



Scott & Cronin LLP

Putting The Pieces Of Your Financial Picture Together

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Larry Scott
Managing Partner

Hot Topics in Scott & Cronin's World



As a client of Scott & Cronin, it would probably not surprise you to know that you receive the most current information regarding accounting and taxation due to the continuing education standards required of our staff. We strive to be a firm of integrity; quality driven and client focused which creates a demand for staying current with technology.

Presently the two hot topics in the CPA world are outsourcing and the "paperless office". Those of you who have read Thomas Friedman's best selling book "The World is Flat" know he devotes the first chapter entirely to outsourcing of tax preparation.

Outsourcing:

Outsourcing is driven by the struggle to hire qualified staff. College enrollment in accounting fell dramatically in the mid 90's and is just now starting to rise. This lack of accounting graduates combined with the increasing complexity of the tax code has created this shortage of qualified staff. Many firms have turned to outsourcing to help them fill this shortage. S&C is examining this approach however, we have been fortunate to retain qualified staff and have not ventured into outsourcing at this time.

Paperless Office:

We are going forward in the "paperless office" arena. What exactly is a paperless office (or the "less-paper office"), how does it work and why do it? First, the why. Presently documents are the fuel and the final product of our professional work. We take documents, process them and produce more documents. We are swimming in documents. When we go paperless, the objective is to find the most efficient way of handling, using, storing and sharing documents.

This starts with an upgrade to our existing computer equipment. Every document that comes in the office will be scanned and stored electronically on our server. Additionally, everyone in the office will have two or three monitors on their desk. The multiple monitors allow for the viewing of several documents simultaneously. Example: looking at a prior year tax return on one monitor while preparing the current year tax return on another and viewing the source material on a third monitor. Each document is shown on a separate monitor.

To facilitate this big step, we recently ordered a new server, 16 monitors, another scanner and a CD burner. In addition, we have contracted for internet-based computer backup to supplement our in-house back up system. We will spend the next few months scanning prior year's tax files, both the tax returns and the source documents. The net impact, besides fewer file cabinets, is less time spent handling large

Dennis Cronin

Partner



amounts of paper, more efficient access to client documents and tax returns, easier sharing of information with clients and between staff and stronger backup of all information.

Going forward, our goal for 2007 is more than to simply store your tax return and source documents electronically. Our goal is to deliver a paper copy of your tax return plus a CD containing a copy of that return and all source documents. Every thing you need to save for the tax year will be contained on that single CD. If you need a copy of your tax return, you will simply print it at your home or office...and your personal storage needs will shrink as well.

Paperless is only the beginning. Soon we will give everyone a webcam and have regular video conferences. Lights. Camera. Action. MAKE UP!! It's time for a tax meeting!

Wishing You and Your Family a Healthy & Happy 2007-

A handwritten signature in blue ink, appearing to read "Larry Scott". The signature is stylized and somewhat cursive.

Larry Scott
Managing Partner

A handwritten signature in blue ink, appearing to read "Dennis Cronin". The signature is very stylized and cursive.

Dennis Cronin
Partner

Worried about being audited?

The IRS has issued its annual report on the 2005 fiscal year activities. The data provides information about how many tax returns the IRS examines and what categories of the returns the IRS is focusing its resources, including collections.

Here Is A Breakdown Of Their Report:

A total of 1,215,308 individual income tax returns were audited during fiscal year 2005 (Oct. 1, 2004 through Sept. 30, 2005) out of a total of 130.65 million individual returns that were filed for the calendar year 2004. Or, .93% of all individual returns that were filed in 2004. In the prior fiscal year 1,007,874 returns were audited or .77%. Audits rose almost 21%.

Those are gross numbers and don't tell the whole story. Let's look at the breakdown of these audits. Of the total number of returns audited, 521,872 (42.9%) were selected on the basis of an earned income tax credit claim. Did you have an earned income credit claim? If not, the .93% audit rate falls to .53%.

Next, 446,728 of the audits were correspondence audits. Only 246,708 (20%) of the audits were conducted by revenue agents, tax compliance officers or tax examiners.

What's the Bottom Line?

Only 246,708 or .19% of the individual returns filed in 2004 were selected for examination by a revenue agent, tax compliance officer or tax examiner.

