

# Arkansas Public Accountant

*A Publication of the Arkansas Society of Public Accountants*



**March 2004**

• **FROM YOUR**  
**PRESIDENT'S PEN** •



Dear Members:

ASPA sponsored a technology seminar last year. It was there that Bob Jennings spoke about using dual monitors connected to a single computer as well as a host of other valuable things. This has been my first tax season using this dual monitor system and I absolutely I love it. It makes working from scanned images so much easier and more productive. I can't imagine not having the two monitors now. If you are going to a paperless or a less-paper environment, you need to seriously consider adding a second monitor to your computer this year. After tax season, that is.

I know many of you have been working day and night trying to meet the demands of your clients. I share your pain in this continuing annual adventure. Many things seem to get neglected during the heat of tax season. Things like bookwork for your business clients, special projects, and family time just name a few. For some of these things there may be little or no consequence. However, for others the penalty can be great. The price can be the loss of tax or business clients, family and friendships, or your family dog.

Our dog is a white miniature poodle named Snuggles. She has been our faithful loving companion for over fourteen years. She is very obedient and house trained which is very important in a dog. Lately I've noticed a difference in snuggles as I have been spending more time at the office. She used to get so excited when I walked in the door. But recently, I've seen less excitement. Where snuggles used to run outside and take care of her business and run back in just to be by my side, now she runs outside and keeps going straight for the neighbors house. My neighbor has been

## Topics Covered in this Newsletter

**HOW IS FILING SEASON GOING?**

**TAX INFORMATION FROM THE  
IRS PROVIDED BY SB/SE TAXPAY-  
ER EDUCATION & COMMUNICA-  
TION LITTLE ROCK, AR**

**TREASURY AND IRS PROPOSE  
NEW TAX FORM FOR CORPO-  
RATE TAX RETURNS**

**A BLAST FROM THE PAST**

dog setting some for us during the day. It seems they have had more time to spend with her and have provided her the attention she's needed. You know you've been really neglectful when your dog doesn't want to come home.

Our clients can be just like Snuggles. If not shown the proper attention, they'll disappear and find someone who will care for them. They'll locate some other tax preparer or bookkeeper that can get their work out on time. An accountant friend of mine recently told me a story of an incident that happened to him. He delivered a financial statement to one his very best write-up clients. He apologized for the tardiness and, of course, blamed it on tax season. The client replied, "That's okay, I'm used to it." That comment really hit home to him. He realized his priorities needed adjusted and vowed to not let that happen again. Another accountant friend told me that he does not put anything on the back burner anymore. He just works harder and longer.

April 15<sup>th</sup> is right around the corner. For many of us that do tax work, there are plenty of late nights before it is all over. I challenge each of you to work harder, longer, and smarter in order to fulfill the needs of your clients.

Sincerely,

*Brian L. Thompson, CPA*  
President, ASPA

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**Abusive Roth IRA schemes targeted by IRS.**

The totally tax-free distributions available from Roth IRAs have led to their use in tax-avoidance schemes, says the IRS. How: A Roth IRA is set up as the owner of a corporation. Assets such as accounts receivable, are then transferred to the

corporation while valued at below their market value, with the corporation paying less than full value for them. The effect is to transfer assets into the ownership of the Roth while avoiding the annual IRA contribution limit. The IRS warns that it is aware of these schemes and is targeting them in examinations, and that steep penalties may result when they are discovered. IRS Notice 2004-8; IRB 2004-4.

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**Valuation guide for charitable donations of small, used items.**

When used goods are donated to charity, you can deduct their value, but you may not know how to determine that number. Helpful: Check the Salvation Army's on-line donation valuation guide. Go to [www.salvationarmyusa.org](http://www.salvationarmyusa.org) then in the search box enter "valuation guide." It will produce a link to a valuation guide covering men's, women's and children's items, appliances, dry goods, and furniture.

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**IRS gets tough.** The IRS continues to summon credit card records to find foreign bank accounts. It recently summoned FedEx records to identify customers who make charges using credit cards issued on foreign banks. The IRS believes many individuals with undeclared foreign bank and investment accounts tap those funds through the use of foreign- issued credit cards.

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**How is Filing Season Going?**

Every year, near the end of tax season, the House Ways and Means Committee holds a hearing on how well the tax season went. To help NSA pre-

pare for this, please send an email to NSA with your comments. What went smooth, what was not. What were the problem areas? What was your experience with e-filing 1120s and other business returns? Please send your thoughts to [mchakarun@nsacct.org](mailto:mchakarun@nsacct.org). Thanks!

