



ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter

December 2005

Girl with Mowing Service Wins Big
Survivor Winner loses to the Tax Man
Verify Social Security Numbers On Line
Energy Tax Incentive Act of 2005
Estate Beats IRS Over Delayed Bequest

• FROM YOUR PRESIDENT'S PEN •



Dear Members,

By the time everyone receives this letter, Thanksgiving will have come and gone, and we will all be turning our attention to the Christmas holiday. From the Christmas holiday, it is only a short time until we all say goodbye to our families and move to our offices for another glorious tax season!

If your practice is like ours, you do a lot of year-end tax planning for your clients this time of year. Most of that planning will include some form of year-end charitable giving strategies. With all of the natural disasters that have occurred this past year, Congress has given us some special rules for year-end charitable giving. If you are not aware of these new rules, or any of the other changes to the Internal Revenue Code, I have the perfect solution for you, the ASA sponsored GearUp 1040 seminar scheduled for December 14th and 15th at the Robinson Center next to the Doubletree Hotel in Little Rock. There is still time to register. If you need more information visit the ASA web site at arspa.org.

With all of this talk about charitable giving, I would like to remind each and every member that the giving of your time and talent is one of the most rewarding things you can do. If you would like to

volunteer to serve on an ASA committee for the coming year please contact me.

I would like to recognize some of our ASA members who have devoted a huge amount of time to the task of securing for our organization an excellent continuing professional education schedule for 2006 and beyond. The single greatest benefit ASA provides its members is the quality, relevant, and timely continuing professional education seminars each year. The education and seminars committee is chaired by Tom Ed Simmons, and its members are Donny Woods, Brad Crain, Penny Lincoln, and Carl Dalrymple. When you see these folks at the next seminar you attend, thank them for their hard work and dedication to your Society.

Your Board of Governors is in the process of planning a holiday reception, immediately following the first day of the GearUp 1040 seminar, scheduled for December 14th and 15th. This will be a great opportunity to relax and network with fellow practitioners in a casual setting. More details on this event will follow.

I hope to see each of you at the 1040 seminar this month. It is my hope that each of you has a wonderful holiday season and a prosperous new year.

Sincerely,
Bryan K. Johnston, CPA
President, ASA

GIRL WITH MOWING SERVICE WINS BIG

Allyson Briggs was claimed as a dependent on her parent's tax return. On her return she reported \$4,275 in wage income, a loss of \$3,703 from her clean-up business and lawn-mowing work, and some interest income.

Conflict: Because Briggs was claimed as a dependent on another's return, her standard deduction was limited to \$250 plus the amount of her earned income, up to a maximum \$4,300 full standard deduction for that year.

Briggs used her wage income to justify taking a full standard deduction on her tax return.

The IRS flagged her return, said her business loss reduced her earned income by \$3,703 and reduced her standard deduction accordingly.

Briggs represented herself against the IRS's lawyers in Tax Court. There she explained how under the details of the Tax Code only items of positive income, not losses from self-employment, are counted when computing "earned income" in her situation.

Tax Court: Briggs' close reading of the Tax Code through several different law changes over 30 years is correct and trumps the IRS's. She gets the full deduction.

Allison C. Brigs, TC Summary Opinion 2004-22,

SURVIVOR WINNER LOSES TO THE TAX MAN

TV winnings are taxable, and failure to report this income can result in criminal sanctions, including a fine and jail time.

Take the case of Richard Hatch, the first winner of CBS's Survivor. He won \$1.01 million and collected thousands of dollars in other fees, but never reported the income. He pleaded guilty to tax evasion, agreeing to pay a fine of up to \$250,000 per violation (on top of back taxes of between \$200,000 and \$400,000, plus interest). He may also go to jail. It's not difficult for the IRS to find winners who underreport their takes – TV shows report to the IRS winnings of \$600 or more on Form 1099- MISC, Miscellaneous Income.

What about makeover shows? For those receiving house makeovers, a tax loophole helps – payments for home rentals of 14 days or less are tax free, so the shows "rent" the homes selected for the makeovers. Improvements to the home are treated as part of the rental and not reported as income.

Caution: The IRS has yet to weigh in on this argument. What's more, even if there are no problems with the IRS, improved homes may be reassessed for local property taxes. On ABC's Extreme Makeover: Home Edition, one home's taxes more than doubled from \$2,700 to about \$6,000 after the show was done.

SEE YOU AT THE 1040? BE SURE TO REGISTER IF YOU HAVE NOT ALREADY.

