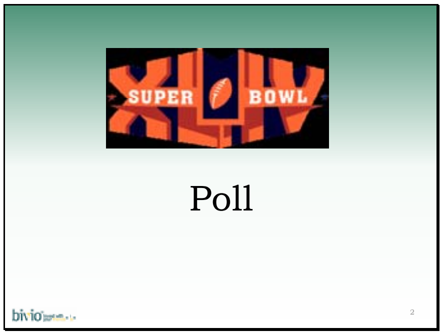
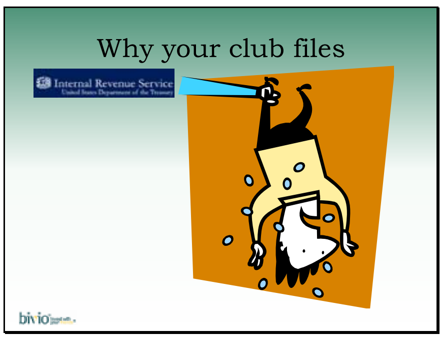
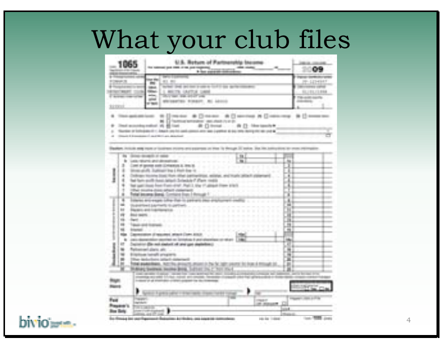




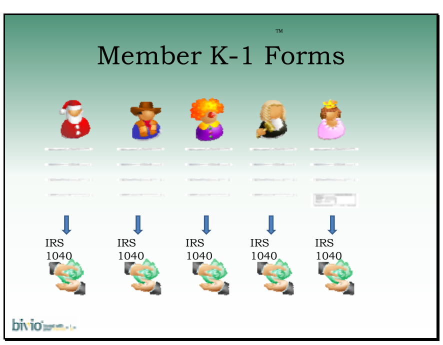
If you have income,

the IRS wants their share. We need to follow their rules on how to track and report it and pay taxes on it.



Your investment club is a partnership and the

tax form you file is called a 1065 form. It is what is called an informational return. Your club does not have to pay taxes directly. All of the income and expenses are divided up between the members and they report and pay taxes on their share on their personal taxes.

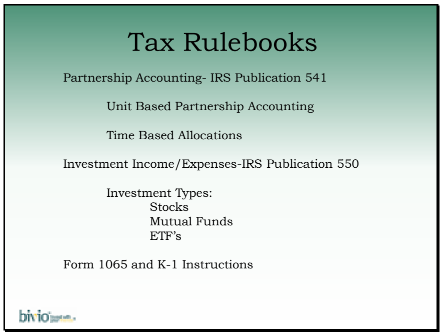


Each member

Receives a form called a K-1 so that he knows what amounts he needs to report

On his personal tax forms to

pay taxes on.



The rules we use are detailed in sections of these IRS publications.

First, it is partnership based accounting-Described in IRS Publication 541
It's designed to account for distribution of income and expenses to multiple owners

Specifically, it is unit based partnership accounting.
Member percent ownership is tracked using "shares" of total club ownership

It uses time based allocations of income and expenses to members. They are distributed as the transactions occur, based on ownership percentages at the time they happen.

It is tracking Investment Income and Expenses-(described in IRS publication 550) ,not "club" or business income and expenses. It might help if you think of it as Club Investment Accounting rather than Investment club accounting.

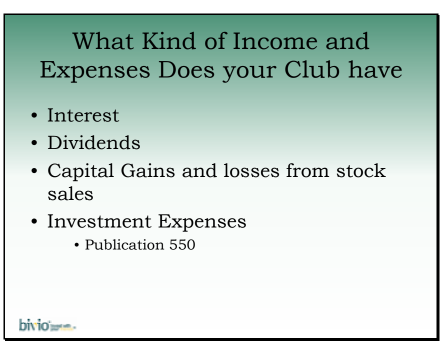
It's only designed to track and prepare taxes for certain types of investments.

Stocks

Mututal Funds

ETF's
Not REITS or Limited Partnerships

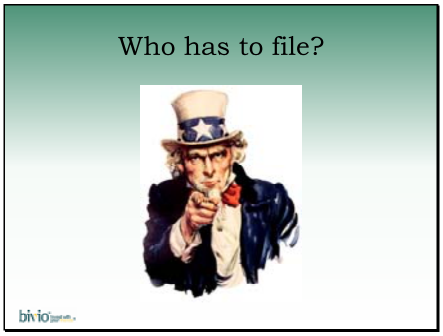
Of course you also have to comply with the instructions for filling in the forms you file.



Your club will have this kind of Income:

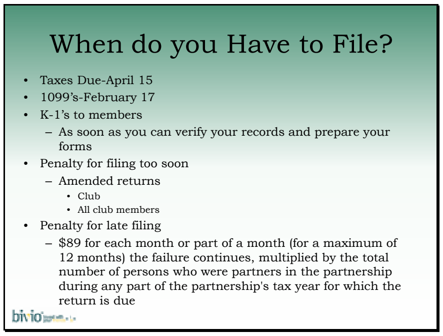
Interest
Dividends
Capital Gains and losses from stock sales

And Investment Expenses
Expenses involved with producing Investment income as defined in IRS Publication 550



<click>
You do. If you have an EIN number you need to file club taxes. It does not matter how long your club has been in existence or how much income you have had.

A long time ago, BetterInvesting erroneously told clubs they did not have to file taxes. That was also rescinded a long time ago.



The time line you will be working with involves these dates:

You actually have until April 15 to get your club taxes filed.

Your taxes will need to agree with the 1099 forms which are sent by the financial institutions to the IRS to report your income. Financial institutions have until February 17 to get these to you.

Your members cannot complete their own personal taxes until you have given them their K-1's.

