



Inland Society of Tax Consultants
Fifteen Chapters Located Throughout California

Inland Society of Tax Consultants
San Diego Chapter Newsletter • January 2004

MEMBER OF THE YEAR – 2003

Val Daigle

Our Member of the year award went to Val Daigle whose efforts and dedication has a significant and positive impact on our chapter. He always makes time for the benefit of the organization.

Val became an ISTC member in 1987 while still on active duty with the Navy. After obtaining his Masters in Taxation, he began working seasonally with a moderately sized tax firm. He continued to work seasonally after retiring from the Navy. He passed the 1992 Enrolled Exam and became an EA in 1993.

Val has been on our Board since 1997, becoming 2nd VP in 2000 & 2001, 1st VP in 2002 and President in 2003 & 2004. He is an inspiration to all of us for his tireless efforts on behalf of our chapter. Our sincere congratulations go to Val Daigle for receiving the San Diego Chapter *Member of the Year* award.

NEW HALL OF FAME MEMBERS

Tish Caliger and Richard Malzahn

This Year the Hall of Fame was presented to two members. Richard Malzahn was honored at our Holiday Party and Annual Meeting, Friday, December 12. Tish Caliger was unable to attend that meeting so we honored her at Running Start, in January 2004.

Both of these members truly represent the meaning of Hall of Fame for San Diego Chapter. Each has served for many years on the Chapter Board, Held office and worked tirelessly on various chapter committees.

Tish Caliger has volunteered for many years in all phases of the operation of the Running Start Education Event. She also has chaired the Fall Workshops for our chapter and is a very familiar face at the sign-in table at monthly education meetings. She was also Secretary of our Chapter. Tish was chosen to join the Hall of Fame because of her many years of unselfish service and support Tish. has been an example in service and support of this Chapter.

Richard Malzahn's name is also another natural for this honor. Richard, known as "Mr.-To-The-Penny" served this chapter as Treasurer, Secretary and chair of several committees. He has volunteered to do many tasks and was never too busy to help out when asked. The chapter Handbook of Procedures and Bylaws efforts of Richard also came to the attention of Society. He is working with society to bring all our procedures into order.

Both of these Hall of Fame members have retired from serving on the Chapter Board of Directors. Their sense of obligation and responsibility will long be remembered.

Congratulations on the newest Two Members of the San Diego Chapter Hall of Fame.

Qualifications for San Diego Chapter's Hall of Fame:

- Current and continuing primary member in the San Diego Chapter of ISTC for 15 or more years;
- Involvement in San Diego chapter's education activities and continued volunteering for the benefit for the chapter;
- Supports the goals and objectives of ISTC; Are 55 years of age or older.

NEXT SAN DIEGO CHAPTER DINNER MEETING — May 20, 2004, 5:00 p.m.

Handlery Hotel & Resort, 950 Hotel Circle North, Mission Valley, San Diego, CA

PRESIDENT'S MESSAGE

I hope that you were able to share the holidays with your family and loved ones. Our chapter's Holiday Party really started the holiday season in a remarkable and charitable way. We had over 80 members, spouses and guests share some special moments together. The **Holiday Party** committee is to be congratulated on the beautiful decorations, fine food, wine, and the Dave Scott Jazz Band serenading us. And most of all, we were able to help the children at the Polinsky Center enjoy their Christmas. Thank you all for helping to make a child's holiday better.

A special 'THANK YOU' was sent to our chapter members from the **Polinski Children's Center** for our donation of over \$1,000 in new toys and money. The Center operates the only emergency shelter in San Diego specifically designed for the care of abandoned, neglected or abused children. Their motto is "Volunteers – Always Sharing, Always Caring". THANK YOU to our members for their generosity to this worthy charity.

We bid adieu to our outgoing **Chapter Officers and Directors** and welcomed our 2004 Board. Tom Carter, our Society President, installed our new Officers and Directors: President – 'yours truly'; 1st VP – Jazzy Jones; 2nd VP - Randy Dahlin; Secretary – Shirley Henry-Bisantz and Treasurer – Duane Lewis. Directors: Tony Applebaum, Rose Carter, Steve Comer, Herb Jackel, Larry McClellan, Greta Ward and Nadine Allevato – Past President. I look forward to working with each of them to make 2004 another great year.

