Arkansas Public Accountant

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ARKANSAS SOCIETY OF PUBLIC ACCOUNTANTS

June 2004

Topics Covered in this Newsletter

• FROM YOUR PRESIDENT'S PEN •

Dear Members:

Let me begin this month's article by clarifying some things said, or better yet, not said in last month's article. Last months article was a follow-up on the idea of ASPA changing its name. In that article I mentioned one of the reasons for the change was to be more attractive to new members. I specifically mentioned attracting CPAs but unfortunately did not mention our efforts to attract Enrolled Agents. It was that omission that gave the unfortunate impression that ASPA was going to be another society of CPAs. That is not the direction we want to head at all and I apologize for giving that impression. ASPA is a wonderful organization that allows professionals with all sorts of designations to join and take part.

In the next four months, ASPA will be offering a majority of our continuing educations programs. We will have fantastic Gear Up speakers again this year. We will start in early June with Estates and Trusts. In August, we will have a two-day accounting seminar, Compilation and Review. Then in September we will have another two day class in Business Entities. You will not want to miss any of these great seminars. These seminars give you the opportunity to get the CPE you need to be in compliance with the State Board of Public Accountancy and any other credential you hold that requires CPE. And sometimes as equally important, it gives you the opportunity to network with other practitioners from around the state.

May and June is the time of year that many tax and accounting firms evaluate what software they will be using for the following year. It's the time of year that most software companies offer early bird discounts to get you to renew their product. At our firm, we will be switching individual tax software for the first time in over fifteen years. It is both a scary and exciting thought. This is a very important decision for a tax office. It's no wonder its taken two years to finally make this commitment. Hopefully by this time next year we will not be committed on some 8th floor of a local hospital.

I look forward to seeing many of you soon at an upcoming seminar.

Sincerely,

Brian L. Thompson, CPA
President, ASPA

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Why the IRS isn't collecting money from deadbeats. IRS collection resources have been stretched for years, and management believes that the best use of manpower is to focus on taxpayers who have liabilities incurred in recent years. The theory is that these people might have assets that the IRS can levy against. What this means is about $16 billion in unpaid tax liabilities are not being pursued. If you have clients who have owed the IRS money for more than eight to ten years, the IRS will have stopped trying to collect it. **NOW** Congress and some at the IRS want to outsource collection work to private collection agencies who would get to keep a piece of every dollar collected.

Sham trusts and unscrupulous tax preparers. The IRS has started to move aggressively against tax preparers who sell trusts to clients that become vehicles to evade income tax. The trusts are used to deduct what would otherwise be personal living expenses as business expenses. Tax preparers convince gullible and greedy clients to pay them considerable sums of money to establish a trust and "obtain the secrets of avoiding income tax." *Method of attack:* The IRS goes to federal district court and requests that the judge issue an injunction against the tax preparer to prevent him/her from selling such trusts and from preparing tax returns. This approach has been successful, but for every operator put out of business, there are dozens in business.

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TAX INFORMATION FROM THE IRS
JUNE 2004
PROVIDED BY SB/SE TAXPAYER
EDUCATION & COMMUNICATION
LITTLE ROCK, ARKANSAS

IRS Offers Penalty Refund for EFTPS Enrollment

The Internal Revenue Service announced an incentive to encourage enrollment in and use of the Electronic Tax Payment System (EFTPS). Approximately 1 million employers could qualify for a refund of a previously paid federal tax deposit (FTD) penalty.

The EFTPS-FTD penalty refund offer allows business taxpayers an opportunity to receive an automatic one-time penalty refund if they have been assessed a deposit penalty on a Form 941, Employer's Quarterly Federal Tax Return. The offer is available to employers who are not mandated to use EFTPS. To qualify for the offer, the employer must:

- use EFTPS for one year (four consecutive quarters)
- make all Form 941 payments on time and,
- have previously fully paid the penalty.

"This approach is a sound business decision for both taxpayers and the government," said IRS Commissioner Mark W. Everson. "Using the electronic payment system is much more accurate and much less burdensome for taxpayers. At the same time, the government saves money because there are fewer errors, fewer notices and fewer problems."

Using EFTPS eliminates the vast majority of the errors found on paper submissions. These errors on paper coupons result in late or misapplied payments and an FTD penalty.

"Paying taxes using EFTPS means almost 20 times greater accuracy," said Dick Gregg, FMS Commissioner. "Greater accuracy means fewer penalties. I encourage individuals and businesses to enroll today and save time and money." Beginning in 2005, the IRS will automatically determine which employers have achieved the four quarters of EFTPS compliance and reverse the most recent full-paid penalty minus any outstanding taxes. No other action by the employer is necessary.

