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Tax columnists Jones & Luscombe dig deep into what changes matter for 2015 tax returns

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Exploring the powerful new systems that surround accounting software solutions

NOT-SO-TRIVIAL PURSUIT P.24

Gale Crosley destroys three misperceptions about pursuing new business for your firm

A view from the trenches

Handling the IRS, clients and the other frustrations of tax filing season

BY ROGER RUSSELL

Despite a brief halt in return processing, and the return of some of the more common seasonal issues, the early days of tax season passed relatively smoothly — and gave some CPAs a chance to share how they make the most of the season and the opportunities it presents to serve clients.

Last year, the Internal Revenue Service attempted to do less with less, as decreased funding took its toll on the agency's ability to handle basic customer services. In fact, taxpayer service last year hit a historic low,

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TOP-FLIGHT FIRM

WOLCOTT & ASSOCIATES
SOARS BY SERVING
THE AVIATION INDUSTRY. See page 8

Nancy Reich, Jed Wolcott
and Sue Folkringa at the
Fort Lauderdale airport

The new CPE: Education as competitive advantage

New approaches aim to make professional learning faster, smarter, more flexible and more effective

BY SEAN MCCABE

Got 10 minutes? There's something you need to learn about.

This past January, the National Association of State Boards of Accountancy and the American Institute of CPAs re-issued their exposure draft on proposed revisions to their jointly published Statement on Standards for Continuing Professional Education Programs, which looks to provide a "framework for the development, presentation, measurement and reporting" of future CPE programs.

The two organizations are seeking public comment on the matter until April 30, with two areas

of CPE receiving a considerable amount of attention: the concepts of blended and "nano-learning" CPE courses — namely, allowing concise, 10-minute increments of learning that count as a fraction of credit. Instead of being focused on a classroom at a set time, nano-learning utilizes online, on-the-fly learning when a professional needs it.

As we entered the New Year, only the state societies of Ohio and Maryland were accepting nano-learning courses for CPE credit. However, other state societies are slowly but surely gravitat-

ing toward the field, recognizing the flexibility that nano-learning brings in today's tech-savvy world. As this new learning method has had time to take shape and gather opinions, we reached out to a number of societies to see how flexible CPE is developing.

WHAT WORKS

For those who have embraced the 10-minute increments of nano-learning in CPE, the most cited positive is that it's a more pragmatic solution for today's rapidly evolving work environment.

"The positives are that [na-

no-learning] is just-when-you-need-it learning and leverages the learner's time and attention to make the learning more effective," said Tom Hood, chief executive officer of the Maryland Association of CPAs and the Business Learning Institute. "Rather than sit in a classroom or one-on-one with an instructor, people can learn in real-time. It allows for more focus and repetition, and people can learn new concepts or refresh previous learning at the moment of need."

"One of the greatest benefits we've realized by introducing mi-

crolearning is heightened conversations about the future direction that professional learning needs to take," added Josh Goldman, vice president of learning at the Ohio Association of CPAs. "We've engaged in discussions with members, other state CPA societies, the Accountancy Board of Ohio and national bodies such as NASBA and the AICPA, [and] the good news is there is a lot of consensus that CPA learning models should change. It should be developed to reflect recent research in adult learning best practices and better

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practice profile

A top-flight firm

Wolcott & Associates thrives serving an industry it loves

BY DANIEL HOOD



From left to right: Jed Wolcott, Nancy Reich and Sue Folkringa

AT A GLANCE

Firm

Wolcott & Associates

Headquarters

Fort Lauderdale Executive Airport, Fort Lauderdale, Fla.

Managing partner

Jed Wolcott

No. of staff

10

Year founded

1985

Services

Aviation-related tax advice, tax prep, tax and financial management; expatriate tax services and other flight crew services

Industry specialties

Corporate aircraft owners, pilots and flight attendants, air taxi services, aviation support companies, among others

Jed Wolcott always wanted to be a pilot, and he always wanted to fly for a living. But while he achieved his first dream, he early on discovered that he didn't meet the vision requirements to be a pilot for the major airlines, so he decided to find another way to work in and around the industry he loved — and that's how Wolcott & Associates was born.

As a young man with licenses as both a pilot and a CPA, Wolcott began his career in the finance and accounting functions of major airlines before hanging out his own shingle in 1985. At first, he didn't have a particular set of services in mind, but he knew that the practice would revolve strictly around aircraft.

"We focus solely on the aviation industry," Wolcott explained. "We don't take on work outside of our industry. If a client comes to us and says, 'We sure like the way you work with our airplane; would you do the tax returns for the rest of our company?' we respectfully tell them no."

Over time, the firm has developed a set of aviation-related tax and financial services, at the heart of which is serving the needs of corporate owners of business aircraft.

SO YOU WANT TO OWN A PLANE ...

"These are companies that are not necessarily in aviation themselves," he noted.

"These could be manufacturing companies or pharmaceutical companies or hedge funds or banks that use business jets in their business, to move their executives around to see customers and vendors and new prospects."

These businesses often don't understand how complicated owning a business jet can be — the logistics, regulations and taxes.

"Aircraft are expensive, and they take a lot of care and feeding all across the board — a lot of maintenance and a lot of support," Wolcott said. "They are expensive assets: One new Gulfstream aircraft can cost \$50 million and have an operating budget of \$4 to \$5 million a year. That's a big activity."

They're also subject to a wide range of regulatory bodies, from the Internal Revenue Service and state tax authorities to the Federal Aviation Administration and the Department of Transportation, each with a complex maze of overlapping requirements that the firm is expert at helping clients negotiate.

