

Arkansas Public Accountant

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January 2004

• **FROM YOUR**
PRESIDENT'S PEN •



Dear Members,

I would like to wish each of you a Happy New Year. It's hard to believe that another year is already gone. Time sure flies when you're having fun.

Whenever the New Year rolls around it means that the Gear Up's tax update seminar is over, all the Christmas presents have been opened, New Year resolutions have been duly noted, and we are ready for tax season.

I enjoyed the opportunity to talk to so many of you during the Gear Up Tax Seminar. I thought the seminar was well attended and hope that everyone is geared up with what they need for the upcoming tax season. In addition, I appreciate all of the input that was given concerning the idea of moving the tax seminar to another location to better serve our needs. We will continue to search for locations that are convenient, efficient, and affordable. If you would like to make any suggestions on potential locations, please feel free to contact anyone of the ASPA's board members or myself.

December was a busy month for most of us. It was a time to make sure all supplies were in stock or at least ordered for the office. For those of us that did not do our Christmas shopping early, we had to deal with the incredible crowds and select from whatever happened to be left on the shelves. As for my family, our shopping is usually finished around October. At least that's what my wife says. Lucky for everyone she is the one who does the shopping. There is no telling what our family and friends would receive for gifts if the shopping were left up to me.

Topics Covered in this Newsletter

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STATE TAX ASSISTANCE

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**FILE GIFT TAX RETURNS EVEN
IF YOU DONT HAVE TO**

December 25th also just happened to be my birthday. Yes, that's right, I am a Christmas baby. My mom really did not want me to be born on Christmas. In fact, she said she did everything she could to hold off my arrival. She, along with a lot of others, feels that people with birthdays so close to Christmas get shorted in the ole present department. As a young kid, I remember being confused about why others received gifts on my birthday, especially my sister. Seeing my confusion and realizing I was too young to understand, guess who else received presents on my sisters next birthday? Yep...for me, Christmas came around August that year-what a Super Mom. I don't receive presents on anyone else's birthday anymore, except for maybe my wife who may need a special power tool around September. But I like having my birthday on that special day of Christmas. I can't think of anyone better to share a birthday celebration with than God's Son.

Here we are at the start of a new year. It's a time for new resolutions or maybe just refreshing old ones. Such as; how much weight do I plan to lose, exercising more regularly, how many golf stokes am I going to lose, but then find later, getting around to reading a few books off the shelf. Those are a few of my standard resolutions. I am sure you have a list of your own. What's important is that you do make a list. Because if you don't write it down. It usually does not get done.

Tax season is just around the corner. And in a few days we will all be in high gear. I hope each you have a most successful season. And that you accomplish all that you hope in this New Year.

Sincerely,
Brian L. Thompson, CPA
President, ASPA

FEDERAL TAX ASSISTANCE
Tax Forms, Instructions and Publications

Forms & Publications

Telephone 800-829-3676
Fax 703-368-9694
Internet <http://www.irs.gov/formspubs/index.html>

Practitioner Priority Service

Telephone 866-860-4529
Fax 901-546-4221

Taxpayer Advocate Service

Telephone 877-777-4778
Telephone 901-395-1900
Fax 901-395-1925

Centralized Authorization File (CAF)

Fax 901-546-4115
(To file POAs)
Fax – TIN

Fax 215-516-3990

General Tax Assistance

Telephone 800-829-1040

Electronic Filing Help Desk

Telephone 901-546-2690

STATE TAX ASSISTANCE

Forms & Publications

Telephone 501-682-1100 (Little Rock)
800-882-9275 (Statewide)
Internet <http://www.arkansas.gov/dfa/>

Taxpayer Assistance

Telephone 501-682-7751

General Assistance

Telephone 501-682-1100
800-882-9275

Refund Information

Telephone 800-438-1992

HAPPY
NEW YEAR
&
PROSPEROUS
TAX SEASON

WHAT THE IRS IS FOCUSING ON NOW

The IRS is entering a new era under its new Commissioner, Mark W. Everson – with tax enforcement returning to center stage.

It is hiring more auditors and criminal investigators, improving the ability of its computers to scan returns and detect tax underreporting, and starting special enforcement programs in targeted areas. By the time your 2003 tax return enters the “audit cycle,” these new programs may be up and fully running -- so know that it may receive more scrutiny than returns have in past year.

The IRS audit rate has plunged in recent years as the IRS focused on reorganizing, modernizing, and improving the quality of its “customer service.”

The IRS Commissioner during last five years, Charles O. Rossotti, notably wasn't a tax expert but a business manager. During his tenure, IRS enforcement resources diminished as large numbers of personnel changed jobs and spent time in training for these positions.

