

Arkansas Public Accountant

A Publication of the Arkansas Society of Accountants



January 2005

• FROM YOUR

PRESIDENT'S PEN •



Dear Members:

The use of technology is great but there are some common sense rules that all of us need to follow. Many times we are so overwhelmed by the improvements that the technology makes in our operation that we forget some of the basics that we should be following.

This became very evident in our office a few weeks ago. At the beginning of last year we began the effort to make our office paperless. Of course that term is overstating the case as you will never be completely paperless but we began to scan documents and have the file cabinet be our computer.

One of our clients received a notice that he had not filed his sales tax report for a few months back. When we got into our file cabinet records on the computer for this client, we found that there was no sales tax report scanned for that client for the month in question. Of course if we had been saving paper copies, the same thing could have happened. The point being that we must have reviewers making sure that all of the work is completed for each client each month and the proper copies are on file—either in the paper file or on the computer. Technology will not make sure that all of the work is completed. Neither will it make sure that all copies are scanned or made for the files.

Back up is another big issue. And this is not a new issue. How many of us live in bliss of thinking that we are ok with our back-up system only to find out that the information that we thought was backed up really isn't. We were using an external tape drive back-up system. We have

Topics Covered in this Newsletter

- NEW HELP FOR TAX PROFESSIONALS
- WHEN SELLING A CAR IS BETTER THAN TRADING IT
- IRS TRACKS FOREIGN ACCOUNT SCHEMERS
- BOB JENNINGS TAX SEMINAR
- FEDERAL & STATE TAX CONTACT INFORMATION

found that this method of back up is highly unreliable. Almost every time that we wanted to recall some information in our office on the back-up tapes, we were disappointed to find the information was not available.

We have probably over reacted to this problem. As a user of creative solutions, we back up all write up clients on the 1.44MB floppies, we back up all of the work product on CD's and we back up on an external hard drive. In addition we have a mirrored hard drive in case our hard drive crashes. Even this much back up isn't fool proof. With the file cabinet solution, we have had some problems with some files locking up and locking us out of the information.

The point is simple. Be as cautious and thorough as you can be. Even then you may overlook something or something that you have no control over will happen. Technology is wonderful. The things that we can do when we have information stored away on the computer are unbelievable. In moments, we can have reports available to us to fax to the bank, or check out a problem with DFA or the IRS without having to go the files and dig for hours in some cases.

Don't let potential problems drive you away. The benefits are too great not to move forward in improving our practice every way that we can.

Sincerely,

Tom Simmons, President
Arkansas Society of Accountants

NEW HELP FOR TAX PROFESSIONALS

The IRS has created two new electronic services for tax pros.....

Electronic Account Resolution lets professionals correspond with the IRS about taxpayer account issues, refunds, installment agreements, missing payments, and the like. The IRS response is delivered in three business days, eliminating the wait for telephone and written responses.

Disclosure Authorization tool lets tax pros electronically submit and update Form 848, Power of Attorney and Declaration of Representative, and Form 8821, Tax Information Authorization, which authorizes them to represent their clients.

FAST TRACK MEDIATION....

It is now possible to use mediation in tax disputes with the IRS to speed resolution at a lower cost. But while mediation may be helpful in many cases, it is not always a good idea.

The IRS created its fast track mediation (FTM) program to speed voluntary resolution of tax disputes, avoiding what otherwise could be a long, costly appeals process that might end up in court.

The objective of FTM is to resolve disputes within 40 days. In contrast, the normal appeals process might take months.

How it works: FTM is entirely voluntary. Taxpayers who elect to use it lose none of their normal appeal rights and are not bound by the mediator's suggestions. They can

end the mediation process and go back to the IRS's normal appeals procedure at any time.

The mediator is an IRS appeals officer who has received special training in mediation skills, does not have any prior knowledge of the case, and whose objective is to act impartially to help the parties reach a voluntary settlement. The mediator does not act as an arbitrator who proposes a solution to the dispute. Rather, the mediator's role is to facilitate communication between the taxpayer and the IRS.

The mediator does this by reconstructing the full facts of the case using his/her expertise as an appeals officer to clarify the issues, pointing out to each party the risks and costs of appeals and litigation under normal rules, and making suggestions toward settling the case in a manner that is consistent with the law.