Because you can't finalize anything until you have the 1099's, a reasonable date to tell them they'll have their forms is March 1. While you do have until April 15 to file your club taxes, we don't suggest that you do that or you might have a lot of angry club members.

One of the penalties for filing incorrect taxes is that you might have to do it all over again and

File an amended return

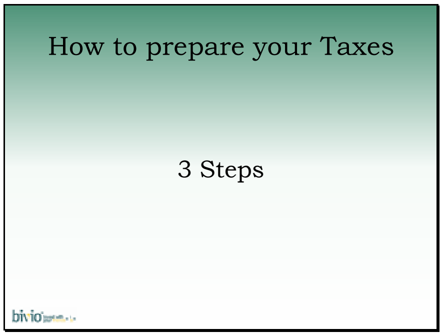
Both your club and

each of your members

If you file late or not at all or you file forms with missing or incorrect information on them, this is the penalty

$89 for each month or part of a month (for a maximum of 12 months) the failure continues, multiplied by the total number of persons who were partners in the partnership during any part of the partnership's tax year for which the return is due

Investment club members need to understand that being in a partnership means their tax life has become a bit more complicated. Because your club has to wait on other people to get the information it needs to prepare the forms you need to prepare the forms you need to file.



The good news is

There are really only 3 steps to doing your taxes.

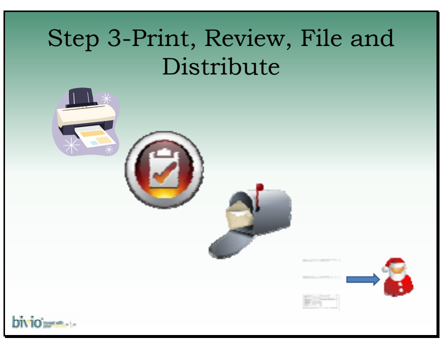
The first step involves comparing your

bivio records with your

Brokerage records to make sure your bivio records are accurate.

Once you know your records are accurate,

you will complete a tax “interview”. This is a brief series of questions that need to be answered to finalize and confirm the information that will be entered on your tax forms. The tax interview is part of your bivio subscription and is available for you to use in February. You do not want to take it until you have finalized verifying the accuracy of your records.



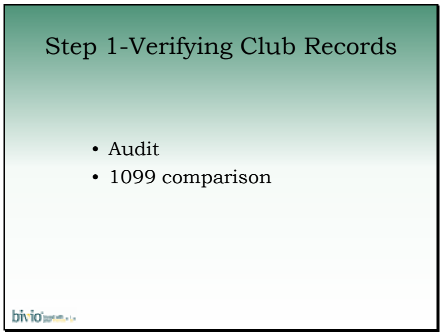
When the tax interview is completed, your forms will be filled in.

All you need to do is print them,

review them,

Sendthem in to the IRS and

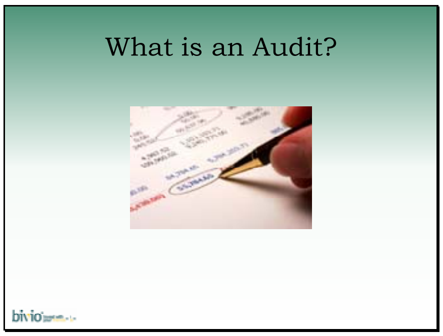
distribute each members K-1 to him or her. You can either give them a hard copy or make them available online when they login to bivio using their account.



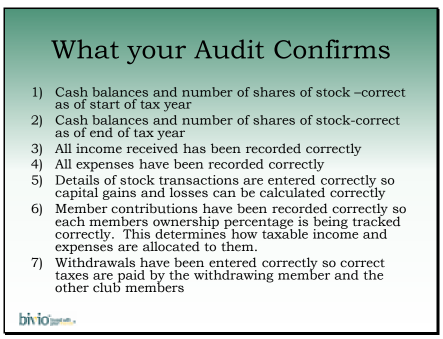
We're going to discuss the first step in preparing your taxes the most. Verifying your records is critical. If your records are not correct, your taxes will not be correct. There are two parts to ensuring the information which will be reported on your taxes is accurate.

The first is auditing your records.

The second is making any adjustments required by the 1099 forms you will receive.



An audit is an independent comparison of your club records to your financial institution records. It is conducted by club members other than the treasurer. Any discrepancies are noted and then, at the end of the audit, discussed with the treasurer to make any necessary corrections.



Cash balances and number of shares of stock –correct as of start of tax year

Cash balances and number of shares of stock-correct as of end of tax year

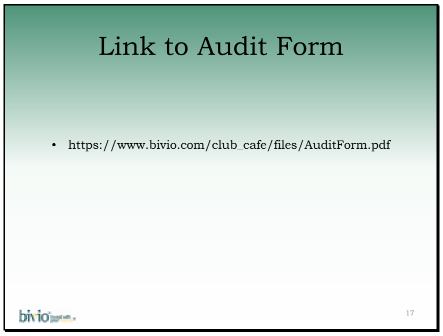
All income received has been recorded correctly

All expenses have been recorded correctly

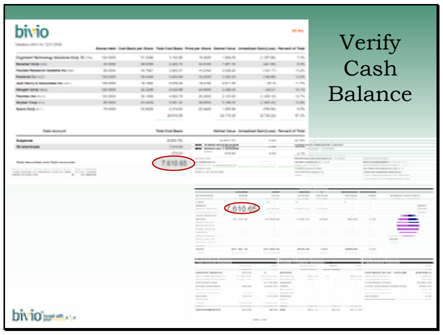
Details of stock transactions are entered correctly so capital gains and losses can be calculated correctly

Member contributions have been recorded correctly so each members ownership percentage is being tracked correctly. This determines how taxable income and expenses are allocated to them.