The result being, IRS audit rates fell to historic lows, recently, only about 0.6% of all personal returns have been audited. The numbers of liens and levies issued by the IRS fell sharply, too.

But the reorganization now is largely complete. Its new Commissioner has a more traditional view of enforcement and has made increasing it a top priority. The IRS is now adding new personnel to its enforcement functions. For example, they are adding 150 new agents in 2004 to the Criminal Investigation Division and are planning to add 576 more in 2005. They plan to add more than 1000 personnel to general audit functions in 2004 and want to add another 5,000 in 2005, mostly working on enforcement.

While these numbers are not final yet, they show that the IRS is serious about increasing its audit coverage in the near future.

Not every return will face the same increase in audit risk. Some of the top targets will be self-employed and small businesses.

Almost half of the IRS's planned increase in audit resources in 2004 is scheduled to be applied to this one area.

Self employed individuals and small businesses may receive income that has not been reported to the IRS on information returns, such as 1099s and W-2s. This gives them greater opportunity to underreport income, as well as greater opportunity than most individuals to exaggerate or abuse deductions.

Specially targeted are those with high “total positive income” (TPI) before taxes but low net taxable income after claiming deductions and other tax breaks.

The ratio of TPI to net taxable income that is considered “high” by the IRS varies by type of business. Taxpayers can learn what this ratio is and learn of other audit “red flags” for various particular kinds of businesses from “Audit Technique Guides” published by the IRS.

These audit guides are the same ones used by IRS tax examiners when conducting an audit. The IRS has published more than 60, on businesses ranging from Alaskan commercial fishing to veterinary medicine. They are available free on the IRS Web site, www.irs.gov. Click on “Businesses” and then “Market Segment Specialization Program.”

Pass-through entities are a new major examination target in the IRS business plan for 2004. Pass-through entities are partnerships, S corporations, and trusts that have their income taxed on personal tax returns to their owners.

These entities report the income paid to their owners on Schedule K-1, but the IRS recently admitted that its computers do not match K-1s to individual tax returns the way that W-2s and 1099s are matched. Very large amounts of money are reported on K-1s, so this has been a big gap in the IRS’s “computer matching” program.

The IRS has developed a computer matching for K-1s that matches them to individual returns. So if you weren’t being matched in the past, you were right, but that won’t be the case in the future.

Complicated tax calculations often are made when a pass-through entity computes its own income, which then passes through to its owners. Therefore, calculations don’t appear on the personal tax returns of the owners, and are not visible to an IRS examiner who may look at an owner’s personal return.

This creates the opportunity for abusive calculations at the entity level in order to reduce personal taxes.

The IRS plans to assign more than 250 new agents during 2004 to examine the filings of pass-through entities.

Another audit target will be foreign credit card users. Persons who have bank or investment accounts in other countries may fail to report income earned in them, thinking the IRS will never find out. But the IRS has started identifying such persons through credit card records. That’s possible because people with foreign accounts often tap the money in them by using credit cards issued by their foreign financial institutions.

The IRS is now examining the records of major credit card companies and of businesses that accept credit card charges to identify US users of foreign-issued credit cards.

And while it is perfectly legal to have a foreign credit card, if you have one, the IRS wants to see that you have been reporting the income earned in your foreign financial account.

IRS computers flag tax returns for audit using a “discriminate index function” (DIF) that identifies when a return’s deductions and other items are out of line from the norm. But when income was left entirely off a return and not reported to the IRS on a W-2 or 1099 the IRS often would have no idea that the income existed at all. So,

unreported income has become more costly to the IRS than improper deductions.

The IRS has developed an “Unreported Income DIF” to enable its computers to flag returns that are most likely to have omitted income.

IRS computers have long done a good job of matching W-2 and 1099 information returns to filed tax returns and catching discrepancies between them. But surprisingly, if the IRS found no return filed reporting income shown on a W-2 or 1099, IRS systems often would do nothing about it.

Now the IRS’s systems have been upgraded. If information returns are found without a corresponding tax return, the system will flag a likely non-filer for further examination.

Abusive schemes and false tax shelter promotions have multiplied in recent years, often using bogus trust arrangements to purportedly make wages or income tax free or to make personal living expenses deductible. There has been a spread of false claims such as that employment taxes need not be paid, that income tax is voluntary and that tax reparations are available to the decedents of slaves, and so on.

The IRS has begun a program of criminally prosecuting those who profit by marketing these scams, as well as identifying and sending tax bills to those who use them.

NEW BUSINESS AUTO DEPRECIATION
DEDUCTION LIMITS

The IRS has announced deduction rules and limitations for automobiles used for business that are bought or leased during 2003.