The IRS will look back up to four quarters prior to the four-quarter compliance period for a full paid FTD penalty to abate. Penalties paid earlier than one year prior to the four-quarter compliance period are not eligible for the automatic offer.

EFTPS is a free service provided by two bureaus of the U.S. Department of the Treasury, IRS and the Financial Management Service (FMS). EFTPS gives businesses, individuals, and tax professionals the ability to make federal tax payments electronically online, by phone or with batch provider software for professionals.

Taxpayers can enroll in EFTPS by visiting EFTPS.gov or by calling EFTPS Customer Service at 1-800-555-4477 to receive an enrollment form by mail.

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FARMERS MAY HARVEST LOWER TAXES BY AVERAGING INCOME

A provision in the Taxpayer Relief Act of 1997 allowed farmers to elect to compute their tax liabilities by averaging, over the prior three years, all or a portion of their taxable income from farming.

Farm Income Averaging may not apply to all farmers and is not automatic for those who do qualify. Farmers who do qualify need to make this election when they file their Form 1040 in order to reap the tax savings offered by this provision.

Who can qualify for income averaging?

You can qualify for income averaging if you engage in the trade or business of cultivating land or raising or harvesting any agricultural or horticultural commodity including:

- Operating a nursery or sod farm
- Raising or harvesting trees bearing fruits, nuts, or other crops
- Raising ornamental trees (but not evergreen trees more than six years old when severed from the roots,
- Raising, shearing, feeding, caring for, training and managing animals and
- Leasing land to a tenant providing the lease payments are:
  - Based on a share of the tenants production
  - Determined under a written agreement before the tenant begins significant activities on the land

You can use farm income averaging to figure your tax for any year in which you were engaged in a farming business as:

  - An individual

- A partner in a partnership

- A shareholder in an S corporation

- Services performed as an employee are disregarded in determining whether an individual is engaged in a farming business. However, a shareholder of an S-corp engaged in a farming business may treat compensation received from the corporation that is attributable to the farming business as farm income.

Note: You do not need to have been engaged in a farming business in any base year.

District Governor's Column

REGISTRATION OF TAX PREPARERS
(THE GOOD, THE BAD AND THE UGLY)

Rumor has circulated for years regarding the imminent required registration and/or regulation of tax preparers. It appears that time is indeed imminent –at least, consideration of it has become serious. The Senate Finance Committee has released the proposed Tax Administration Good Government Act (S. 882) which, if enacted would result in registration of tax preparers.

Many believe regulation of tax preparers is an idea whose time has come, and that closer scrutiny and regulations of these practitioners will help protect from unethical preparers, assure improved competency, and prevent abuse of the system. Others find provisions of the proposed bill to be onerous, burdensome, and unduly restrictive. Some are concerned with the cost of administering a comprehensive program such as that envisioned by S.882.

These are some of the key provisions of the Tax Administration Good Government Act:

- Section 141 of the Act would require registration of Federal Income Tax Preparers and Refund Anticipation Loan Providers. Refund of tax to a preparer or RAL would be prohibited if the tax return does not include the registration number of the preparer.

- To qualify for registration, a tax preparer would be required to successfully complete an examination designed to test technical knowledge and competency needed in the preparation of individual and business income tax returns.

- In order to renew registration, tax return preparers would be required to demonstrate continued competency by passing annual "refresher" examinations. The content of these exams would include tax law update information.

- The proposed Act provides for collection of reasonable fees for registration and for renewal of registration to cover the cost of administering the program.

- Registered tax preparers would be subject to rules of conduct that are consistent with rules governing any federally authorized tax practitioner.

- The Treasury Department would maintain and publish a list of registered individuals and a list of those individuals who have had their registration revoked. If a return is prepared by a non-registered preparer, the taxpayer would be notified.

– A tax preparer found to be in violation of the Act would be subject to a penalty of $500 for each incident of non-compliance.

– The Secretary of the Treasury would be charged with conducting an information and consumer education campaign to inform the public of the requirements that preparers must sign the return prepared for a fee and display notice of their registration.

CPAs, Enrolled Agents, and attorneys would be exempt from the registration requirement.

NSA is following this situation closely. Executive Vice-President, John Ams, and Director of Federal and Legislative Affairs, Michael Chakarun, met with Pat McDonough of IRS who has been tasked to develop the IRS position on the possible regulation of tax preparers. The language of S.882 is being carefully studied and analyzed. Letter voicing NSA's concerns regarding the proposed Act are being sent to key members of the Senate.

