

# The Report



CONDLEY AND COMPANY, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS  
AND BUSINESS ADVISORS  
www.condley.com



Leroy Bolt, Managing Partner

**When the right combination  
comes together...  
it's History in the making!**



David Smith, Tax Partner

## **Phillips & Company L.L.P. is Joining Forces with Condley and Company, L.L.P. and affirms Commitment to Clients and Community**

The management and staff of Condley and Company L.L.P. are pleased to announce that on January 1st Phillips & Company L.L.P signed a definitive agreement by which they will join forces with Condley and Company L.L.P. and begin operations with the name Condley and Company, L.L.P. In an open letter to clients and the community, David Smith, CPA, Managing Partner of Phillips & Company, said "this is an exciting venture for Phillips and joining Condley is the right move." This significant event of combining the two firms will give Abilene and the surrounding areas one of the largest CPA accounting firms in West Central Texas.

Condley and Company, L.L.P., was founded in 1939 by Horace Condley. Edgar Phillips, the founding partner of Phillips & Company, L.L.P., began his accounting career as an employee of Condley and Company. Both firms have been an integral part of the Abilene community for many years.

Leroy Bolt, CPA, Managing Partner of Condley and Company, L.L.P. stated, "We are very excited about the potential of our combined operation and team of professionals. Good service to our clients has always been the hallmark of both firms and this will be our focus for the future."

Smith stated, "operations of the former Phillips & Company will remain at the current location 500 Chestnut, Suite 901, Abilene, through the end of the upcoming tax season. This will be a seamless transition by keeping current staff in place to provide clients with continuity of service. Employees with both firms are excited about the opportunity and look forward to a combined team that will continue to put their clients first in every aspect and provide quality service in the accounting and audit industry.

According to the partners and staff of both firms, client service will be the main priority. By joining forces these two firms will offer an expanded range of services, additional resources and cutting edge technology. Smith and Bolt praised the combination as "an excellent fit both strategically and culturally." They added that, "both Phillips and Condley share a passion for client service, a strong commitment to employees and a tradition of providing leadership in our communities."

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## Businesses can use New IRS Formula to Estimate Telephone Tax Refund

The IRS has released a formula that businesses can use to estimate their telephone tax refunds. One-time refunds of the long distance portion of the federal telephone excise tax will start being issued in January.

**Refunds available...** Earlier this year, after losing a string of court cases, the IRS announced it would stop collecting the long-distance portion of the federal telephone excise tax. Taxpayers can request refunds of the long-distance portion billed after February 28, 2003 and before August 1, 2006 when they file their 2006 tax returns.

All taxpayers are eligible for the refunds. Individuals can seek a refund of actual amount of tax paid or use standard amounts published by the IRS.

Businesses can also use actual amounts or use the new formula. Businesses must use Form 8913, Credit for Telephone Excise Tax Paid, to claim their refunds.

**Caps on refunds...** The refund for businesses is capped at two percent of total telephone expense for small employers during the March 1, 2003 and July 31, 2006 period. For purposes of the

telephone tax refund, small employers are employers with 250 or fewer employees.

The refund for large employers is also limited. It is capped at one percent of total telephone expenses for the period March 1, 2003 through July 31, 2006. For purposes of the telephone tax refund, large employers are employers with more than 250 employees.

**Eligible taxpayers...** All corporations (C and S), partnerships, trusts and estates, and exempt organizations may use the formula. Individual owners of rental property and self-employed individuals, including independent contractors, sole proprietors and farmers, also can use the formula but only if they report gross rental and business income totaling more than \$25,000 on their 2006 federal income tax return.

**Alternative method...** Some taxpayers may not have telephone expense records broken down by month. In this case, they can base their estimate on amounts reported as business-related telephone expense on their 2003 through 2006 returns. Taxpayers should prorate the telephone expense amount for a particular tax year if part of the year is outside the 41 month period.