For individual taxpayers with income in excess of \$100,000 audits were down by 19%. Audits of C and S Corporations with gross revenue less than \$10 million were up but the audit rate was less than 1% of the total corporate returns filed.

The IRS does not include computer-matching programs in the audit totals. For example matching information disclosed by payer of Forms 1099 against what the taxpayer has reported.

As a point of reference, in the '80's the audit rate was typically about 2%. Lower audit rates started in the late '90's. The present audit rate of .93% is consistent with the rates of the early and mid '90's.

Criminal cases – The IRS initiated 4,269 criminal investigations in fiscal 2005. There were 2,859 cases referred for prosecution and 2,151 convictions. Of those sentenced, 83% were sent to jail.

This information is available at the IRS Web site www.irs.gov/taxstats/article.

Campaign 2006: Election Scoreboard

GOP "Thumpin"...

Across the country, Democrats watched a tidal wave sweep GOP control of both houses out the door. The wave occurred because voters wanted change – anything but the status quo - and now Democrats must prove they can deliver. Unfortunately, it will take more than a power swap to convince Americans that their political system is fixed. Until our elected leaders learn to put their partisan differences aside and work together, Americans' dissatisfaction with their government will continue.

I am Woman, Hear me Roar...

U.S. Rep. Nancy Pelosi will take the gavel on the House floor and become the first Democratic speaker in a dozen years, the first ever from California, and the first in the 217-year history of the House to be called "Madam." Her speakership, as well as, Senators Feinstein & Boxer chairing key committees, is a win-win for all Californians, regardless of party affiliation.

He's Back...

From near disaster after the 2005 special election to a landslide 17-point victory over Phil Angelides, Gov. Arnold's re-election was easily the most impressive showing by any Republican in a Democratic-leaning state. Was the key to Arnold's victory based on cash, celebrity and collaboration, or the state's rising independent center? However, Arnold's coattails didn't extend to GOP statewide candidates, who were left singing the blues.

Take a Bow...

California voters approved all \$37 billion infrastructure bonds, while strongly rejecting all special interest initiatives aimed at raising taxes. CA's economy should get a massive economic boost once bond money begins to flow into long overdue projects.

The Search Continues...

San Diego voters overwhelmingly rejected Prop. A - an advisory measure to relocate San Diego's Lindbergh Field Airport to MCAS Miramar. Trounced at the polls by a 62% margin, don't expect San Diego business boosters to give up on Miramar as a civilian airport just yet.

Taking Back City Hall...

Despite well-financed opposition from San Diego's public employee unions, voters once again demonstrated their support for reform of our beleaguered city government by overwhelmingly approving Prop. B&C, giving Mayor Sanders two new tools to boost his efforts to overhaul City Hall. Let the implementation begin!

Not Ready for Prime Time...

U.S. Rep. Duncan Hunter has announced that he will retire in 2008 and run for the Republican presidential nomination. Apparently, jumping into the field of nationally known GOP candidates isn't a deterrence for the lawmaker who has never exhibited any political ambition beyond the halls of Congress.

For our Kids' Future...

While parcel taxes require a two-thirds majority to pass, school bonds, popular with voters, only require 55% of the vote. San Diego benefited greatly, passing \$2.4 billion in local community college and school bonds.



Nancy Haley

A Year In Review: *After School All Stars*

One of the organizations embraced by the firm is the After-School All-Stars. ASAS offers comprehensive year round after school programs for elementary and middle school aged children emphasizing education as well as fitness and sports. ASAS runs after-school programs in numerous schools and community centers throughout San Diego County and is truly making a difference in the lives of thousands of youth in the Greater San Diego Area.

Larry Scott continues to serve as its Chief Financial Officer and is one of the four original founding directors. In addition to maintaining the books, records and financial statements of ASAS and supervising its annual audits, Larry Scott and Dennis Cronin have been extraordinarily generous financial supporters of ASAS.

