizza

208 McHenry Road, Wheeling, IL 60090

**September 10 6 pm Cash Bar, 6:30 pm Meeting**

*Chapter 16*

*Offer in Compromise, George Crouse*

Ashford House

7959 W 159th Street, Tinley Park, IL 60477

**September 14 8:30 am**

*Chapter 2 8 CPE Hours*

*Advanced Tax Seminar, Annual Ethics Seminar*

*Helping your Clients with Investments*

Radisson O'Hare Chicago

Touhy & Route 45, DesPlaines, IL 60018

Richard Allen 708.448.0240

**September 21-22 8 am - 4 pm**

*Accounting Seminar*

*TaxSpeaker*

*Early Bird Savings August 31*

Eastland Suites

1801 Eastland Drive, Bloomington, IL 61704

Hotel Reservations 309.662.0000

**September 24, 2015 8 am—4:45 pm**

*IRS Southern IL Tax Practitioner Symposium*

Southern IL University Edwardsville

Meridian Ballroom in the Morris University Center

Edwardsville, IL 62026

**October 2 8:30 am—4:30 pm**

*Chapters 10 & 11 Illinois Tax Seminar*

Ponderosa Steak House

2727 Veterans Avenue

Vandalia, IL 62471

**October 8 6 pm Cash Bar, 6:30 pm Meeting**

*Chapter 16*

*Trusts, Steven Schwer*

Ashford House

7959 W 159th Street, Tinley Park, IL 60477

**October 27 2 pm**

*Board of Directors Meeting*

Decatur Hotel & Conference Center

4191 US Highway 36 West, Decatur, IL 62522

Hotel Reservations 217.422.8800

**October 28-29 8:30 am – 4:30 pm**

*1040 Tax Update Seminar*

*Chris Bird, Speaker*

*Early Bird Savings October 5*

Decatur Hotel & Conference Center

4191 US Highway 36 West, Decatur, IL 62522

Hotel Reservations 217.422.8800

**November 9-10 8 am – 4 pm**

*1040 Tax Update Seminar*

*TaxSpeaker*

*Early Bird Savings October 19*

Holiday Inn Express

1550 E Dundee Road, Palatine, IL 60074

Hotel Reservations 847.934.4900

**November 12 6 pm Cash Bar, 6:30 pm Meeting**

*Chapter 16 Fee Survey, Sharon Crownson*

*Real Estate, Jim McLaughlin*

Ashford House,

7959 W 159th Street, Tinley Park, IL 60477

**November 16 8:30 am**

*Chapter 2 8 CPE Hours*

*Looking Ahead to 2016: Affordable Care Act for 2015*

*Tax Returns and 2015 Employers. IRA Appeals and Offers in Compromise. IRS Practitioner Services.*

Radisson O'Hare Chicago

Touhy & Route 45, DesPlaines, IL 60018

Richard Allen 708.448.0240

**November 17 9 am—3 pm, Lunch 11:45 (included)**

*IL Fed/State Update Seminar*

Rend Lake Market Place

321 Potomac, Mt Vernon, IL 62864

**November 19 9 am—3 pm, Lunch 11:45 (included)**

*IL Fed/State Update Seminar*

SIU Edwardsville

Morris University Center 2nd Floor

Edwardsville, IL 62026

**November 20 11:30 am**

*Chapter 4*

*Chris Bird Tax Seminar*

Kane County Farm Bureau

St Charles, IL 60174

## 2015 (continued)

November 24 9 am—3 pm

Lunch 11:45 (included)

*IL Fed/State Update Seminar*

Waubonsee Community College

18 S River Street, Aurora, IL 60506

December 1 9 am—3 pm, Lunch 11:45 (on your own)

*IL Fed/State Update Seminar*

James R Thompson Center

100 W Randolph, Chicago, IL 60601

December 2 9 am—3 pm

Lunch 11:45 (included)