Two Hall of Fame Members this year were Richard Malzahn and Tish Caliger. Each of them has contributed much time and effort to assure a smooth-running organization. Congratulations to both of them – they deserve it!

The other honor was **Member of the Year**, and that was awarded to me. I am truly humbled by such an honor and was totally taken aback when it was announced. There have been so many members who have preceded me with this award and I have always looked up to them for what they contributed in time, energy and networking. I cannot overemphasize this distinction that has been bestowed upon me...to be in the same group as all of them. In deepest appreciation, thank you.

We began our tax season with the **1040 Running Start** program. Dave Gorsich and Michael Karll had their hands full bringing us up to speed on the new federal law changes and the California non-conformity issues. As usual, we profited from another entertaining learning session and some of their useful tips, tricks and traps for your practice.

Our Chapter needs volunteers! If you have not been active in the chapter before, now is the time to consider becoming active. The time required is less than you think, especially when there are several committee members to share the workload. Please call my office (619-435-3131) to help. Please help ... don't leave all the work to the officers and board members

I wish you a joyous and prosperous New Year and a fantastic tax season. I look forward to seeing you again at the May dinner meeting.

Respectfully,

Val Daigle – San Diego Chapter President

SOCIETY NEWS

ISTC Is Now CSTC

The members approved the Society name change to California Society of Tax Consultants (CSTC). The change has been approved by the California Secretary of State. We are now legally CSTC.

The society plans to complete all the needed changes to the new name by July 1, 2004.

The San Diego Chapter has sent correspondence to our Society President and the Chair of the Name Change Committee that the SD Board feels that a new logo should also be created.

All By-Law measures on the ballot were approved.

The 2004 Society Officers are: Thomas Carter, President; Linda Beckett, 1st VP; Anthony Bustos, 2nd VP; and Morris Miyabara, Secretary.

Society Dues will increase as of July 1, 2004 – Renewals \$120 and New Members \$145.

1040 RUNNING START SEMINAR

The 1040 Running Start Seminar was a great success. Over 252 tax professionals attended the seminars in San Diego. Dave Gorsich, EA and Michael Karll, EA provided an excellent Tax Update presentation.

A Special Thank You to those who volunteered their time and talents to make the seminar run successfully including Nadine Allevato, Tish Caliger, Shirley Henry-Bisantz, and Larry McClellan.

Rose Carter & Randy Dahlin – Seminar Co-Chair

QUICKFINDERS

The South Bay Chapter of ISTC may have a few Individual Quickfinders.

If you need a Quickfinder please call Esperanza Lozano at (619) 428-2271.

FILING SEASON RESOURCES

IRS

IRS Web Page for Tax Professionals is at
www.irs.gov/taxpros/.

IRS Offers Several Free Email Tax News Services.
Subscribe at www.irs.gov. Select the link to “Tax Professionals”, then the “Subscription Services” link.

Advance Child Tax Credit

If you need to find out the amount received by your client use the link on the IRS home page. You'll need to provide the following information as shown on the taxpayer's 2002 tax return:

1. Social Security Number
2. Filing Status
3. Number of Exemptions

Refund Hotline — 800-829-1954

Also at www.irs.gov “Where's My Refund”.

Forms and Publications — 800-829-3676

Also at www.irs.gov. Do a search for the form, instructions, or publication by number or name. Use Form 3975 in Pub. 1045 to order Package X. Pub 1045 contains order forms for other forms and pubs. Use Pub 1796 to order IRS Tax Forms on CD.

IRS Practitioner Priority Service — 866-860-4259

The hours are 7:30 a.m. to 5:30 p.m. local time.

Form SS-4, Employer Identification # — 866-816-2065

On-Line Application for EIN is available at irs.gov. Do a search for “Employer Identification Number”.

FTB

FTB Web Page for Tax Professionals is at
www.ftb.ca.gov/professionals/index.html.