**TAX INFORMATION FROM THE IRS  
PROVIDED BY SB/SE TAXPAYER  
EDUCATION AND COMMUNICATION  
LITTLE ROCK, AR**

**IRS OFFERING A PENALTY REBATE FOR ENROLLING IN EFTPS.** The Internal Revenue Service's (IRS) has announced nationwide implementation of the FTD-EFTPS penalty refund offer. This offer allows paper coupon users who were assessed a Form 941 deposit penalty the opportunity to receive a one-time penalty refund. To qualify, the employer must:

- \_ use EFTPS for one year
- \_ (four consecutive quarters)
- make all their form 941 payments
- on time and fully pay the penalty.

In April 2005, after the returns are filed for the fourth quarter of 2004, the IRS will automatically determine which employers have achieved the 4 quarters of EFTPS compliance and reverse the taxpayers's most recent full-paid FTD penalty. The refunds will be issued on a quarterly basis following the scheduled Form 941 due dates.

The IRS computer will look back up to 4 quarters prior to your 4-quarter compliance period for a fully paid FTD penalty to refund. So you will want to enroll and sue EFTPS for four quarters before your most recent penalty is too far in the past to be refunded. The IRS computer will automatically refund the penalty if you qualify. For

example, if you sue EFTPS for all four quarters in 2004, the computer will look back as far as the quarter beginning January 1, 2003, for a full paid FTD penalty.

Every quarter, beginning in early 2005, the IRS computer will look for accounts that have met the qualifications and automatically refund the most recent penalty incurred prior to the start of your 4-quarter compliance period.

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**Retention Period for Forms 8878 & 8879.** When preparing returns using a Practitioner Pin Number please remember that Revised Form 8879 (IRS e-file Signature Authorization) and Form 8878 (IRS e-file Signature Authorization for Application for Extension of Time to File), are required.

EROs are required to retain completed Forms 8878 and/or 8879 for three (3) years from the return due date or IRS received date, whichever is later. Forms 8878 and 8879 should not be sent to IRS. EROs should note Form 8878 is not an extension of time to file.

For additional information review Form 8879 and 8878 instructions. Go to [www.irs.gov/efile](http://www.irs.gov/efile) and type form number in the Forms and Publications search box.

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**Treasury and IRS Propose New Tax Form for Corporate Tax Returns**

In an effort to increase the transparency of corporate tax return filings, the Treasury Department and Internal Revenue Service released a new proposed draft form, Schedule M-3, Net

Income (Loss) Reconciliation for Corporations with Total Assets of \$10 Million or More, for use by certain corporate taxpayers filing Form 1120, U. S. Corporation Income Tax Return. The new Schedule M-3 would expand the current Schedule M-1, which has not been updated in several decades.

Schedule M-1 reconciles a corporation's financial accounting income or loss with the taxable income or loss reported on the Form 1120. Large and Midsize Business (LMSB) taxpayers (those with total assets of \$10 million or more) will complete the new Schedule M-3 in lieu of completing Schedule M-1. Small Business and Self-Employed (SB/SE) taxpayers will not be required to complete the new Schedule M-3 and will continue to complete Schedule M-1. Other federal tax returns that also require the completion of Schedule M-1 (e.g. Form 1065, U. S. Partnership Return of Income, and Form 1120S, U. S. Income Tax Return for an S corporation) may incorporate Schedule M-3 in the future.

"The proposed Schedule M-3 will make differences between financial accounting net income and taxable income more transparent. This will help agents determine from the return whether the return should be audited and identify the differences that matter most in the audit of the return. We see benefits to taxpayers and the IRS from the new Schedule: a reduction in unnecessary audits and a swifter focus on those differences that are more likely to arise when taxpayers take aggressive positions or engage in aggressive transactions. In addition, the increased transparency will have a deterrent effect," stated Treasury Assistant Secretary for Tax Policy Pam Olson.

"The new Schedule will let the IRS sharpen and improve monitoring of corporate compliance," said IRS Commissioner Mark W. Everson. "Our

objective is to identify and resolve potential audit issues promptly. This information will help us do so."

"These changes will enable us to focus our compliance resources on returns and issues that need to be examined and avoid those that do not." Said Deborah M. Nolan, IRS Large and Mid-Size Business Division Commissioner. "Increasing the transparency of corporate tax returns is critical to our objectives to provide certainty to taxpayers sooner and to improve overall compliance."

The Treasury and IRS expect that the proposed Schedule M-3 will be finalized for use with federal income tax returns for tax years ending on or after December 31, 2004.

The draft Schedule M-3, along with a general description of Schedule M-3, is attached and may be assessed on [www.irs.gov](http://www.irs.gov). Instructions for Schedule M-3 will be released in the future and will be available on [www.irs.gov](http://www.irs.gov).