Withdrawals have been entered correctly so correct taxes are paid by the withdrawing member and the other club members



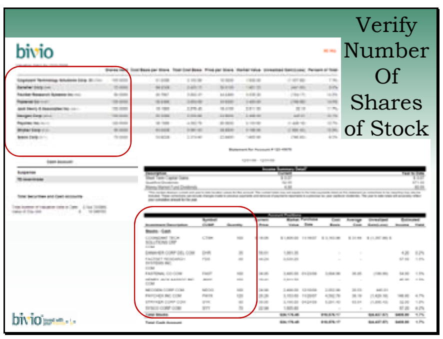
Doing an audit and verifying your bivio records is the major part of doing your club taxes. It is the entire subject of another presentation so we will not go into further details here. You can find the form you will use to conduct an audit in the Club Café files area at this link. This link will be included in the follow up email you will receive.



Step 2 of your audit contains two critical checks that will quickly tell you whether you are ready to prepare your taxes. The first is to verify that the cash balance you have shown in bivio agrees with your end of year brokerage statement.

You do this using a bivio valuation report and your end of year brokerage statement.

First, you compare the cash balances

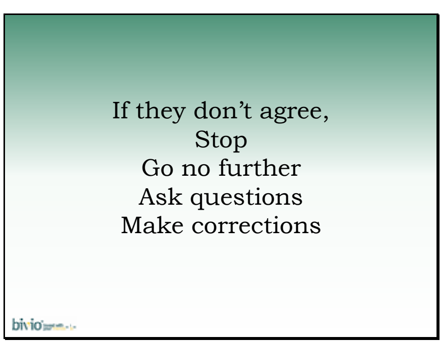


Then, you compare the numbers of shares of each stock you own. First on the valuation statement

then on the brokerage statement

The bivio account should show the same number of shares, that the brokerage account does.

A One Minute Treasurer has been reconciling their bivio accounts with their brokerage statements each month. They know if the cash balances or number of shares doesn't agree that they only have one month of transactions to compare to find where the discrepancy occurred.



This is a critical step. Do not proceed forward if these two checks do not agree.

1099’s

Hopefully none of the above applies to you. You regularly balance your club records and you’ve gone through an audit . For you, there is just one small, final verification you will need to do. That’s comparing your records to your 1099’s

1099-What is it?

- 1099-INT
- 1099-DIV
- 1099-B

What is a 1099? A 1099 is a form that your financial institution sends to the IRS telling them how much taxable income you have made during the year.
The IRS checks that against what you report on your tax return. There are many types of 1099’s. Income from your investment activities will probably show up on one of three different types:

1099 INT
1099 DIV
1099 B

1099-When do you receive it?

February 17, 2010

Financial institutions have until Feb 17, 2010 to get these to you. You do not want to file your taxes until you’ve received them and double checked them.

1099-What do you do with it?

Compare information to your bivio records.

Since the IRS will be matching up the information provided to them on the 1099’s with what you report on your taxes, you need to compare your bivio records to them to make sure they agree or you have a valid reason for any disagreements. Brokers do make mistakes on 1099’s but if something differs from your bivio records you need to investigate why.

Even though you have done an audit and are sure your bivio records are correct, there may be a few small details that you might need to “fine tune”.

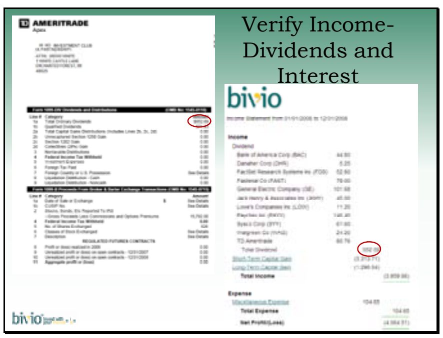
Here are the most common checks and adjustments you might need to make

1099 checks

- Amount of dividends received agree
- Amount of interest received agrees
- Total proceeds from sales agrees

Potential bivio Record Adjustments from 1099 Information

- Dates of end of year dividends
- Qualified/non qualified dividend splits for mutual funds



Here is an example of the way you might receive 1099 information from your broker.
Note that several types of 1099 forms are combined. In this case, the club had no interest income so all they have received is a 1099 DIV and a 1099B

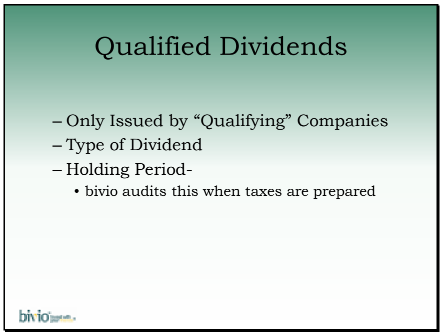
First, double check dividend amounts against your bivio Income Statement.

The amount of total dividends should agree

If you have a Money Market Account, the income may be reported to you as interest or dividends. Just make sure it has been recorded in bivio the same way as it has been reported to you. If you're using AccountSync, it will do this for you.

If Dividend Totals Don't Agree

- You may have missed a dividend
- MM Dividends Incorrectly Classified as Interest
  - Both should have been picked up during your audit
- Dividend Dates
  - Dividend received in January
    - Reported as previous year dividend
      - Fix
        - Edit January dividend entry and change date to end of previous year



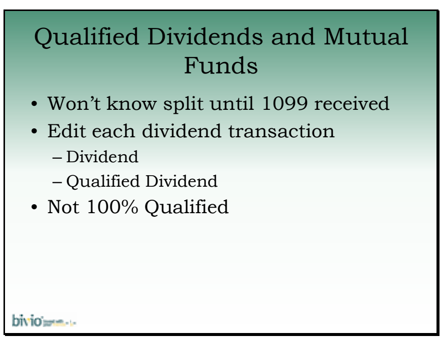
Some of your dividends are being referred to as "Qualified" dividends. This is good. They qualify for a reduced tax rate. They are taxed as long-term capital gains (5% or 15%)
instead of being taxed as ordinary income (10% to 35%).
There are certain requirements for Qualified Dividends:

Only US and certain foreign companies can issue Qualified Dividends

Only Certain types of dividends are qualified. Dividends from Money Market Accounts are usually not

Holding period-You need to have owned the stock paying the dividend for more than 60 days during the time period of 60 days before the ex-dividend date to 60 days after it. The ex-dividend date is the date you must be on record as owning the stock to receive the dividend.