*IL Fed/State Update Seminar*

Waubonsee Community College

18 S River Street, Aurora, IL 60506

December 3 10:00 am

Board of Directors Meeting

Eastland Suites

1801 Eastland Drive, Bloomington, IL 61704

Hotel Reservations 309.662.0000

December 7-8 8 am - 4 pm

*1040 Tax Update Seminar*

*TaxSpeaker*

*Early Bird Savings November 16*

DoubleTree by Hilton

5000 W 127<sup>th</sup> Street, Alsip, IL 60803

Hotel Reservations 708.371.7300

December 10 9 am—3 pm

Lunch 11:45 (included)

*IL Fed/State Update Seminar*

LLCC CAPITAL Training Center

130 W Mason Street, Springfield, IL 62702

December 10 7 pm

*Chapter 16*

*Christmas Party*

Ashford House

7959 W 159th Street, Tinley Park, IL 60477

December 14 8:30 am

*Chapter 2 8 CPE Hours*

*IRS Ethics Seminar and Basic and Mid-Level*

*Individual Tax Preparation issues for new practitioner, and those who want to “move up” their tax preparation services. Advertising and increasing clients.*

Radisson O’Hare Chicago

Touhy & Route 45, DesPlaines, IL 60018

Richard Allen 708.448.0240

## 2016

January 6

*Chapter 14*

*Western Illinois Area Chris Bird Forms Seminar*

Best Western Prairie Inn 309-343-7151

I-74 East Main Street (Exit 48), Galesburg, IL 61401

Contact Paul Bowman 309.786.4439

January 10

*Chapter 16*

*Annual Last Minute Tax Workshop*

*Speakers: Larry Odelson & Ed Fatla*

Ashford House

7959 W 159th Street, Tinley Park, IL 60477

January 16

*Chapter 2*

*Annual Tax Preparers Tricks Traps & Pitfalls*

Radisson O’Hare Chicago

Touhy & Route 45, DesPlaines, IL 60018

Richard Allen 708.448.0240

**ENROLLED AGENT  
CLASSES**

**FOR DATES, LOCATIONS  
AND MORE INFORMATION**

**SEE PAGES 15 & 16**

### *IAAI Mission Statement*

We will provide accounting and tax professionals with the very best in education, representation, legislative alertness, cutting edge technology, and opportunities to interact with other professionals.

## Appointments Needed for Face-Face Service at an IRS Taxpayer Assistance Center

Submitted by Theresa McGill

**No visits to IRS Taxpayer Assistance Center (TAC) located at 230 S. Dearborn in Chicago, IL without an appointment starting August 3!**

**Starting August 3**, taxpayers in the **Chicago, Illinois** area will call a new toll-free number to make an appointment for face-to-face service at an IRS Taxpayer Assistance Center.

A test of the appointment service method this filing season showed it helped reduce wait times.

The IRS offers appointments at 44 locations, including **230 S. Dearborn**. Taxpayers requiring an appointment at this location should call **1-844-545-5640**.

Prior to the appointment service test, people began lining up before the TAC opened and long wait times led to frustration for taxpayers and for IRS employees wanting to assist them. The IRS conducted an appointment service test at these 44 locations during the 2015 filing season. This test included feedback from taxpayers and from IRS employees.

The test found that 70 percent of taxpayers visit a TAC to get a tax transcript, make a payment, resolve a notice, obtain a form or publication or ask about their refund. All of these issues can be resolved at IRS.gov without traveling to an IRS office.

The test also found that most taxpayers who called an IRS assistor for an appointment had their issue quickly resolved. This resulted in reduced foot traffic which allowed TAC employees to assist those taxpayers who truly needed face-to-face service. It also allowed the IRS to serve more taxpayers by using toll-free customer service, IRS.gov and the TAC assistors to help them.

The IRS eventually will move to an appointment service model for all of its Taxpayer Assistance Centers but it will be at a measured pace over several months.

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## *IAAI Membership Corner.....*

### **Networking, One of Your Most Valuable IAAI Membership Benefits**

Imagine a world without networking. Yes, you can go to [irs.gov](http://irs.gov) and research a tax issues. Yes, you can “google” the same issue and get dozens of google hits.