2006 Highlights

- Welcome ASAS's new Executive Director Marti Hess. Previously with the YMCA Marti brings to the organization extensive experience in after-school programs.
- All Stars' Jump For Life program which focuses on nutrition and fitness is introduced in 20 schools throughout San Diego County to help address the childhood obesity epidemic.
- One of San Diego's hottest tickets, The Donnie Edwards/San Diego Chargers Celebrity Waiter Fundraiser was again graciously hosted by Jeffrey Strauss at his Pamplemousse Grille in Solana Beach. Donnie and Kathryn Edwards, the Co-Chairs of ASAS, chaired the event and donated hours of their time to ensure the evening was a success.

In support of Donnie and Kathryn, over 30 players on the San Diego Chargers football team including LaDainian Tomlinson were at the event as were retired Denver Bronco, Terrell Davis, San Diego Padres Trevor Hoffman and Brian Giles, and former Padre now SF Giant, Dave Roberts. Larry, Dennis and Jason invited a handful of clients to attend as their guests and participate in the fundraiser, which generated over \$300,000 for After-School All-Stars. Way to GO!

For more information about ASAS, please visit www.afterschoolallstars.org.

A Year In Review:

Challenged Athletes Foundation

The Challenged Athletes Foundation (CAF) would like to thank Tammy & Larry Scott for their continued belief in our mission. To date, they have raised over \$145,000. We would also like to thank their friends John McGuinness and Jamie McCann for joining Larry on the QUALCOMM Million Dollar Challenge; an eight-day, 640-mile bicycle ride from San Francisco to San Diego. Additionally, many thanks to Scott & Cronin's Jason Brustkern and his wife Traci who volunteer yearly at the San Diego Triathlon Challenge and help Tammy provide hospitality for the event's sponsors, media and celebrities.

In 2006, CAF was able to provide funding that made dreams come true for 429 challenged athletes, supported 23 of the 56 participating U.S. athletes at the IX Paralympic Winter Games in Torino, Italy and positively impacted the lives of thousands of others through mentoring and outreach programs.

Another highlight of the year, was the success of CAF's fundraising events including the Sempra Energy San Diego Triathlon Challenge (SDTC), Frog's Fitness Tour de Cove (TDC) and the Inaugural QUALCOMM Million Dollar Challenge (MDC). Through these three events CAF raised more than \$2.5 million.

Eighty-two cents of every dollar raised by CAF provides funding, programs and a growing endowment fund that is getting challenged athletes into the game – and will continue to do so into the future. Plus, funds raised by the MDC will go towards a capital campaign with the goal of purchasing a CAF facility, allowing us to provide even greater levels of hope and support to those with physical challenges.

Please visit www.challengedathletes.org to make a donation or learn more about the Challenged Athletes Foundation.



MDC riders completing their eight-day ride at the La Jolla Cove.

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Who's In The News Now At Scott & Cronin:

Tammy and Larry Scott are proud supporters of the Pacific Club's IMPACT Foundation and The Lott Trophy, the only collegiate football award that considers character. Named after former NFL Hall of Fame star Ronnie Lott, the award goes to the Defensive IMPACT Player of the Year, a player who has had the biggest impact on his team both on and off the field. IMPACT stands for Integrity, Maturity, Performance, Academics, Community and Tenacity, all characteristics exhibited by Lott during his illustrious playing career.

This year Tammy could not attend the December event. Long-time friend and client, attorney Dick Semerdjian agreed to stand-in for her and joined Larry for the Award's Ceremony and word has it Tammy has lost her seat for good!

The USC Alum and Incoming Chair of the San Diego International Sports Council enjoyed chatting it up with Sports Icons including Ronnie Lott, Frank Gifford, Pat Hayden, Tim Salmon (CA Angels) Terry Donahoe, Rodney Peete, Kermit Alexander and Sam Cunningham to name a few. This year's IMPACT winner, Daymeion Hughes was seated at Larry and Dick's table and if that wasn't enough to mark the event a success, Will Farrell surprised the crowd with a 15-minute comedy sketch aimed at Ronnie Lott.

Congratulations to Selima and her husband, Karim Abdulla. They welcomed a baby girl, Melina on May 30, 2006. The Tax & Accounting Department is looking forward to Selima's return in January.

And the new arrivals keep coming...

A warm welcome to Jodi Hart, a recent addition to our Tax & Accounting Department. Watch for a posting of her biography on www.thinkcpa.com.