Because often the information is incomplete when dividends are entered, bivio audits all dividends for qualified status when you complete the tax interview at tax time. Until this check is done when you prepare your taxes, do not worry about whether a dividend is showing in your records as Qualified or not.



If you own mutual funds

you will probably not receive information about the Qualified/non Qualified status of any dividends you received until you get your 1099. This is because the fund itself has to do an end of year check.

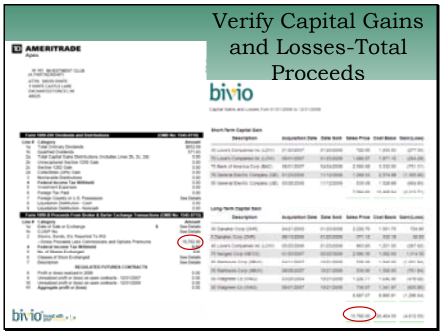
To correct your bivio records, you will have to go through each dividend transaction you've entered for the fund and split it into two parts. One part will be recorded as a

Dividend and the other you will identify as a

Qualified dividend.
This will mean you will end up with two dividend transactions for each date you received a dividend from the mutual fund

Because of this, as we will see when we go through the questions in the tax interview, you also need to make sure that all your mutual funds are identified as securities whose Dividends are "Not 100% Qualified"

After you have prepared your taxes, you will see the Income statement updated to show the final Qualified/Non Qualified status of all your dividends. Note that the amount of qualified dividends may not agree with what is on your 1099. That may be fine. Most brokers do not perform the holding period check. If the purchase and/or sale dates for all your securities have been entered correctly, bivio has calculated the Qualified/non qualified status correctly.

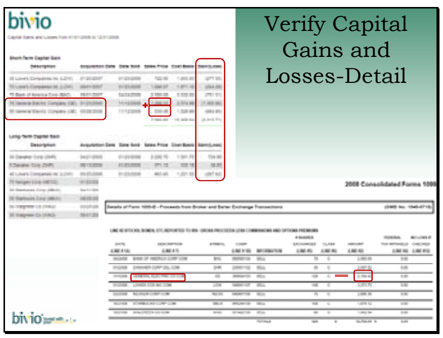


The other type of income most clubs have is Capital gains.

If you sold any securities during the year you will receive a 1099 B
You compare it with the

bivio Capital Gains and Losses report.

First, compare the total gross proceeds.

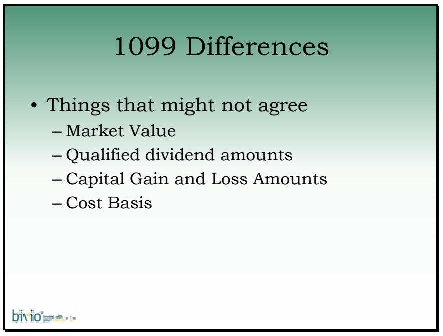


If your overall totals do not agree,

you will have an additional page in your 1099 which details the specific sales the brokerage is reporting. Use the Capital Gains and Losses Report to double check your stock proceeds against the individual stock proceeds on this page. This will help you identify the security whose transactions you will need to review

The actual gain or loss shown on the bivio report is the one that will be reported on your taxes It is based on your actual stock purchases of each lot of a particular stock as well as any spinoffs, mergers, etc. that it may have been involved in. It is important this information be correct. This is why you double check details of your purchase and sale transactions when you do your audit.

This is especially important if you have done any tax lot selling with your broker. If you have told your broker to use something other than FIFO (First in, First out) to select shares of securities to sell, you will have to manually edit your sale transactions in bivio to make sure that the correct lots have been identified there.



There are several valid differences that might appear between your bivio records and your 1099's or your end of the year brokerage statements. You should make sure you understand why the difference exists but don't assume your 1099 is correct and bivio is incorrect.

Market Value

Slight variations in pricing data

Make sure all unlisted stocks have had prices updated whenever you did a transaction that needed a valuation

Qualified Dividend Amounts

Capital Gain and Loss Amounts

The capital gain or loss your brokerage may show on this form may not be correct. They often do not have access to all your stock transactions so they may not know what the correct basis in your shares is. They do not report this to the government. Your broker may or may not have this information depending upon whether they have enough historical information to calculate it. If you have any questions about the amount being calculated by bivio, you need to assemble any brokerage statements that include transactions for a stock and double check them against the transactions that have been added in bivio.

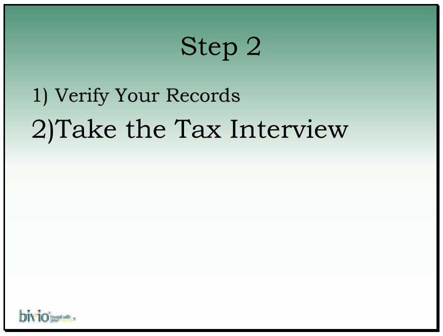
Cost Basis

This may differ for the same reasons the capital gain and loss amounts may be incorrect.

Step 1 is the most important part of preparing taxes and may take the most time. But don't proceed with any other steps until you are sure this one is complete.
Just because your bivio site shows a lot of numbers doesn't mean they're useful for anything. Without verification your taxes may just be

<click> garbage in

<click>garbage out
If this step takes too much time, you may be making your club accounting more complicated than it needs to be. Let us know if you'd like to hear ideas of how you might simplify things.



Once you've confirmed your records, you're into the final steps of preparing your tax forms. These go much quicker. First, you'll take a tax interview to provide the final pieces of information necessary to complete your tax forms.