Now imagine: What are you going to do with this information? Is it relevant and reliable? Which answer is the best? What did others do with this information?

As a member of the IAAI, you can also do the following:

1. Log on to [www.illinoisaccountants.com](http://www.illinoisaccountants.com) and get a list of all IAAI members near you with their contact information.
2. By attending IAAI seminars and local chapter meetings, you can meet other accounting and tax practitioners and discuss common problems and procedure issues.

Now with a number of IAAI contacts, you can call some to get the benefit of their own experience.

You can also call the IAAI office at 1-800-222-2270. Ask them your question. Carmen or Pam will likely suggest several IAAI contacts who may be able to help you get the correct answer.

By helping others, you help yourself as well.

...Richard P Allen, EA, ABA, RTRP, AFSW, IAAI Past President

## *Welcome New Members of IAAI.....*

### Chapter 2

Judith Bucio Calvillo  
Chicago, Illinois

Allen J. Pavia  
Chicago, Illinois

Alicia C. Gamboa  
Chicago, Illinois

Rosa Veronica Solis  
Cicero, Illinois

### Chapter 4

Kathleen Dienhart  
Hinckley, Illinois

### Chapter 16

Joanne S. Conley  
Channahon, Illinois

## *Congratulations to Tammy Miner.....*

*Tammy Miner, member of IAAI Western Chapter 14, is a recent recipient of the ATP credential !!*

## *Sympathy.....*

*Condolences to the family of Dennis Spencer who passed away on July 6, 2015. Dennis was a longtime active member, of Chapter 1 and served as President of IAAI from 1989-1990.*

*Our sympathies to the family of Thomas Lydon, Chapter 2. News was received recently that he passed away on November 11, 2014*

# RTRP Credential Reminder

## IRS Says Designation Can No Longer be Used

by Jon A. Hayes, Executive Director  
[staff@iaam.net](mailto:staff@iaam.net)

The IRS continues to clean up the fallout from its failed tax preparer regulation program as official letters have been sent to all preparers who paid to take the Registered Tax Return Preparer (RTRP) examination indicating those fees will be refunded by early August. The action results from 2014 court decisions that ruled the Service did not have authority to regulate preparers using a century-old law as precedent.

We've heard from some preparers who had already received their refunds in June, so if you haven't received that check, it should be coming soon.

As part of the refund process, the IRS has ruled that those who earned the RTRP may no longer use that designation in correspondence or in any communication or marketing pieces. So if you are using RTRP, be proactive and cease those communications. The IRS has not yet indicated it will enforce penalties for those who continue using the designation, but once all checks have been issued, you can be sure an announcement on penalties will be made.

### Enrolled Agent is the Credential to Earn

A question I continually field is "Should I earn the Enrolled Agent credential?" My answer is always the same: YES, especially if you plan to continue preparing taxes for at least 5 more years.

The EA stands at the top of the echelon of credentials for tax preparers simply because it is an IRS-endorsed and administered program, it allows the preparer to represent clients in most IRS inquiries and examinations, and it demonstrates the highest level of understanding of our complex tax code since it is considered the most difficult taxation exam in the world.

It is also a powerful marketing tool, especially as individual and corporate taxation becomes more complex, the Affordable Care Act impacts taxpayers, and more taxpayers are checking out their preparer's qualifications via IRS and private directories.



JOERG LISZKA LAVERTY SENECHKO P.C.

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# IAAI @ the Rail

## Legislation Committee News for IAAI Members

Submitted by: Daniel E. Setters, EA,ABA,ATA,ATP,ARA; NSA Past President: 2003-2004, IAAI Past President: 1993-1994  
Legislation Committee, Chair: 1996-Present, East Central Chapter Treasurer: 1998-Present  
**Accreditation Council for Accountancy & Taxation - ACAT**: President 2009-2011  
In cooperation with the IAAI Legislation Committee

If the outside temperatures are pushing 100° F, the due point is well above 72° F, and humidity could be squeezed out of a rock then it must be July-August in Illinois. Add to that environmental distraction a measure of insufferable political dialogue and the atmosphere becomes almost unbearable. Regardless of the time period, IAAI will monitor actions in Springfield that could impact our accounting and tax preparation professional members throughout Illinois. Our legislators are struggling to go home, back to their districts, to seek support for their re-election and dealing with a negative attitude that the electorate has toward politicians in general. The long term budget problems, pension funding problems and growing debt problems have come home to roost with legislative leaders not coming to grips with them.