## Statement on Auditing Standards No. 103, Audit Documentation

By Jeff Graham, CPA, CBA, CFE, Audit Partner



### SAS No. 103 - Effective for audits of financial statements for periods ending on or after December 15, 2006.

#### Summary & Highlights

- The auditor should complete the assembly of the final audit file no later than 60 days following the date the auditor grants the entity permission to use the auditor's report (report release date).
- The auditor is precluded from deleting or discarding audit documentation after the documentation completion date (i.e., the date that the audit file is completed).
- Audit documentation should contain sufficient information to enable an "experienced auditor" (as defined) having no previous connection with the engagement to understand and determine the following: (1) the nature, timing, and extent of the procedures performed; (2) the results and evidence obtained; (3) the conclusions reached on important and significant issues; and (4) that the client's accounting records agree or reconcile with the financial statements or other audited information.
- The auditor should consider certain specific factors in determining the nature and extent of audit documentation to be included in the audit file for the engagement.
- When the auditor revises audit documentation after the audit report date, the auditor should document the resulting changes in audit documentation, including: (1) who made and reviewed the changes; (2) the dates the changes were made and reviewed; (3) the reasons for the changes; and (4) the effect on the auditor's prior conclusions.
- Audit documentation should include information that the auditor identified that conflicts with, or is different from, the auditor's final conclusions about a significant matter, and how the auditor addressed the inconsistency.
- Audit documentation must be retained for a period of time sufficient to meet the needs of the firm's practice and to satisfy legal or regulatory requirements for record retention, but not shorter than five years from the report release date.
- The auditor is required to document any departures from a "presumptively mandatory requirement" that the auditor undertook that in his or her judgment were necessary to more effectively accomplish the objectives of the audit.
- SAS-103 includes an amendment to AU Section 530, Dating of the Independent Auditor's Report. This amendment changes the date of the auditor's report from the "date of completion of the field work" to require that the auditor's report not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion on the financial statements.



## Congress Passes Extenders and much more in New Tax Law...

*By Mary Lee Brooks, Tax Accounting/Services Partner*

In a final session, Congress approved a \$45.1 billion package of tax extenders and other tax breaks during the night of December 8-9. The Tax Relief and Health Care Act of 2006 (H.R. 6111) renews many valuable – but temporary – tax breaks for individuals and businesses, including the state and local sales tax deduction, the higher education tuition deduction and employer tax incentives. The new law also extends some energy tax breaks, makes Health Savings Accounts (HSAs) more attractive and creates new tax incentives.

**Temporary versus permanent tax cuts...** Tax cuts come in two types: permanent and temporary. In recent years, Congress has favored temporary tax cuts over permanent ones largely because of how they are reflected in the federal budget. Temporary tax cuts appear to cost less over one, two or three years than permanent tax cuts.

**Congress passes extenders and much more in new tax law...** The drawback is that they are temporary. They ultimately expire unless Congress extends them. That's exactly what happened with the extenders. Nearly all of them expired at the end of 2005. The new law extends them through 2007.

### **Tax Incentives Extended Through 2007...**

Deduction for state and local taxes	Higher education tuition deduction
Teacher's classroom expense deduction	Research tax credit
Archer Medical Savings Accounts	

**State and local sales tax deduction...** The new law allows taxpayers to deduct either state and local income taxes or state and local sales taxes as an itemized deduction. You have two options. You can calculate your deduction either by saving receipts or using the IRS' Optional State Sales Tax Tables. Be careful, the deduction phases-out for higher-income taxpayers. Even if you think the state and local income tax deduction would be larger, it's worthwhile to calculate both, especially if you may be liable for AMT. Our office can help you with all the calculations.

**New tax incentives...** The Tax Relief and Health Care Act of 2006 creates two new tax breaks that could be very valuable: a temporary refundable credit for certain taxpayers with long-term unused AMT credits who have AMT income from incentive stock options and a new deduction for premiums paid for qualified mortgage insurance. Both of these tax breaks have some very important limitations. Our office can help decipher them for you.

**Energy tax breaks...** A surprise last-minute addition to the new law was a package of energy tax extenders. The big news here is what was not extended. Congress did not extend the tax break for individuals who make energy-efficiency improvements to their homes, such as energy-efficient windows and doors. Instead, Congress extended energy tax breaks targeted mostly to businesses and authorized more tax credits for research into alternative energy production.

**Health Savings Accounts...** HSAs are similar to IRAs. Your contributions are deductible and are tax-free if used for qualified health care expenditures. With proper planning an HSA can be a great asset. The new law makes HSAs even more attractive by allowing a one-time transfer of IRA savings to an HSA. You can also make a one-time transfer of savings in a health flexible spending account (FSA) or a health reimbursement arrangement (HRA) to an HSA. These are valuable tools if you plan correctly. Give our office a call if you have any questions about HSAs.

**For 2007...** The monthly contribution limit is one-twelfth of \$2,850 for self-only coverage and one-twelfth of \$5,650 for family coverage.



## IRS increases Business Standard Mileage Rate to 48.5 Cents-Per-Mile for 2007

Effective January 1, 2007, the standard mileage reimbursement rate for all business miles increases to 48.5 cents-per-mile. The standard mileage rate for moving and medical expenses also increases to 20 cents-per-mile in 2007. However, the mileage rate for charitable deductions remain unchanged at 14 cents-per-mile.

**Four cents higher...** The 2007 rate of 48.5 cents-per-mile is four cents higher than the 2006 rate of 44.5 cents-per-mile. The IRS explained that the increased rate reflects, among other things, higher fuel costs.

**Depreciation component...** The depreciation component of the business standard mileage rate also rises for 2007. It was 17 cents-per-mile for 2005/2006 and increases to 19 cents-per-mile for 2007.



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