For passenger autos, the new maximum deductions are:

First year - \$7,660 (car acquired before MAY 6)
\$10,710 (car acquired after May 5).

Second year - \$4,900

Third year - \$2,950

Succeeding years - \$1,775

Leased vehicles. If a car is leased instead of purchased, the lease payment is deductible to the extent that the car is used for business. However, when a passenger auto first used in 2003 has a value of more than \$18,000, an amount for tax purposes will be included in the leasing taxpayer’s income. The amount varies by the value of the car.

For a car worth \$18,100 the income amount rises from \$10 in the first year of the lease to \$45 in the fifth year. For a car worth \$70,000, the corresponding amounts rise from \$185 to \$835. These amounts are provided in an IRS table.

These are available in IRS Revenue Procedure 2003-75, IRB 2003-43,1, found at www.irs.gov.

FILE GIFT TAX RETURNS EVEN IF YOU
DON’T HAVE TO

When the value of a gift does not exceed the amount of the annual gift tax exclusion, \$11,000 per recipient, no gift tax return need be filed. But if the gift consists of property, rather than of cash or traded securities with published market value, it can be smart to file a protective gift tax return.

The IRS may later say it was worth more than \$11,000 and creating a tax liability. Reporting the gift on a gift tax return limits to three years the time period in which the IRS can challenge its value. Then the gift's value is protected forever after. If a return is not filed, there is no time limit to an IRS challenge.

In today's weak economy, with the value of many kinds of property and investments depressed, it is especially important to protect the valuation of a gift by filing a gift tax return.

After the economy recovers, the value of a gift that is made, such as shares in a private business or in business real estate, may rapidly grow to be much higher than it is today. An IRS agent looking at the high value of such a property several years from now may think that the gift was worth more than \$11,000 on the date of the gift. If a gift tax return was filed, the agent won't be able to do anything about it.

CONTRATULATIONS!

The following members of ASPA have acquired the Accredited Tax Practitioner credential in 2003. At this time I know that all members join me in offering them our congratulations on this achievement.

Diana L. Sellers of Sherwood

Aubrey L. Jayroe of Forrest City

Michael E. McDonald of West Helena

When you see these persons at a seminar or somewhere else during the coming months, be sure to take the time to offer your congratulations in person.

I HOPE EVERYONE HAD A GREAT

CHRISTMAS AND NEW YEARS

HOLIDAY. NOW, LETS GET DOWN

TO THE JANUARY FORMS THAT

HAVE TO BE FILED AND GET

STARTED ON TAX SEASON, 2004.

WHAT BETTER WAY TO START

THE NEW YEAR. ☺



APPLICATION FOR MEMBERSHIP IN
THE ARKANSAS SOCIETY OF
PUBLIC ACCOUNTANTS

P.O. Box 725
Newport, Arkansas 72112
llonga@ipa.net
www.arspa.org

Last Name First Name Middle Initial Business Phone Home Phone

Business Address _____

How many years of accounting have you had? _____ Date of Birth _____

Sole Practitioner [] Partner [] Employee [] Corporate Officer []

Name of Firm _____ Number of Employees _____

Name of Partner(s) _____

Are you a Licensed, Registered or Certified Public Accountant? _____ If yes, give License# _____

Are you an Accredited Public Accountant? _____ If yes, give Accreditation # _____

Are you an Enrolled Agent _____ If yes, give EA # _____

Do you hold an Associate or Baccalaureate degree with a minimum of 24 semester hours in Accounting? Yes _____ No _____

Are you engaged in any other trade or profession? _____ If yes, please describe _____

Please list other accounting organizations in which you hold membership: _____

I hereby state that the accompanying statements are correct to the best of my knowledge and belief. I further state that I will abide by the Constitution and By-Laws of the Society and will practice in strict conformity with the Code of Ethics and Rules of Professional conduct adopted by the Society.

Date _____ Signature of applicant _____

Annual dues are payable IN FULL in advance and are prorated for credit by ASPA on a monthly basis to August 31 - the end of ASPA's fiscal year.

[] Membership Annual Dues \$85.00 [] Firm Annual Membership \$50.00 [] Diamond State Annual Dues \$15.00
(Non-Residents only)

Do Not Write Below This Line

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*State Society dues payments may be deductible as an ordinary and necessary business expense. However, they are not deductible as charitable contributions for Federal income tax purposes.

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The ARKANSAS PUBLIC ACCOUNTANT is the monthly publication of the ARKANSAS SOCIETY OF PUBLIC ACCOUNTANTS. We are a professional organization dedicated to the promotion of accountants and tax preparers in the State of Arkansas. We accept newsworthy articles and advertising. If you have either of these for publication, please contact the editor.

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