Fanning the negative fire is an ever growing state deficit with no end in sight, social services that are at risk because of spending pressures, a tax increase backlash from business and taxpayer interest groups, neighboring state interests to attract business from Illinois' perceived unfriendly economic climate, a perceived gerrymandered redistricting map that favors one party's leadership over another's supposedly driven by a *spoils of victory* versus a *losers' diminished capacity to participate in the governing process*. In other words, it's politics as usual in Illinois. Unfortunately, the same partisan dealings have been at play in our nation's capital for far longer than interested observers care to admit. *What might Sen. Everett Dirksen say about today's political climate?* One could only imagine.

The impact of these state and national woes upon business in general and small business more specifically is seen in the unusual high unemployment rate, the flat wage indicators and general uncertainty of consumer confidence. We are being asked by some economists whether we are better off today than we were in the year 2000 or 2008 with a general consensus of "no." The financial survival of numerous small businesses is in doubt and new startup enterprises are in peril even before they initiate their first transaction. The early 1980's was another tough period but this go-round appears to make that business services experience much less impressive.

The professional guidance then was to closely monitor all aspects of running a business while taking little for granted, remaining as accessible for clients as much as possible, keeping a personal interest in all client contacts while rating each client on their overall value to service costs going forward. Referrals are a firm's life blood but seeking referrals from just anyone may not produce the best results that a firm needs to survive or prosper. Target referrals from your best clients and weed out those clients that cost your firm more than you recover in fees - easier said than done without a resolve to do so in a measured amount of time. Successful professional service firms do this in good times but it is vital to your success to step up your resolve to make it in times such as these. Do not give away your knowledge, talent or time because that is your true worth and value. Again, easy to say but necessary to recognize when resources are meager.

Nothing that has been stated earlier is original or new. Writers and counselors have been telling us these tid bits of business wisdom for decades. The implementation of these pearls of wisdom is up to each of us. There are some Departmental managers in government that have taken to heart certain business management measures to run leaner and meaner in order to preserve their office or agency. We can learn from them as well, as we address our own business and operating style. **What can you do:** ..to enhance your businesses bottom line? ..to preserve your resources? ..to ensure your longevity? ..to add value to your services and attract new *quality* clients? ..to help make **IAAI/NSA/ACAT** your organizations of choice that your peers would want to join? *..to become a leader, mover and shaper* within your chosen profession, among your peers? **Every professional needs an earned credential.** Why not you? **IAAI, NSA & ACAT's 4 U.**

## Every professional needs a professional Credential.©

Regardless of specialty, accountants and auditors who have earned professional recognition through certification or licensure should have the best job prospects... In the aftermath of the accounting scandals, professional certification is even more important in order to ensure that accountants' credentials and ethics are sound." - U.S. Bureau of Labor and Statistics

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Please contact Anthony Tiagonce at 847/675-5525 or [tiagoncedata@aol.com](mailto:tiagoncedata@aol.com).

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for the 2015-2016 fiscal year.

You may renew your dues online at

[www.illinoisaccountants.com](http://www.illinoisaccountants.com)

or mail to:

IAAI Executive Office  
PO Box 1506  
Galesburg, IL 61402-1506

**EDUCATION CORNER**

IAAI has been proud to offer you the highest quality education possible. We strive to always give you *the most bang for your buck*. However, we know there is a great deal of competition in the Continuing Education market. This competition is attempting to put your association out of business. They have much deeper pockets, which allow them to provide seminars in our state for prices we cannot always compete with. Competition is difficult enough on a level playing field but when the field is unequal because of deeper pockets it is you, the consumer who will suffer in the end. Your association is run by strong, service-oriented professionals who recognize the need for an independent association. We will not back down, but we need your help. **We need you to support your association and attend our seminars.** Without your support IAAI will be unable to provide you with quality alternative education choices.