Calif. Non-Resident & Part Resident Rules

FTB Pub 1100 contains a summary of the New Rules for Non-Residents & Part Residents. This publication is a *must* for all tax professionals.

Tax Practitioner Hotline — 916-845-7057

Package X & Tax News Newsletter — 916-845-7070

FTB *Tax News* is free via email. Subscribe at www.ftb.ca.gov/education/taxnews/tn_sub.html.

On-Line Tax Resources & Tax News

If you need help finding tax resources and tax news use the chapter's web site pages for “Internet Resources” and “Tax News” at www.istcsandiego.com.

Mailing Supplies & Stamps

US Postal Service supplies and postage can be ordered via mail or on-line at www.usps.com. Priority Mail envelopes, boxes, and labels are still free.

To save time and reduce the variety of stamps in your office order 60¢ stamps to cover mailings up to 2oz, 83¢ stamps (up to 3oz), and stamps for Priority Mail \$3.85.

NEWSLETTER EDITOR NEEDED

Naomi Badger has agreed to be an editor of our chapter's newsletter. However, she needs a co-editor. To volunteer contact Larry McClellan, (858) 278-1164, e-mail: larry@taxnewsandtips.com or Naomi at (619) 698-0508 badgern@sbcglobal.net.

CLASSIFIED ADS

Check the chapter's web site for new ads.

During the filing season e-mail ads to larry@taxnewsandtips.com or fax to 858-278-9327

Furniture & Equipment For Sale: Three 17" SVGA color monitors – excellent condition, \$65 each; three desk monitor swivel arms - \$35 each or all three for \$70; black leather high-back chair - \$70; blue upholstered high-back chair - \$50. Call Val at 619-435-3111.

Reliable Payroll Processor is looking for a temporary position until June in the Mira Mesa, Scripps Ranch, Sorrento Valley, or UTC area. 10 years experience. Resume and references upon request. Julianne Bension Home 858-695-8593, Cell 858-774-0577.

Legal Services - La Mesa Business Attorney will provide you and your clients with a Free One-Hour consultation regarding your business, estate planning needs, the benefits of incorporating your business, or planning for your death. Chris Hansen (619) 469-2667; email: chris@inclaw.com; web: www.inclaw.com.

PROTECTING CLIENT INFORMATION

The Federal Trade Commission (FTC) in May of 2002 issued a final rule governing the safeguarding of customer (“client”) records and information. The final rule is known as the Safeguards Rule. The Safeguards Rule became effective on May 23, 2003.

The Safeguards Rule requires tax preparers – to develop, implement, and maintain a written security program that contains administrative, technical, and physical safeguards to protect client information.

See the article on pages 5 & 6 for more details.

ISTC SUMMER TAX SYMPOSIUM

The ISTC Summer Tax Symposium will be held May 25-27, 2004 in Reno, NV. Early Bird Prices until March 12th. Watch for more information in the mail from ISTC, or call ISTC Society Office at (714) 634-0484.

San Diego Chapter

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BREAKFAST MEETINGS

During the filing season join ISTC members for breakfast to discuss tax issues. Members buy their own breakfasts.

San Diego Chapter - Fridays at 7:30 am at Coco's Restaurant, El Cajon Blvd. at Oregon St. in North Park. Contact Val Daigle, email val@westax.com or at 619-435-3131.

El Cajon Chapter – Every Wednesday at 8:00am at Denny's Restaurant, Fletcher Pkwy & Navajo Rd. Contact Marryann Shefveland (619) 464-1260.

South Bay Chapter - Every Tuesday at 8:00am at Love's Restaurant, I-805 & E Street, Chula Vista. Contact Donita Chacon (619) 470-9293.

Fiduciary Tax Group – The second Thursday of each month at 7:30 am at Coco's Restaurant, 5550 Lake Murray Blvd, La Mesa. Contact Jan Brown at (619) 464-1041.