VERIFY SOCIAL SECURITY NUMBERS ON LINE

The Social Security Number Verification Number Service (SSNVS) allows Employers to use the Internet to match their record of employee names and Social Security numbers with Social Security records before preparing and submitting Forms W-2. Making sure names and Social Security numbers on the W-2 match our records is important because un-matched records can result in additional processing costs for you and un-credited earnings for your employees. Un-credited earnings can affect future eligibility to (and amounts paid under) Social Security retirement, disability and survivors program.

When you can use SSNVS

Employers can verify the names and Social Security numbers of employees only after they are hired. It cannot be used as part of the pre-hiring process.

How to register to use SSNVS

1. Employers must register for a PIN and password at Business Services Online at <http://www.socialsecurity.gov/bsol/bsowelcome.htm>
2. Social Security will send an activation code in the mail.
3. Use the activation code, pin and password at the Business Services Online site to begin using SSNVS.

NOTE: For more detailed instructions on registering and/or using SSNVS, get a copy of the SSNVS handbook at

<http://www.socialsecurity.gov/employer/ssnv.htm>.

1. Go to the Business Services Online Web site and log. In.
2. Choose Social Security Number Verification Service.
3. You have two options:
 - Direct keying of up to 10 names/Social Security numbers onto SSA's Web site with immediate results; and
 - Upload a file with up to 250,000 names and Social Security numbers with next business day results.
4. You will receive a response of all names/ Social Security numbers that do not match Social Security's records.

Restrictions on using SSNVS

- Do not use SSNVS before hiring an employee.
 - You may not verify someone's name and Social Security number until after you have offered him or her a job.
 - Social Security will review usage of SSNVS to ensure that employers are using it for the proper purposes.
- Do not use SSNVS to take punitive action against an employee whose name and Social Security number do not match Social Security's records.
 - A mismatch does not imply that the employer or the employee intentionally provided incorrect information.
 - A mismatch does not make any statement about an employee's immigration status and is not a basis, in and of itself, for taking any adverse action

against an employee. Doing so could subject you to antidiscrimination or labor law sanctions.

What to do if a name and Social Security number do not match

1. Make sure you did not make a typographical error.
2. You may ask to see the employees Social Security card to ensure you have the correct information.
3. If you can't resolve the error, then ask your employee to contact the local Social Security office.
4. You should have a consistent company policy and treat all employees the same.

Can third parties use SSNVS?

If you are a tax preparer, accountant, payroll agent, payroll service or you process Form W-2 on another company's Employer Identification Number (EIN), you can verify names and Social Security numbers on behalf of your clients, but only for wage reporting purposes. You only need one PIN (even if you represent more than one company).

If you need further help

Visit our Web site at <http://www.socialsecurity.gov/employer/ssnvs.htm> for further information or call the Employer Reporting Service Center at 800-772-6270.

ENERGY TAX INCENTIVES ACT OF 2005

President Bush signed the Energy Tax Incentives Act of 2005 on August 8, 2005. The bill impacts four major areas:

- ✓ Conservation
- ✓ Alternative energy
- ✓ Energy infrastructure
- ✓ Domestic energy production

The majority of these areas will impact businesses and manufacturers but there are also tax incentives for individuals.

Residential energy conservation property credit is equal to 10% of energy efficiency improvements to existing homes. The improvements must be expected to remain in use for at least five (5) years.

1. Any insulation material or system primarily designed to reduce heat loss or gain.
2. Exterior windows, including sky-lights and doors (credit limited to \$200 for windows).
3. Metal roofs coated with heat-reducing pigments.

A 100 percent credit on "qualified energy property" is available for:

1. Fans limited to \$50 credit.
2. Furnaces and boilers limited to \$150 credit.
3. Heat pumps and air conditioners limited to \$300 credit.

The lifetime credit is limited to \$500. The credit applies to property placed in service after December 31, 2005 and before January 1, 2008.

Residential energy efficient property credit is equal to 30% for:

1. Solar hot water heater limited to \$2000 credit
2. Electricity generating solar equipment limited to \$2,000 credit
3. Fuel cell credit is limited to \$500 per 0.5 kilowatt of capacity
4. Includes labor costs for on-site preparation, assemble or original installation of the property.

The basis in the property is reduced by the amount of the credit.

Alternative fuel or clean fuel vehicles: A credit of various amounts are available for both individuals and businesses that the purchase or lease alternative fuel, hybrid, fuel-cell powered and advanced lean-burn technology vehicles. Vehicles must be purchased or leased after 2005 through 2009 or 2014, depending on the type of vehicle.

This information can be used when planning for 2006.

ESTATE BEATS IRS OVER DELAYED BEQUEST

An individual's will made a large bequest to an organization provided that it legally qualified as a charity. The estate's executor delayed making the

distribution until the estate received a closing letter from the IRS stating that the distribution and all the estate's other tax affairs were in order. But the IRS decided to audit the estate first, so it took two and one half years to get the letter.