**Come see the IAAI difference!**

IAAI Seminars offer **fun**, energetic, knowledgeable, professional and entertaining speakers. **Interaction** between speakers and attendees is encouraged. Breakfast and lunch are included in your registration. Our speakers provide up to the minute information and real life examples that fit your clientele. All of our speakers continue to actively practice so they know the real issues you are dealing with.

IAAI also offers **FREE IL Insurance CPE** to our members at all of our 1040 update seminars!

One of the best benefits IAAI has to offer is **networking**. IAAI seminars offer a great place to network with your fellow members, get to know one another and find the perfect person to call the next time you have a tax or accounting question!

Heather Johnson

Education Committee Chair

# Substantiation of Charitable Contributions

PREPARED BY: SANDRA M. MERTENS AND RICHARD M. DALE, ESQ., OF DALE & GENSBURG, P.C.  
200 West Adams Street, Suite 2425, Chicago, IL 60606 Phone: (312) 263-2200

## BACKGROUND:

It is common knowledge that, to be deductible, charitable contributions of property (other than money) must meet certain substantiation requirements listed under Treasury Regulation § 1.170A-13. For example, the taxpayer must keep a receipt or letter from the donee listing the name of the donee, the date and location of the contribution, and a description of the property in detail, which may optionally include the fair market value. The taxpayer must also keep records regarding the fair market value of the property at the time the contribution was made, the method utilized to determine the fair market value, and, if the valuation was determined by an appraisal, a copy of the signed appraisal. For deductions in excess of \$500, the taxpayer must also keep records regarding the manner of acquisition and the cost or other basis.

For deductions in excess of \$5,000, the taxpayer must also obtain a “qualified appraisal” and must attach an “appraisal summary” to the tax return. A “qualified appraisal” is defined to mean an appraisal that: (a) is or relates to an appraisal made not earlier than 60 days prior to the date of contribution of the appraised property nor later than the due date (including extensions) of the return on which it is first claimed, or the date on which an amended return is filed, if first claimed on the amended return; (b) is prepared, signed, and dated by a qualified appraiser; (c) includes specific information such as a detailed description of the property, (d) includes the expected contribution date; (e) contains the terms of any agreement related to the use, sale or other disposition of the donated property; and (f) delineates certain other information. An “appraisal summary” refers to Form 8283, Noncash Charitable Contributions, which must be signed and dated by the donee and qualified appraiser, and include all required information (such as the amount of any consideration received from the donee for the contribution, if any).

## CASE DISCUSSION:

Deductions of this type are considered a matter of legislative grace and have been historically abused. As a consequence, the IRS has created “hoops” a taxpayer must jump through in order to claim the deduction. Tax return preparers are frequently faced with situations where their clients want to claim a charitable contribution deduction without the required substantiation. Such a situation occurred in the recent Tax Court case of *Costello v. Commissioner*, T.C. Memo. 2015-87 (May 6, 2015). In this case, the taxpayers purchased a 74-acre tract in Maryland in 2000 in which they had tax basis of nearly \$2 million and which included a working farm, a residence, and a detached garage. At the time of their purchase, the property was county zoned to include 17 “development rights,” each granting the taxpayers the right to create one (1) residence on parcels of at least one (1) acre in size. The taxpayer could attempt to purchase up to eight (8) more “development rights” from the county (i.e. for a total of 25), but would have to pass a “percolation” test, which the taxpayers had previously failed. Further, the county’s zoning ordinances also contained provisions designed to preserve farmland and rural and scenic landscapes, which authorized the county to acquire land preservation easements that would restrict the exercise of development rights on qualified agricultural land. The county could obtain the easements in one of three ways: (i) by purchasing the existing development rights from a landowner and then extinguishing those rights; (ii) by the landowner donating its development rights to the county; or (iii) through a complex “density exchange” land deal whereby the landowner granted a land preservation easement on its property in favor of the county government, in exchange for which a landowner received the right to sell some of its “development rights” to a third party, who could then build more residences on the purchaser’s other parcels of land.

