



McCONNELL & JONES LLP

CERTIFIED PUBLIC ACCOUNTANTS

Recovery Resource Guide

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MESSAGE FROM MCCONNELL & JONES, LLP

In the wake of Hurricane Ike, many people are faced with concerns about the fiscal impact that this devastating disaster will play in their personal and business financial affairs.

McConnell & Jones has prepared a Recovery Resource Guide to help you regain a sense of financial balance by offering suggestions on steps to take immediately, what to do in the initial weeks and months, and how to begin planning again for the future. Additionally, a compilation of helpful information from the SBA, IRS, and State of Texas is included regarding relief options and tax extensions.

We hope you will use this publication as a helpful tool as you begin recovery efforts. If you have any questions or need advice, please contact us directly at 713.968.1600.

Warmest Regards,

McConnell & Jones LLP

TEXAS TAX RELIEF

For business taxpayers required to file Texas Franchise returns, there is no extension of the November 15, 2008 final deadline.

However, Texas Comptroller, Susan Combs, has announced that business affected by Hurricane Ike, may be granted



an extension of up to 90 days to file other state returns due in September and October. Taxpayers primarily affected are those that file sales tax returns.

Unlike the IRS, this is NOT an automatic extension. Taxpayers can call 800.252.5555 to request the extension.

GETTING BACK TO BUSINESS

The days following a natural disaster can be trying and it is anything but “business as usual.” McConnell & Jones knows that the quicker you can return your business to some level of normal operations the better; therefore, we have compiled some tips and suggestions to help you start the process:

- Contact your insurance agent immediately to report how, when and where the loss or damage occurred. Have your policy number ready!
- Make note of all damages to your building and other important assets (e.g. business equipment, product inventory and raw materials). Photos and video should be used to supplement your documentation.
- Compile financial documentation of damaged assets. Receipts and other proofs of purchase will make filing claims much easier.
- Remember, it will take time to process all claims and repair destruction caused by this storm. It is wise to mitigate your damages so that additional cost is not accumulated.
- If you have business interruption insurance, which helps replace lost income generated by the disaster, you will want to prepare a detailed list of steps required to re-open your business and organize financial documentation for your adjustor such as historical sales records, income statements and tax forms.

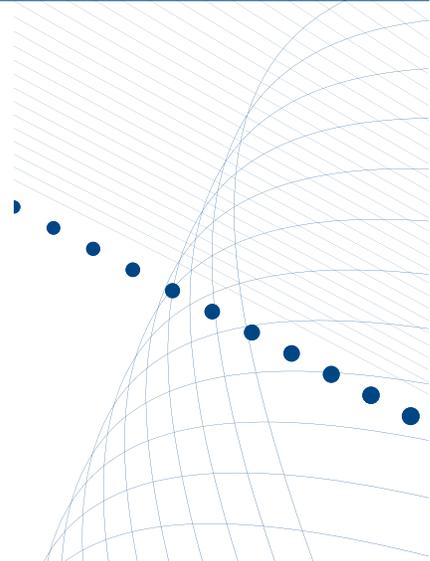
CLAIMING CASUALTY LOSSES

Affected taxpayers in a presidentially declared disaster area have the option of claiming disaster-related casualty losses on their federal income tax return for either this year (2008) or last year (2007). Claiming the loss on an original or amended return for last year will get the taxpayer an earlier refund, but waiting to claim the loss on this year’s return could result in a greater tax saving, depending on other income factors.

A personal casualty loss is deductible as an itemized deduction to the extent that it exceeds two thresholds. The loss from each casualty (all the damage as a result of the hurricane would be considered one casualty) must be reduced by \$100. All your personal casualty losses for the year must be reduced by 10 percent of your AGI, or adjusted gross income. The \$100 and 10-percent reductions were waived for the damages from the three major hurricanes in 2005, but nothing has yet been released on this topic by the IRS regarding Hurricane Ike.

Your loss is the decline in value of personal property as a result of the damage from the storm. It does not include personal injuries to the taxpayer.

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Wednesday, September 24, 2008

Bush declares Texas disaster area after Ike



EXEMPT LABOR CHARGES

Labor charges for repair or remodeling services performed on residential property are not subject to sales tax. However, materials used during the repair or restoration are taxable, even in a disaster area. The contractor will collect tax from his customer if the contract calls for separate charges for materials and labor. If the contract calls for a single charge that includes materials and labor, then the contractor will not collect tax from his customer, but will pay sales tax when he buys the materials.

Purchasers may claim an exemption from sales tax on separately stated charges for labor to repair or restore nonresidential real property damaged by the disaster. The materials used to perform the repairs are taxable.