"With the IRS and the states, it isn't just income tax issues," noted Nancy Reich, a CPA and vice president and director of internal control and client processing. "On the federal side, it would be income tax and also federal excise tax issues; on the state side, it's not only just income tax, but it could also be sales and use tax, which is a major issue for these

people — as you can imagine on a \$50 million aircraft — and also property taxes. If clients aren't careful on how they structure the use of aircraft, they might get a surprise to find that they're subject to the federal excise tax — and that's where we come in."

"New owners need a lot of assistance," added Wolcott. "They may decide they need an airplane and talk to a broker, and the broker says, 'I've got just the aircraft for you,' but making sure the aircraft is in an ownership structure that meets those four regulatory areas that govern the use of the aircraft can be quite challenging. We often get involved with helping to design the structure that the aircraft will be operating under. Once that is set up, we are often invited to continue providing services to that client after the closing, and that's where we get involved in the day-to-day assistance on the financial management of the aircraft and the preparation of the tax returns."

Careful return preparation is crucial, because the IRS pays particular attention to corporate aircraft — so much so that Wolcott tells new owners that they should prepare to be audited at some point. Business aircraft are "listed property," and so have to be identified on the tax return. The IRS audit process is very well-defined for making sure that, when companies take deductions for business use, they can prove that the passengers and flights really had a business purpose. "The IRS knows what the potential abuses may be, and our role with our clients is to keep them on the straight and narrow," Wolcott said.

BEYOND SPREADSHEETS

Staying on the straight and narrow often comes down to record-keeping.

"One of the biggest problems in defending a client in an audit is that sometimes they just don't have the documentation" that the IRS requires, Wolcott said. "They may not know that they need it, or they may have been lax in keeping it. If the documentation isn't available or isn't contemporaneous, then the IRS can deny the deductions for the aircraft. We see that all the time — a multi-million-dollar aircraft carries with it a lot of depreciation and a lot of operating expenses, and if all of

the sudden those are disallowed, it can make for a huge tax consequence.”

The firm used to keep track of that sort of information with Excel spreadsheets, but five years ago they decided to automate the process and develop a more sophisticated software platform. Initially, the system was meant purely for internal use, but the firm quickly realized that clients needed it just as much, so when it was rolled out two years ago as Flight Tax Systems, the software was made available to clients on a subscription basis.

“The point of the software is that it does the tracking and calculation of the movement of aircraft and the activities of people in the aircraft to follow the IRS reporting requirements,” Wolcott explained. “It’s doing very well for us — it has gone beyond the ‘tipping point’ to where it’s a self-sustaining activity, cash-flow-wise.”

Wolcott and his team handle the inputting for roughly half of users, while the other half handle it entirely themselves, either with their own staff or with their outside CPAs. (Since Wolcott & Associates only handles aviation-related services, it doesn’t compete with other CPA firms and, in fact, many of its best

referral sources are other CPAs, along with attorneys and other aviation professionals, including pilots.) The software platform is fully annotated and includes links to code and regulations to help non-expert accountants and lawyers understand the system.

TAXES AROUND THE WORLD

The aviation theme is also a cornerstone of the firm’s individual tax prep practice, where it does over 300 tax returns a year for pilots from major airlines, many based overseas.

“That’s really expanded in the past five years,” noted Sue Folkringa, the firm’s “Aviation Taxologist,” who is also a licensed pilot and CPA. “The industry really took a nosedive in 2008, and pilots got laid off here in the U.S. and there’s good money in flying overseas. Many former clients and also new clients called us, so now we’re doing a lot of tax returns for expatriates.”

The firm is expert in the specialized IRS regulations that apply to U.S. citizens living and working abroad, as well as in the many regulations that apply to both the transportation industry in general, and to aviation and to flight crews in particular. “We have a lot of

specific knowledge that folks at H&R Block wouldn’t have,” Wolcott said.

Technology is also critical, according to Reich: “Because of the expansion of Internet services, we have been able to service those types of clients seamlessly. The Internet has really helped us in that regard.”

Wolcott added, “We never see the majority of our corporate clients — or any of our pilot clients, for that matter. The Internet has greatly expanded our geographic footprint. We couldn’t do anywhere near the amount of business that we do without it.”

The firm has clients across the country and globally, with concentrations wherever corporate aircraft tend to be based — Florida, California and Texas, and large metropolitan areas like New York City, Atlanta and Seattle.

MOVING FORWARD

The firm continues to find new ways to serve its chosen industry. Folkringa noted that of late they’ve been expanding their QuickBooks and QuickBooks Online practice in handling the financial management of client aircraft. “We’re talking with people who are looking to trim budgets internally, and

may not have the staff to support both the tax work and the financial work,” she said. “They want to outsource their aircraft work because they want to focus on what they’re good at, and we want to focus on what we’re good at.”

“Initially, we didn’t provide a lot of management services, but in the last five years or so, we have found clients asking us to take over the financial management of their aircraft, to do the bookkeeping and payroll and check-writing, so now we offer a range of services,” Wolcott added. “We have some clients that we see once a year when it’s time to do their tax return, and others we see monthly and even weekly in managing the financial aspects of their aircraft.”

The firm will continue to be active in aviation in other ways, such as webinars and speaking engagements, and supporting the Tax Committee of the industry trade group the National Business Aviation Association, participating in its seminars and tax forums.

“We reach out to the industry as much as we can,” Wolcott said, and then summed up one of the key factors in his firm’s success: “We love what we do and we love being part of this dynamic industry.” AT



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