Comments are requested regarding proposed Schedule M-3, including comments on ways to minimize taxpayer burden. In addition, comments are requested on significant difficulties that taxpayers may encounter in the use of Schedule M-3 is required for a tax year that begins before Schedule M-3 is finalized.

Comments should be submitted by April 30, 2004 to:

Susan Blake  
Internal Revenue Service  
Office of Pre-Filing & Technical Guidance  
1111 Constitution Avenue NW  
Mint Bldg M-3-353 LM:PFT  
Washington, D.C. 20224  
Telephone number: 202-283-8414  
Email address: [PFTG2@irs.gov](mailto:PFTG2@irs.gov)

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**The only perfect science is hindsight.**

**The IRS may be illegally collecting tax on long-distance phone service and be forced to pay large refunds.**

The telephone excise tax has existed since 1898. But in defining the types of service that are subject to tax, the law lists long-distance service for which the toll charge varies with the distance of each individual call.

Most long-distance charges no longer vary by distance. The IRS has continued collecting tax on such calls anyhow. But now, taxpayers have begun filing for refunds in court – the first, Office Max, seeks \$284,000, news reports say the IRS has already paid some administrative refunds to businesses that have sought them.

Experts say taxpayers have a good chance of winning such cases. Refunds could total \$6 billion.

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**A mediator can help resolve disputes.**

The IRS plans to expand its fast tract settlement (FTS) program to small businesses “very soon.”

FTS will complement the fast track mediation (FTM) the IRS began offering to individuals and small businesses early last year, because it has proved very successful. Under FTM, an impartial mediator helps the taxpayer and IRS reach voluntary resolution of a dispute.

FTS takes the process a step further – if the par-

ties can’t agree, the mediator gives an arbitration-style ruling. Again, acceptance is voluntary by both sides, but if the IRS auditors don’t agree, the matter is referred to their supervisor. The IRS says a pilot program for larger businesses produced a 91% settlement rate and cut settlement time by 90%.

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**The IRS and private debt collectors.** The IRS’s ability to collect delinquent tax liabilities is ineffectual. Between understaffing and poor management, it is not uncommon for individuals and businesses to own tens of thousands of dollars and rarely hear from anyone at the IRS except for an occasional letter in the mail. Privatization of IRS debt collection has received support in Congress. Will it happen? Most insiders bet that the IRS will be able to block efforts of Congress to infringe on its turf. Also, efforts on the part of those concerned about disclosure of private financial information will fight against privatization.

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**A BLAST FROM THE PAST**

In February, 1958 IRS announced that preparers of returns who use copying machines or other devices for reproducing returns will adhere to the existing standards designed to assure copies which are of substantially the same paper quality and legibility as returns prepared on official forms.

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**TAX HELP-** if you are a member of the National Society of Accountants (NSA) there is a help desk that you may contact to answer your questions.

**This is available to you** 24 hours a day on line at: [www.nsacct.org/?19067](http://www.nsacct.org/?19067). Complete and submit the online form. Make sure you include your ID number, phone, fax and email address along with your tax question.

OR call toll free at 800-966-6679, press extension 1334 for the tax help desk. This is a member benefit available to all NSA active, associate and life members.

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**Depression is an “indefinite disability” permitting penalty-free withdrawal of pension funds.** A woman became unable to work due to depression. Her doctor said she was disabled, and she received workers’ compensation benefits. She also took funds from her retirement account saying they were penalty exempt from the 10% early withdrawal penalty due to her disability.

IRS objection: The penalty exception is only available in the case of an “Indefinite” disability, not a temporary one. And the woman’s disability was only temporary because her doctor said she had “fair prospects of eventual return to work.”

Tax Court: The doctor’s word “eventual” was vague enough to deem the disability indefinite. *Mary L.Coleman-Stephens*, Summary Opinion 2003-91.

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**Modesty is the art of drawing attention to whatever it is you are being humble about.**

A FRIENDLY REMINDER

For the first time this year, State Income Tax returns are due on April 15 just like federal returns.

I know most of us just automatically prepare both returns together and present them to our clients at the same time. We do need to make our clients aware of this change.

Some of them may have been waiting to file their state return until May 15 if they owe additional tax. Be sure to call attention to this new filing date at the time the returns are delivered to them.

Just think, another 45 days and it will all be over, except of course, for the extensions. Anyway the big rush will be over and you can get things back to near normal in your offices and catch up on all the things you have been putting off until after tax season.

Don’t work yourself too hard and remember to take some time for your family. They need you too!

Let me be the first to wish you “Happy April 16<sup>th</sup> ☺!”

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**Failure, rejection, and mistakes are the perfect stones to success.**

Dr Alan Goldberg  
Sports psychologist

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Of all the things you wear, your expression is the most important.



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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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