Evacuees may claim an exemption from sales tax on charges for labor to repair or restore items damaged by the natural disaster. The exemption may be claimed on labor to repair furniture, appliances, other items of tangible personal property, even if the evacuee picks up the repaired or restored items in Texas. The exemption includes labor costs to launder or dry clean damaged clothes or other property.

To receive an exemption from tax on the charges for the labor, the purchaser must give the seller an exemption certificate showing both the seller's and the purchaser's names and addresses and the items being repaired. The certificate must also give the reason for claiming the exemption.

COST RECOVERY

The cost associated with a natural disaster can seem overwhelming, and you may be worried about the financial loss that you'll face in the coming weeks.

SMALL BUSINESS OWNERS:

The Small Business Association offers disaster loans and other assistance for the business owner. For more information, contact SBA Disaster Assistance Customer Service Center at (800) 659-2955 or online at:
- disastercustomerservice@sba.gov
- sba.gov/services/disasterassistance

NON-PROFIT ORGANIZATIONS:

If you operate a non-profit organization and are providing relief to those impacted by Ike, let us say thank you! You are the backbone of our recovery efforts and we appreciate your hard work. There are many resources available to you by the IRS and FEMA that will assist with the costs you have accrued in the last four days.

IRS GRANT OF RELIEF

Under section 7508A, the IRS gives affected taxpayers until Jan. 5, 2009 to file most tax returns (including individual, corporate, and estate and trust income tax returns; partnership and S corporation returns; estate, gift, and generation-skipping transfer tax returns; and employment and certain excise tax returns) or to make tax payments, including estimated tax payments, that have either an original or extended due date occurring on or after Sept. 7, 2008, and before Jan. 5, 2009.

The IRS also gives affected taxpayers until Jan. 5, 2009, to perform other time-sensitive actions that are due on or after Sept. 7, 2008, and before Jan. 5, 2009. This includes the filing of Form 5500 series returns. The relief described in section 17 of Rev. Proc. 2007-56,

pertaining to like-kind exchanges of property, also applies to certain taxpayers who are not otherwise affected taxpayers and may include acts required to be performed before or after the period above.

The postponement of time to file and pay does not apply to information returns in the Form W-2, 1098, 1099 series, or to Forms 1042-S or 8027. Penalties for failure to file timely information returns can be waived under existing procedures for reasonable cause. Likewise, the postponement does not apply to employment and excise tax deposits. The IRS, however, will abate penalties for failure to make timely employment and excise deposits, due on or after Sept. 7, 2008, and before Sept. 22, 2008, provided the taxpayer makes these deposits on or before Sep. 22, 2008.



PERSONAL CASH FLOW DURING A DISASTER

I DON'T HAVE ENOUGH CASH. NOW WHAT?

- Contact the Red Cross, and if you are in a major disaster area, call FEMA. One of these organizations may be able to guide you to sources of emergency cash assistance. Tax note: You may receive emergency cash assistance from federal, state, or local government following the declaration of a disaster by the president, state, or local government. The money generally is not taxable.
- Use your credit card to get a cash advance. Be aware, however, that you probably will be charged interest immediately on the amount you withdraw, and the interest rate may be higher than for purchases.

I MAY NOT BE ABLE TO PAY ALL MY BILLS. WHAT'S MY BEST STRATEGY?

Try to pay as many of your bills on time as possible to protect your credit rating. In addition, consider taking these steps:

- Stop some bills. If your residence is temporarily uninhabitable or totally destroyed, notify the utility company so they can stop billing immediately.
- Estimate the amount of income and emergency savings you have to pay bills while you recover from the disaster.
- Prioritize your bills. For example, pay-

ing your insurance premiums and rent or mortgage should be a top priority.

- Call your creditors and ask for more time to pay. Most creditors will be willing to work with you, especially if you notify them before a payment is due.
- Contact a Certified Public Accountant (CPA) financial planner or other financial advisor to assist you in developing a financial disaster recovery plan.

CLAIMING CASUALTY LOSSES

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Your repair costs may be an indication of the damage, but your loss may be actually more or less than the costs to repair. If the repairs restore the property to a better condition, then you may need to reduce the repair costs. If you don't repair or replace some items, such as the landscaping, your loss may be greater.

If your property is covered by insurance, you must file a timely insurance claim for reimbursement of your loss. Otherwise, you cannot deduct this loss as a casualty or theft. However, this rule does not apply if the loss would not have exceeded your deductible or is excluded property. Example: Landscaping is usually not covered by insurance. You must reduce the amount of your loss by the insurance reimbursement.

ABOUT MCCONNELL & JONES LLP

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