Business Entities Group – The first Thursday of each month at 7:30 am at Coco's Restaurant, 5550 Lake Murray Blvd, La Mesa. Contact Jan Brown at (619) 464-1041

CHANGE OF ADDRESS

If you move, please advise both the San Diego Chapter and the Society office of your new address, phone and e-mail address.

- San Diego Chapter: 7827 Convoy Ct #403, San Diego, CA 92111
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SAN DIEGO CHAPTER NEWSLETTER

The San Diego chapter newsletter is published monthly in January, and May through December.

The deadline for articles and ads for the May issue is April 25th.

Send articles and ads to Naomi Badger at badgern@sbcglobal.net or (619) 698-0508.

Newsletter via Email

Supply your e-mail address to save the chapter the cost of printing and postage.

You will receive an e-mail notice when the newsletter is posted to our web site and other important updated tax information. Send your e-mail address to larry@taxnewsandtips.com.

Advertising

Members: There is no charge to members who wish to advertise for positions available in their practice, equipment for sale, or similar subjects.

Non-Members: There is a \$15 charge for each advertisement in the newsletter. Limited to six lines. Subject to available space and the discretion of the editors.

BOARD OF DIRECTORS MEETING

The next meeting of the Board of Directors is Thursday, April 21, 2004 at 10:00am at the Handlery Hotel in Mission Valley. All members are welcome to attend. Please contact Val Daigle (619) 435-3131 e-mail: val@westax.com.

The Safeguards Rule: Protecting Client Information Under the New FTC Standards

By Art Larson, EA

"According to the provisions of that Act and regulations established by the Federal Reserve Board (FRB), tax preparers, accountants, financial planners, and investment advisors are among those significantly engaged in financial activities."

The Federal Trade Commission (FTC) in May of 2002 issued a final rule governing the safeguarding of customer ("client") records and information. Known as the Safeguards Rule, it implements provisions of the Gramm-Leach-Bliley Act (GLB Act) that was signed into law on November 12, 1999. The Safeguards Rule, which became effective May 23, 2003, one year after publication in the *Federal Register*, requires financial institutions under the jurisdiction of the FTC to develop and implement appropriate physical, technical, and procedural safeguards to protect client information.

The objective of the safeguards are to ensure the security and confidentiality of client records and information, protect against any anticipated threats or hazards to the security of such records, and protect against any unauthorized use of such records or information that could result in harm or inconvenience to the client. The Rule requires financial institutions – **included among which are tax preparers** – to develop, implement, and maintain a written security program that contains administrative, technical, and physical safeguards. As part of its program, each financial institution (and tax preparer) must take five actions:

- (1) Designate one or more staff members of employees to coordinate the information security program;
- (2) Identify reasonably foreseeable internal and external risks to the security, confidentiality, and integrity of client information. Risk assessment with respect to client information must include these three areas of operation: (i) employee training and management; (ii) network and storage design, information processing, storage transmission, and disposal; and (iii) security management, including detecting, preventing, and responding to intrusions or system attacks;
- (3) Design and implement safeguards to control the risks identified above and regularly test or monitor the effectiveness of key information security procedures;
- (4) Ensure that service providers are capable or maintaining appropriate safeguards for the client information and require, by contractual agreement, that they implement and maintain such safeguards; and
- (5) Evaluate and adjust the information and security program periodically in light of any developments that may materially affect the safeguards in place.

The GLB Act does not specify the categories of financial institutions subject to the jurisdiction of the FTC. Rather, Section 6805¹ vests the FTC with enforcement authority with respect to "any other financial institution or other person that is not subject to the jurisdiction of any agency or authority [named elsewhere in the subsection]." An Enrolled Agent or any other tax practitioner is a "financial institution" if he or she is a business that is significantly engaged in financial activities as described in Section 4(k) of the Bank Holding Company Act of 1956. According to the provisions of that Act and regulations established by the Federal Reserve Board (FRB), **tax preparers, accountants, financial planners, and investment advisors are among those significantly engaged in financial activities.**² In addition, the published FTC Safeguards Rule itself specifically mentions that "many small businesses, such as individual tax preparers or mortgage brokers will be covered by the Rule."³

The Safeguards Rule applies to any record-containing nonpublic, personal financial information about a client in whatever form, paper or electronic, that is handled or maintained by a tax preparer. The amount of tax information, supporting materials, and personal data retained by most tax preparers is extremely sensitive and detailed. This information often contains more nonpublic details than clients reveal to banks and credit reporting companies. For example, a typical client file contains complete names, addresses, and social security numbers of all family members, birthdates, bank checking account numbers(s), names of employers and banks, income information, and copies of much supporting documentation.