You can get to the tax interview

by going to Accounting>Taxes

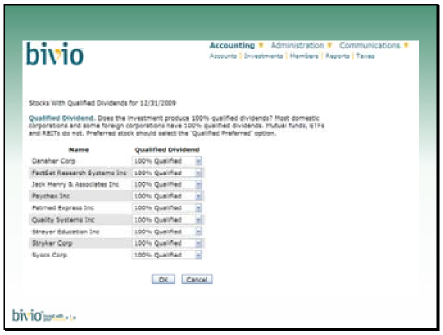
Your tax forms will be generated using your club data after you answer a few questions. You can retake this interview as many times as you'd like.

First, confirm basic club information. Your address, EIN Number and Club Start Date

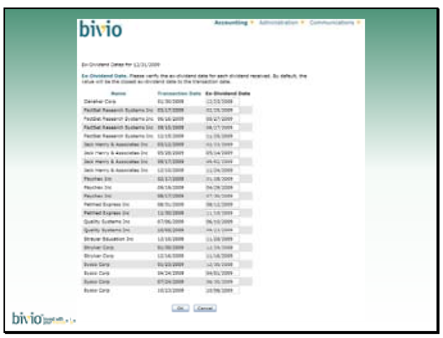
Next, the IRS center the return will go to, the type of Partnership, whether the club is a partner in another partnership and whether you'd like to opt for the Consolidated Audit.

Most clubs should go with the default entries for questions during the tax interview. If you know a different answer applies or you are worried a different answer applies to your club, feel free to email us in support for clarification or discussion of your situation.

Next, is the method that is used to allocate your income and expenses. Again, accept the default. It represents the current recommendation of the Investment Club community



On this screen you identify whether a company is one that pays qualifying dividends. If you own any mutual funds, they should be identified as “Not 100 Percent Qualified”



This page asks you to verify the ex-dividend dates. Bivio enters these for you. The default is the date closest to the transaction date. Make sure they look OK (about every quarter since you’ve owned the stock). If you want to double check anything, Dividendinvestor.com has ex dividend dates. Ex Dividend dates are used to do the final holding period check on your dividends to determine their Qualified/Non Qualified status.

Enter any missing information. You can either enter member’s social security numbers here or write them in on the K-1’s after they are printed. Don’t forget!

Indicate whether all club members are US Citizens or Resident aliens.

Next, you need to indicate if any of your club members are related. If they are, you will have further questions to define who is related to who. If related parties own together more than 50% of your club assets, an additional form, Form B-1, will be generated.

You're done!

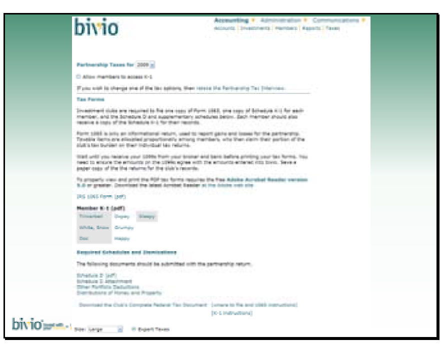
Time to generate the tax return.

A single PDF file containing all the documents you need to file is produced

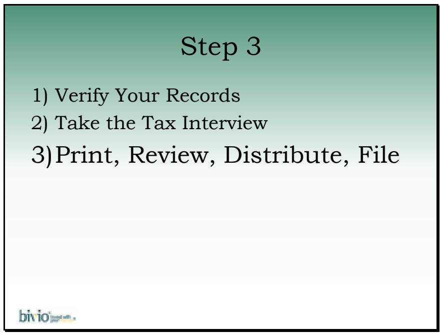
When it is done, you will be asked if you'd like to download it to your computer.

You can return to the Taxes page at any point to retake the tax interview or reproduce your forms. If you change any club data, make sure to retake the interview. Once you've filed them and distributed forms to your members however, you shouldn't make any more changes to the forms or to your club records for 2009 or prior years.

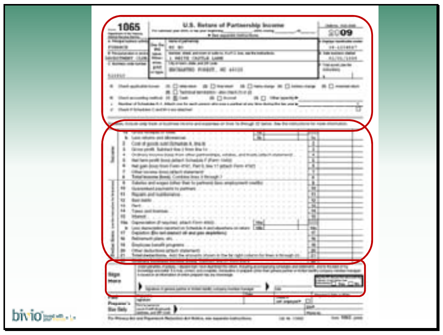
Everyone always wants to know what checking the expert taxes box does. Go ahead! You're a tax expert, aren't you?



It lists all the pages which are part of the total package in case you want to print any of them individually.



Your forms have been generated you're ready for step 3 of the tax preparation process. First you should review what was entered on your forms.



Here's the first page of your 1065

Top section is filled in.

Club name and mailing address.

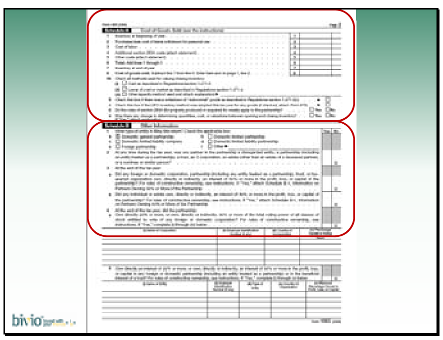
Items A through J (but not item F for most clubs).

Middle section is blank.

Lines 1 through 22.

Don't forget to SIGN HERE at the bottom.

Leave "Paid Preparer's Use Only" section blank.



Page 2-

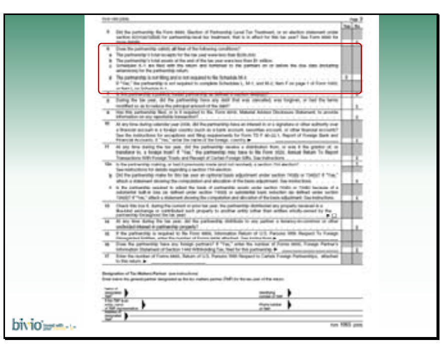
Schedule A should be blank.

All Schedule B questions are answered.

Question 1 depends on how your club is organized.