In 2006, the taxpayers found a third-party purchaser to purchase their 17 “development rights” for \$2.56 million, for that third party’s use on a separate parcel owned by the third party, and obtained permission from the county to move forward with the sale. Pursuant to the county zoning rules, in September 2006, the taxpayers executed and delivered a Deed of Agricultural Land Preservation to the county granting the easement. As such, the deal can be characterized as follows: (1) The taxpayer sold the “development rights” to the Purchaser in exchange for \$2.56 million; and (2) the taxpayer granted the county an easement on the taxpayers’ property in exchange for the county granting the taxpayer the right to sell the “development rights.”

The following year, in May 2007, the taxpayers obtained an appraisal of the development rights. The appraiser, utilizing a peculiar valuation methodology, assumed that the taxpayers could obtain and sell 25 “development rights” so that a residential subdivision could be built, which he valued at approximately \$7.7 million. The appraiser further estimated that, after the sale of the development rights, the fair market value of the property was only \$2.1 million. Using this information, the taxpayers filed their 2006 income tax return claiming a charitable contribution of approximately \$5.6 million (\$7.7M less \$2.1M), with carryovers to 2007 and 2008. The taxpayers requested that the county sign Form 8283, reporting the receipt of the easement, but the county refused. Nevertheless, the taxpayers claimed the charitable contribution of \$5.6 million and attached the unsigned Form 8283 to their return.

The IRS disallowed the claimed deduction and issued a notice of deficiency. The Tax Court agreed with the IRS that the charitable contribution would not be allowed. First, the court noted that the very definition of a “charitable contribution” is a transfer of money or property *without consideration*. Here, the taxpayers received consideration from both the county and the third-party purchaser. Moreover, the court noted that the appraisal was not qualified, because it failed to include three pieces of required information: (i) an accurate description of the property contributed; (ii) the date of the contribution; and (iii) the terms of the agreements among the taxpayers, the third-party purchaser, and the county. The description listed in the appraisal purported to value the 25 development rights based on a number of assumptions, not the conservation easement actually being transferred. Further, the appraisal failed to mention any of the relevant dates of the donation. Finally, the appraisal omitted any mention of the fact that the taxpayers conveyed an easement to the county government and that the conveyance was required as a condition of being permitted to sell their development rights to a third party. This means that the appraisal valued the wrong property and significantly overvalued the charitable contribution. The court found these omissions to be significant, and held that the appraisal was not a “qualified appraisal” as required for the deduction.

Moreover, the court found the Form 8283 attached to the taxpayers’ return failed to meet the requirements of an “appraisal summary.” The Form 8283 was not signed and dated by the county as donee. This was not an oversight, as the county explicitly declined to sign the form because it questioned the taxpayers’ ability to take a charitable contribution deduction. Further, the Form 8283 failed to describe the consideration received from the donee. Here, the taxpayers received “consideration” from the county in return for the easement when the county gave its permission to sell the development rights to a third party. The taxpayers also failed to disclose on the Form 8283 that they received money from the third party purchaser. As such, the court rejected the Form 8283.

#### COMMENTARY:

This case reminds the tax return preparer community that allowing taxpayers to claim deductions, such as those for charitable contributions, without the proper substantiation can be a costly mistake. Setting aside the complex facts of the case, the taxpayers initially failed to file a signed Form 8283 and failed to get a proper appraisal, which foreclosed the possibility of a charitable deduction. The court upheld the IRS’s assessment of additional tax based on the disallowance of the contribution deduction and 20% penalties for the years in question. In addition, the taxpayers are now faced with 8 years of interest accruing on substantial balances.

If possible, accountants should discuss with clients their donation plans in advance, to permit the clients to properly plan and document their transactions. Even with the complex facts of this case, there may have been an argument that, if the value of the property was reduced by more than the consideration they received, a portion of the transaction, at least economically, qualifies as a charitable contribution deduction if all procedural requirements were met.