The estate then made the distribution, added interest required by state law, and deducted the interest as an administrative expense.

Snag: The IRS disallowed the interest deduction, saying that it had not been necessary to delay the distribution and the interest thus was not a necessary administrative expense.

Court: For the estate. Delaying the distribution of an estate's assets until it's final tax liability is ascertained is a responsible standard practice.

Indeed, the IRS itself has stated, "[A] reasonably prudent person would not make distributions until they were in receipt of an estate tax closing letter.."

Because prudence required the delay of the distribution, the interest is deductible as a "necessary" expense.

Betsy C. Turmer, DC ND Tex., No. 3:03-CV-0294-G.

IRS expects fewer problems with charitable contributions for the value of donated vehicles. Effective January 1, 2005, the American Jobs Creation Act of 2004 provides that a charitable deduction for a vehicle with a value of more than \$500 is limited to the gross proceeds received by a charity from the sale of the vehicle. Until the

passage of the new law, the IRS was in a constant battle with taxpayers who used unrealistic blue book values to determine the amounts of their charitable contributions.

ADVERTISEMENT

Practices for Sale & Wanted

For Sale – NW Arkansas gross 130k, **Benton** gross 290k-Sale Pending! **Little Rock** gross \$103k **Batesville** gross \$50k- Sale Pending **West Central AR** gross \$114k **NE Arkansas** gross \$120k. **Thinking of Selling?** We do all the work to make it quick and easy by bringing you serious and qualified buyers! Completely risk-free and confidential.

Accounting Practice Sales

1217 Front St., Conway, AR 72032

Call: Kathy Brents at (501) 327-2000

Email: kathy@accountingpracticesales.com

Also visit us at:

www.accountingpracticesales.com

Audits of high-income taxpayers skyrocket. Audits of individuals with adjusted gross incomes of at least \$100,000 increased by about 30% from fiscal year 2003 – 2004. In 2003, the IRS examined 140,000 such taxpayers, then increased its audit coverage to 195,000 in fiscal 2004. What the IRS is reluctant to say about audit coverage: Most of the increase in audits is in correspondence-based examinations, which are not exactly comprehensive. Example: The IRS questions a deduction claimed for a charitable contribution but doesn't discover that the taxpayer failed to report a significant amount of income.

The IRS will no longer allow a formula to valuation for buy-sell estate tax purposes.

Many small-business owners enter into buy-sell agreements with their partners/shareholders in an attempt to ensure that their families are protected in the event of death. The agreements generally contain a formula used to value the business so that the surviving parties don't haggle over the value. Problem: The formula used to determine fair value may have been designed at the inception of the business and may not be relevant years later. The IRS has begun to reject the valuation provisions of buy-sell agreements and utilize expert opinion to establish fair market value for estate tax purposes.

IRS attacks another tax-avoidance scam.

The IRS has announced that it is well aware of a bogus transaction called "offshore employee leasing" and will pursue criminal charges against business owners who engage in this form of fraudulent conduct. How the scam works: An individual – typically the owner of the company- resigns from his/her current employer and enters into an employment contract with an offshore leasing company that leases the individuals services back to the original employer. The employer deducts payments to the offshore leasing company, but a considerable part of this money is then paid to the individual as a loan or is deposited into a debit account under the individual's control. Bottom line: Substantial sums of money can be deducted by the company and very little of it is included on the individual's personal income tax return.

REGISTER TODAY FOR THE GEAR UP 1040 SEMINAR. DON'T BE LEFT OUT.



**APPLICATION FOR MEMBERSHIP IN
THE ARKANSAS SOCIETY OF
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.

OFFICERS & GOVERNORS

Bryan Johnston.....President	Donna Gowan.....Governor District II
Ronny Woods.....President Elect	Mickey Stafford.....Governor District III
Brad Crain.....1st Vice President	Alma Strozyk.....Governor District IV
Tom Ed Simmons.....2nd Vice President	Carl Dalrymple, Jr.Governor District V
Penny Lincoln.....Governor District I	Jim Hodge.....Governor District VI



**ARKANSAS SOCIETY
OF • ACCOUNTANTS**

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

LaVerne Long /EXECUTIVE SECRETARY

EXECUTIVE OFFICES:

908 HWY. 67 N. • P.O. BOX 725

NEWPORT, AR 72112

PHONE 870-523-5329 • FAX 870-217-0154

www.arspa.org

FOR YOUR INFORMATION

The ARKANSAS PUBLIC ACCOUNTANT is the monthly publication of the ARKANSAS SOCIETY OF 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.

Return Service Requested

NEWPORT, AR 72112

P.O. BOX 725

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

**ARKANSAS SOCIETY
OF • ACCOUNTANTS**