Theft or misappropriation of these data could be devastating to a client and undoing the damage caused by identity theft could require years of time and a huge expenditure of funds.

The issues of data protection, privacy of client records, and identity theft are already ones of major public and media attention. The new Safeguards Rule and the rapid rate of increase in incidences of identity theft will make these concerns all the more important for those who are entrusted with nonpublic client information. Adequately securing the data is not only the law now, but also good business sense. Showing clients that the security of their information is of paramount importance increases their level of confidence.

No specific penalties for noncompliance with the Safeguards Rule have been authorized yet, but the FTC has the right to institute fines and undertake other enforcement action through the courts. Aside from possible FTC action, the Rule could serve to establish a standard for civil care, or duty, regarding the security of tax return and nonpublic client information. **A tax preparer who has ignored the Safeguards Rule could be sued for negligence by a client who was damaged as a result of the theft of their private financial records.** A court could easily adopt a legal theory that viewed noncompliance with the Safeguards Rule as negligence “per se”.

The Safeguards Rule requires every financial institution, regardless of size, to develop and implement a written information security plan for the protection of customer or client data. The plan may be scaled in size and complexity according to the nature and scope of the activities of the business and the sensitivity of the information maintained. This standard was designed to be highly flexible. “Different standards may be appropriate for different types of companies and different types of information,” according to Jessica Rich, assistant director of the FTC Division of Financial Practices. “A company can use the technology that works best for its own organization.”

Listed below are some guidelines extracted from documents available from the FTC Web page that provide some help in complying with the Safeguards Rule for small businesses:

- The written information-security plan does not need to be contained in a single document. However, it should be appropriate to the business size and complexity, the nature and scope of its activities, and the sensitivity of the information at issue. Note that the latter requirement – sensitivity of the information – does impose the need for a more detailed plan on tax preparers.
- The Rule does not impose any specific reporting or recordkeeping requirements. No notification to clients or the FTC is required.
- The Rule is not intended to require that businesses hire outside experts or consultants in order to comply.
- The FTC will provide educational materials to assist in compliance.⁴
- The Rule requires only “taking reasonable steps to select and retain service providers that are capable of maintaining appropriate safeguards for the information at issue.” There is some recognition of the fact that small businesses often do not have the ability to force a third-party service provider contractually to maintain appropriate safeguards.

For more information, the published Safeguards Rule, and comments, visit the FTC Web site. Start with <http://www.ftc.gov/privacy/glbact/index.html> and click on the available links.

FTC suggestions for securing client information, a rather detailed list of security practices, can be found in the Business Guide on its Web site. Seven simple computer security tips can also be found at a government Web site:

<http://www.nipc.gov/publications/nipcpub/computertips.htm>

¹ 15 USC, Subchapter 1, Sec 6805(1)(7)

² www.ftc.gov/privacy/glbact/index.html

³ Federal Register, Vol.67, No.100,16 CFR Part 314, “Standards for Safeguarding Customer Information, Final Rule,” May 23,2002

⁴ FTC Business Guide: www.ftc.gov/bcp/online/pubs/safeguards.htm

About the Author: Art Larson, EA, lives in Stow, MA, with his wife, Laurie, and operates a sole tax practice from his home office for 200 clients, primarily high-income professionals. Technical reviewer for the *EA Journal*, he has been an Enrolled Agent since 1989 and an active participant on the NAEA WebBoard for two years. His 35-year career prior to 2002 entailed working as an engineer at MIT Lincoln Laboratory in Lexington, MA, primarily in ballistic missile defense as a radar signature analyst.