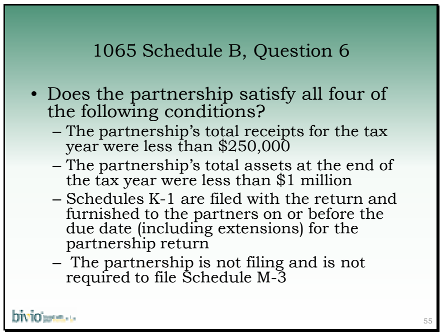
"1a" is the most common answer.

Question 3B is answered yes if any related members of your club owned, in total, more than 50 percent of your club assets.



Page 3

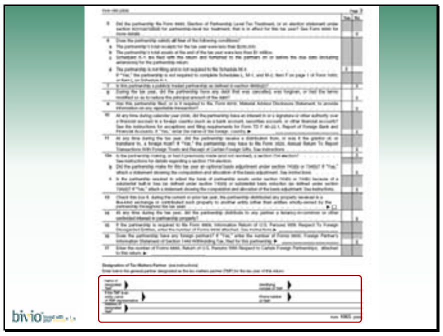
Question 6 is answered "Yes" by most clubs.
For all other questions, most clubs will answer "No" (no answer at all for questions 13 and 17).



Question 6 is answered yes because your partnership satisfied all of these conditions.

Schedule M-3 is only required for corporations with assets in excess of 10 million dollars.

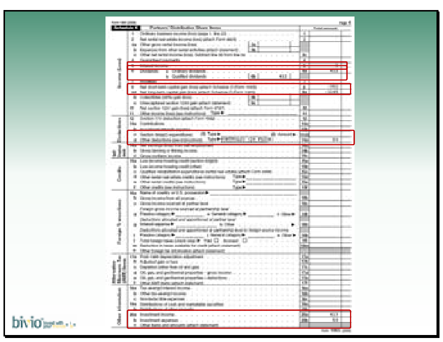
Don't we wish it applied to our investment clubs!



Page 3-

Designation of Tax Matters Partner is optional if your club has less than 10 members. A Tax matters partner is someone that the IRS can contact if they have any questions about the return. If your club has 10 or more members, the contact information for the person who prepared the taxes will be filled in. Make sure, if you are filling in SS numbers by hand that you enter the correct one here if you need to fill this in.

You can enter the name and SS # of a Tax Matters Partner, probably you, that the IRS can contact if they have any questions about the return.



Page 4-Schedule K is where your total club information will be filled in. Most clubs will have only a few entries

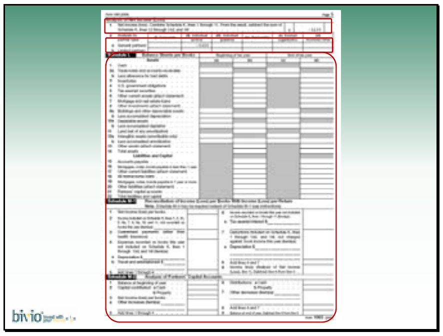
You'll see your interest income on line 5.

Your qualified and non qualified dividends will be entered on line 6.

Your short and long term capital gains are reported on lines 8 and 9. You will only have entries here if you have sold stock or received capital gains distributions from a mutual fund or from a class action settlement from a company whose stock you owned in the past.

Your investment expenses are reported on line 13d. Note the explanation, Portfolio 2% floor, this is because investment expenses are entered as miscellaneous deductions on your personal Schedule A. They are only deductible to you personally if the total you have in that category exceeds 2 percent of your Adjusted Gross Income

For reasons known only to the IRS, your total income and expenses are also shown again on lines 20a and b.



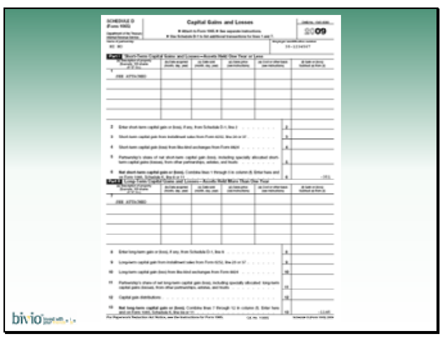
Page 5-This page show the total income or loss for your club this year.

Line one Analysis of Net Income (Loss) is filled in.
For line 2, only the box for General partners, Individual (active) is filled in with the same information from Line 1.

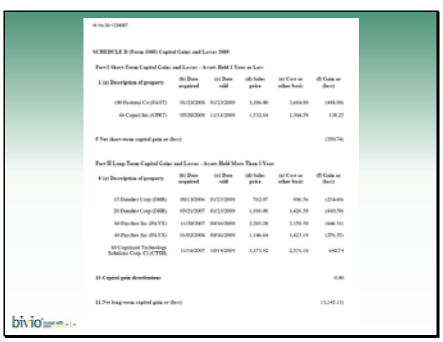
Note that each person's share of this total is allocated to them each year and either increases or decreases their tax basis in their investment in the club. Why is this important? Because when you ultimately withdraw money from your club, you will pay a capital gain or loss based on the difference between what you withdraw and your basis in the club.

For most clubs, Schedules L, M-1, and M-2 will be blank.

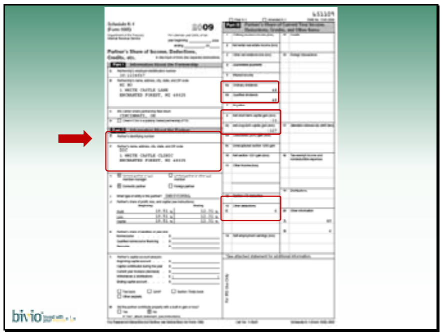
Why? Because most clubs answer "Yes" to question 6 on Schedule B (1065 page 3).



Clubs have sold securities during the tax year will have entries on a Schedule D which will need to be attached to your filing.
bivio produces Schedule D <u>and</u> a separate page with the actual information. The club must file both pages



Here is the supplemental page with the schedule D information on it. It shows the details of all of your sales.



Here is a K-1. You give each member one, showing their share of the income and expenses. You also send all of them in with your 1065.