Tax return preparers should thus advise clients to properly substantiate all claimed deductions as required by Treasury Regulations, or face a risk that could be very costly down the road. To avoid or limit claims of malpractice, tax return preparers should document their cautions to clients, and decline to take positions that are questionable or unsupported.

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**Thursday, November 19**

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Morris University Center, 2<sup>nd</sup> Floor

**Tuesday, November 24**

**Aurora, IL**  
Waubonsee Community College  
18 S. River Street  
Room 160 - Multi-purpose Room

**Tuesday, December 1**

**Chicago, IL**  
James R Thompson Center  
100 W Randolph, Concourse Level

**Wednesday, December 2**

**Aurora, IL**  
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Room 160 - Multi-purpose Room

**Thursday, December 10**

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- **Richard P. Allen, EA, MBA, ABA, RTRP AFSP.** Speaking in the Palos Park IL area at 8415 W Pawnee, Palos Park IL 60464, on August 1-2, 15-16, and 29-30. 8:30am to 5:00pm. **REGISTER EARLY.**
- **Sherry Dalgaard, EA, RTRP.** Speaking in the Chicago IL Lincoln Park area at Accounting Office, 3162 N. Broadway (near Belmont Ave.), 773-755-2748, on August 29-30, September 12-13 and 26-27. 8:30am to 5:00pm.
- **Joel Shabsin, CPA, ATA, ATP, RTRP.** Speaking in the Crystal Lake IL Accounting Office, 101 N. Virginia St. (Rt. 14), Suite 230, 815-459-1411, or in Buffalo Grove, (depending on attendants' choice) on September 19-20, October 3-4 and October 24-25. 8:30am to 5:00pm.
- **Terry Bill, EA,** Speaking in his O'Fallon IL Accounting Office. Maximum 5 attendees. 8:30am to 5:00pm. Call for details.

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**If you plan to be out of town one of these weekends, you are welcome to contact the other instructor to attend an alternate class. Call us for details. REGISTRATION FORM BELOW.**

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**The Independent Accountants Association of Illinois (I.A.A.I.) is the state affiliate of the National Society of Accountants**



# Invitation to Membership

## Independent Accountants Association of Illinois

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Date of Birth \_\_\_\_\_ Fax (\_\_\_\_) \_\_\_\_\_

Name of Spouse \_\_\_\_\_

Years of experience in accounting \_\_\_\_\_ Years of experience in public practice \_\_\_\_\_

Are you enrolled to practice before the IRS? \_\_\_\_\_ Yes EA # \_\_\_\_\_

Are you a Certified Public Accountant? \_\_\_\_\_ Yes CPA # and State \_\_\_\_\_

Are you accredited by the Accreditation Council for Accountancy and Taxation in:

Taxation? \_\_\_\_\_ Certificate? \_\_\_\_\_ Accountancy? \_\_\_\_\_ Certificate # \_\_\_\_\_

Degree(s) you hold \_\_\_\_\_ Years(s) \_\_\_\_\_ School(s) \_\_\_\_\_

Have you ever been a member of IAAI? \_\_\_\_\_ Date: \_\_\_\_\_

National or State Tax/Accounting Associations in which you now hold Membership \_\_\_\_\_

The following two references may be contacted as to my character, ability and professionalism:

Name	Address	State	Zip
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Name	Address	State	Zip
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**The Membership Status I am applying for with IAAI is:** (see back of application for requirements)

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Affiliated \$85.00/year \_\_\_\_\_ Prairie State \$25.00/year \_\_\_\_\_ Employee/year \$100.00 \_\_\_\_\_

Employers Name \_\_\_\_\_

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Date \_\_\_\_\_ Signature of Applicant \_\_\_\_\_

Note: A Copy of Applicant's Professional Stationery and/or Business Card Must Accompany This Application

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*IAAI Chapters: Central 1, Chicago 2, East Central 3, Fox Valley 4, Joliet-Kankakee 5, Prairie 8, Southeastern 10, Southern 11, West Suburban 13, Western 14, South Cook County 16, Quincy 17, Northwest Suburban 18, Prairie State 32*

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