Perhaps it is time for you to contact your own Senator and make your views as a tax preparer known.

Wanda Samek
District Governor
NSA District VIII

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JUST IN FROM NSA

ALERT

The Senate passed the above mentioned bill on May 19 of this year. It also requires the registration of refund anticipation loan providers and payroll agents and for registered payroll agents to post a reasonable bond.

The bill must now go to a conference committee to resolve differences with a similar bill passed by the House of Representatives last year (HR 1528).

NOTE: I am sending an email to John Ams and Mike Chakarun asking them to request that Licensed Public Accountants be included with CPAs, EAs and Attorneys with not having to register.

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TAX PROFESSIONAL VOLUNTEERS NEEDED

THE INTERNAL REVENUE SERVICE TAXPAYER EDUCATION AND COMMUNICATION (TEC) OFFICES IN ARKANSAS ARE LOOKING FOR CPAs AND ENROLLED AGENTS WHO ARE AVAILABLE TO INSTRUCT SMALL BUSINESS WORKSHOPS. EXAMPLES OF WORKSHOPS TO BE HELD INCLUDE: SMALL BUSINESS WORKSHOP, WORKER CLASSIFICATION (EMPLOYEE VS. INDEPENDENT CONTRACTOR), S-CORPORATION, SOLE-PROPRIETOR AND EMPLOYMENT TAXES.

CONTINUING PROFESSIONAL EDUCATION (CPE) CREDITS ARE AVAILABLE FOR TEACHING THESE WORKSHOPS.

LESSON PLANS AND COURSE MATERIALS

ARE PROVIDED. INTERESTED INDIVIDUALS SHOULD CONTACT DENISE DOLLARD AT (479) 648-9433 EXTENSION 2233 OR VIA EMAIL AT Denise.D.Dollard@irs.gov

IRS ALERT

The IRS has sent notices stating a Form 6251 must be filed before the 2003 return can be processed. The notice is erroneous. IRS QuickAlerts@irs.gov email dated 5/12/04 states in part the following: "Some taxpayers who e-filed their returns received a letter from the IRS stating that information submitted with their return indicated a Form 6251 should have been filed with the tax return. If the taxpayer received this letter and is certain no adjustments are necessary, the taxpayer does not have to respond to the letter."

If your client receives such a letter demanding a Form 6251 the following is suggested:

☐ Reply by fax to the IRS at 559-456-5647. The letter the IRS sent will include the information you need on the fax cover sheet.

_ Have your software force a Form 6251 and attach it to your fax.

_ Include a note that the Form 6251 was not required to be filed and that there is no AMT.

While the QuickAlerts notice referred to e-filed returns, the letter requesting a form 6251 is also being incorrectly sent to paper filed returns.

TIME CHANGE FOR GEAR UP SEMINAR

Gear Up has requested that we start the seminars at 8:15 and end at 4:45.

SEIZURES, LEINS AND LEVIES RISING TOO

The number of IRS collection actions shows the same pattern, only even more extremely. These actions have risen faster than the actual audit rate—but only after falling even further than the audit rate did.

IRS property seizures increased in 2003 to 539% of what they were in 2000 - but in that year there were only 74. The 399 seizures in 2003 remain a 96% decline from the 10,449 of 1996.

Liens in 2003 reached 327% of what they were when they bottomed out in 1999, 548,683, up from 167,867. That is still 27% fewer than the 750.225 in 1996 and 62% less than the almost 1.5 million in 1992.

Levies increased in 2003 to 765% of their number in 2000 to 1,680,844, up from 219,778. That was still less than half of the 3.6 million levies in 1997.

By the time you die, you should be so used to paying taxes that it would be almost second nature to you.

Will Rogers

Philosophy teaches a man that he can't take it with him; taxes teach him he can't leave it behind either.

Mignon McLaughlin

The 2003 Directory of Licensed Practitioners in Arkansas is now available on line at www.arkansas.gov/asbpa. Take a look and make sure you are listed and listed correctly.

APPLICATION FOR MEMBERSHIP IN THE ARKANSAS SOCIETY OF PUBLIC ACCOUNTANTS

P.O. Box 725
Newport, Arkansas 72112
longaspa@cox-internet.com
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

State Member Approving Membership

Signature Title Date

Sponsor, If Any

FOR ASPA OFFICE USE ONLY

Amount	Date Received	Control Number

"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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FOR YOUR INFORMATION

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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