IF you did not enter member addresses and SS numbers when you took the tax interview,

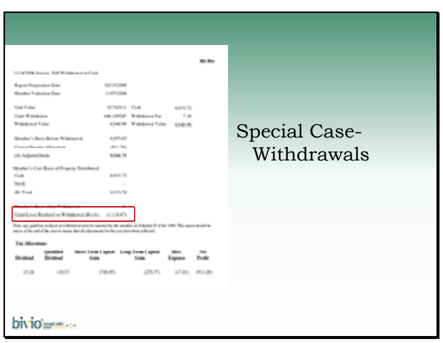
DON'T FORGET TO FILL IN THE PARTNER"S SS NUMBERS ON THE COPIES YOU SEND IN.
You will have the same penalty as the late filing penalty if you file on time but are missing this information.
The numbers from each line of this report will be transferred to the partner's personal Income Tax return. You'll see the same type of entries as were on the Schedule K

Dividends

Capital Gains

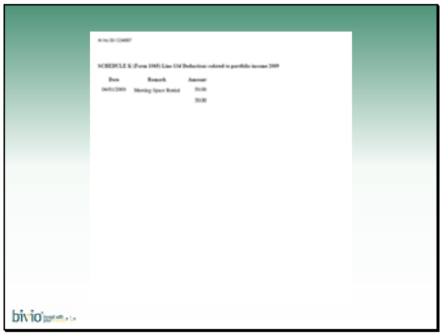
Expenses
The codes for lines 13 and 20 are shown in the instruction attachment page that must be provided with the K-1 to each member

Here is what that page looks like



In addition to a K-1 Form, a member who has withdrawn assets during the year will have additional tax liabilities and will have additional information that does not appear on their K-1

to report on their personal 1040 Schedule D form. They should receive a copy of their Withdrawal report along with their K-1 at the end of the year. Be sure to reprint all Withdrawal reports at the end of the year.

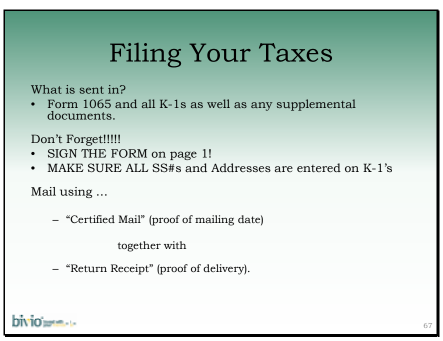


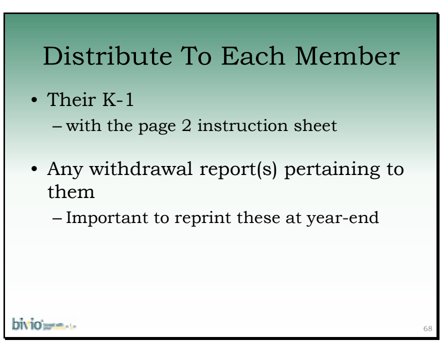
Finally, the tax packet you need to send in may contain some supplemental material such as this page which itemizes the expenses you have reported

And a page like this if you have had any withdrawals. You do not need to send the individual withdrawal reports in with your club taxes. Only give them to the individuals they affect.

If you're reviewed everything and are sure it's correct, it's time to print out your return, sign it, add SS numbers, mail in the full package and distribute individual K-1's. You can check this box

to allow club members with online access to login to bivio and print out their own copy.





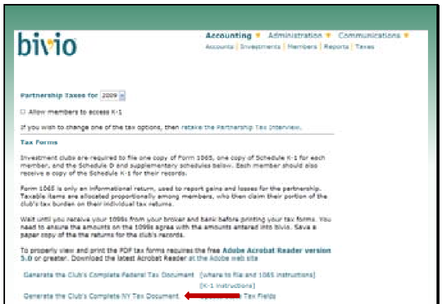
Records to Keep

- Copy of Form 1065 and all K-1s
- Copies of all withdrawal reports (reprinted at year-end)
- Full transaction ledger (Jan – Dec)
- Year end valuation statement and member status report
- Brokerage statements and 1099's

State Taxes

- Included
  - CO
  - PA
  - NJ
  - NY
  - CA
- Other States
  - Contact bivio support
    - Do you need to file state taxes?
    - Links to state forms and instructions
    - Possible assistance

If your club is in one of the states we prepare taxes for, when you take the tax interview, you will have a few extra questions to answer.

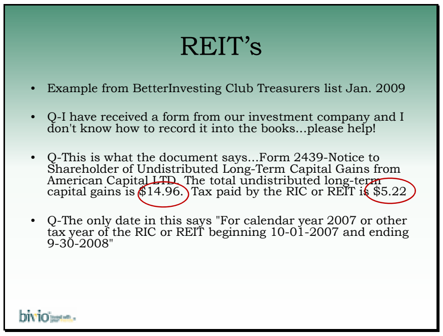


When you're done with the interview, you will

also see the option to generate your state tax returns. You will review, file and distribute the state K-1's to your members in a similar manner to what you did for your federal taxes.

Investments that will cause you tax headaches

- REIT's
- MLP's, PTP's



REIT stands for Real Estate Investment Trust. It's income is reported and taxed differently than income related to stocks and mutual funds.

Club accounting software is not designed to account for or prepare proper tax documents automatically for this type of income.

This is part of a recent question on the Club Treasurers list that reinforces why we don't recommend investment clubs hold this type of investment.

I have received a form from our investment company and I don't know how to record it into the books...please help!

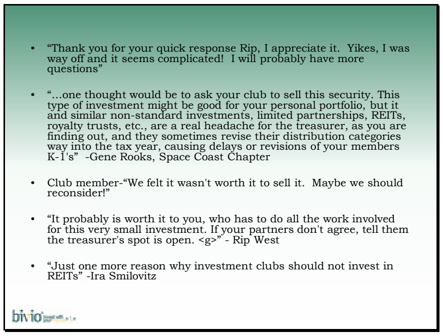
This is what the document says...Form 2439-Notice to Shareholder of Undistributed Long-Term Capital Gains from American Capital LTD. The total undistributed long-term capital gains is $14.96. Tax paid by the RIC or REIT is $5.22.

The only date in this says "For calendar year 2007 or other tax year of the RIC or REIT beginning 10-01-2007 and ending 9-30-2008"

Take special note of the amounts involved that we now have to do special accounting for.

This was an answer supplied by Rip West on what needed to be done to manually try and correct the club's tax forms

I'm not going to read it all.



Which resulted in these responses

“Thank you for your quick response Rip, I appreciate it. Yikes, I was way off and it seems complicated! I will probably have more questions”
Which was quickly responded to by three highly respected members of the Better Investing community who all regularly teach and advise clubs on club accounting.

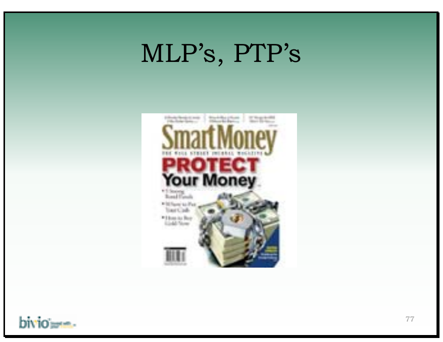
First, Gene Rooks from the Space Coast Chapter “…one thought would be to ask your club to sell this security. This type of investment might be good for your personal portfolio, but it and similar non-standard investments, limited partnerships, REITs, royalty trusts, etc., are a real headache for the treasurer, as you are finding out, and they sometimes revise their distribution categories way into the tax year, causing delays or revisions of your members K-1's”

“We felt it wasn't worth it to sell it. Maybe we should reconsider!”

Then Rip West- “It probably is worth it to you, who has to do all the work involved for this very small investment. If your partners don't agree, tell them the treasurer's spot is open. <g>” - Rip West

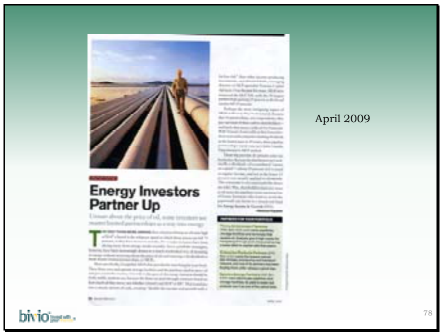
Finally, Ira Smilovitz-“Just one more reason why investment clubs should not invest in REITs” -Ira Smilovitz

Three extremely knowledgeable and well respected BetterInvesting club treasurer teachers and advisors are speaking in unison. Your club accounting is not designed to handle investments in things that require complicated, circumstance specific accounting.

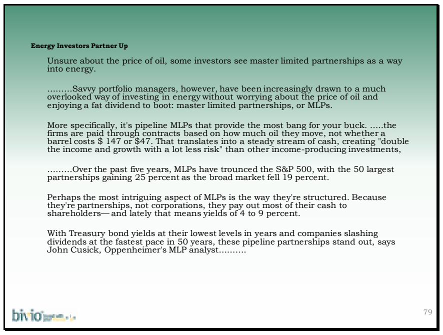


MLP’s and PTP’s are publicly traded partnerships. Let’s talk about how your club might get into one of these by mistake

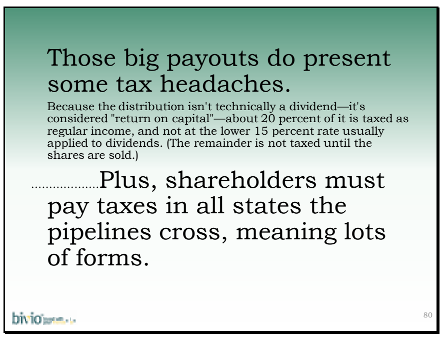
It might start as you read an investing magazine



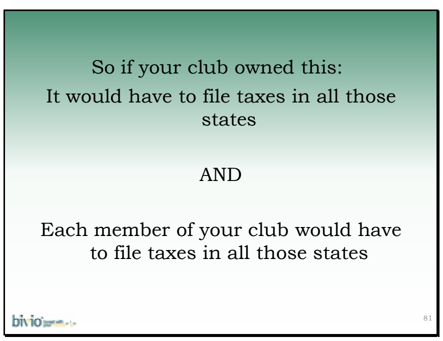
Knowing investors are interested in income generating investments, it might contain an article like this.

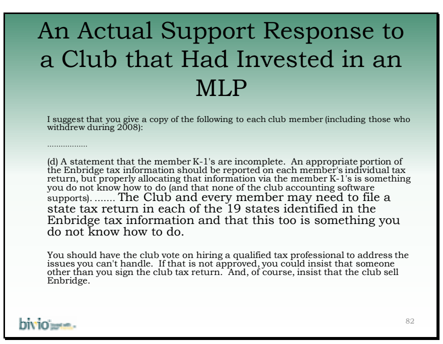


Here's a few excerpts from this article



Then we get to the part of the article that you might miss. Unlike the magazine, I have excerpted this in the size font it should have been written in.





Keep Your Tax Season Simple

Stick with stocks and mutual funds for investments

3 Steps to Prepare Your Taxes

1) Verify Your Records
2) Take the Tax Interview
3) Print, Review, Distribute, File

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Remember to keep your club accounting simple and your tax time peaceful
You can have a great club and comply with IRS regulations without any elaborate accounting knowledge
All you need to do each year is:

Stick with basic investments-stocks and mutual funds

Verify your records

Take a tax interview

Print, Review, Distribute, File tax forms

- A One Minute Treasurer
- Would rather be learning investing than accounting

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Remember

A One Minute Treasurer

Would rather be learning investing than accounting.

Thank You!

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Thank you for attending.

Questions?

support@bivio.com

If you need a phone call, email phone number and 2 or 3 times when you might be available

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It’s Our Birthday!

Birthday Contest