In doing so, the mediator may meet with the parties both together and separately, as circumstances dictate. Mediation may take place at the IRS's office, the taxpayer's or at a neutral location, as the parties agree.

Result: A study conducted by the Treasury Department of FTM cases found that 70% were settled in an average of only 49 days. In contrast, comparable cases that did not use FTM took an average of 293 days to resolve.

Procedures

FTM can be used in disputes relating to....

- Tax examinations (audits).

- Offers in compromise regarding outstanding tax debts.

- Trust fund recovery penalties (employers' obligations for employment taxes).

- General tax collection actions.

In fact, most tax disputes that haven't yet been filed in court qualify for FTM.

How: At the end of an audit, you will receive a written report of the auditor's findings. If you disagree with them, you have the right to meet with the auditor's supervisor to seek a resolution of disputed issues.

You can request FTM at the meeting with the auditor's supervisor.

Alternatively, you can have the meeting with the supervisor and, if it does not produce a satisfactory result, ask for mediation afterward.

You do not have to file a formal written protest of the audit's result to obtain FTM. You simply ask the IRS for mediation.

FMT is voluntary with the IRS as it is with the taxpayer, but since IRS is encouraging FTM, you can expect it to agree. Then you and a representative of the IRS sign a written agreement to mediate, and subject to the IRS's mediation program.

Generally, within one week after this agreement is signed, a mediator will contact you and the auditor to work out the details of the process, such as where and when to meet to start the mediation.

When to use FTM

FTM presents a welcome new option for taxpayers. It can be a help in many cases, but that does not mean it is smart to use it in all cases.

In disputes involving offers in compromise, trust fund penalties, and collection actions, FTM almost always is a good idea.

WHY: In these cases, you already have an IRS determination against you, the IRS has rejected a compromise offer or says you owe trust fund penalties or another tax bill.

Thus, you have nothing to lose by requesting FTM. You just get an extra IRS official, in the person of the mediator, to look at your case. If the mediator takes your side, you can win something. If not, you will be no worse off than before and can still pursue the normal appeals process.

If you believe the audit results contain a clear error, then FTM can be a good idea as the quickest way to get the error reviewed and corrected by the IRS. Having a mediator point out the error to the auditor can be faster and simpler than going through the normal appeals process to get the same result.

Requesting FTM to dispute the result of an audit could be risky in some cases. If the audit involved complex gray-area issues, or your return contains other issues that the auditor overlooked, then requesting FTM may work against you.

WHY? When you present your side of the case, the auditor will be able to conduct extra research into the facts and law to respond. If the mediation does not result in a voluntary resolution and goes back to IRS appeals,

the auditor will now be better prepared to rebut the arguments when you raise them in a normal appeals hearing.

In contrast, if you skip the FTM process and go straight to IRS Appeals, the appeals officer assigned to your case will not have seen your arguments as fully developed and will not have had the opportunity to evaluate the opinions of the mediator and the auditor. Thus, your chances of prevailing in an appeal may be better.

Bottom line

FTM can save time and money in resolving a dispute with the IRS. But before resorting to it, consider whether you have anything to lose by using it.

In disputes involving tax collections, compromise offers, and straightforward audit issues, using it typically will be a good idea.

But in complex audit disputes, it may be best to skip FTM and stick to conducting your appeal the old fashioned way.

FAMED TAX PROTESTER PLEADS INSANITY

The lawyer for Irwin Schiff, the most famous of all US tax protesters, has told a federal court he believes Schiff suffers from “mental disease” in an attempt to help Schiff escape \$2.5 million in back taxes and penalties.

“Schiff’s belief system appears to be completely circular, within that system Schiff is right, the government and the courts are wrong and he remains impervious to rational discussion....[he] suffers from a severe

delusional disorder or other mental disease or defect.”

Schiff’s psychiatrist also told the court that Schiff has been paranoid for years, as a result of his having lost heavily in a tax shelter that turned out to be a Ponzi scheme.

For many years, Schiff has lectured as well as sold books and various kinds of schemes purporting to show how the Tax Code is illegal, appearing often on TV and in the media to argue that belief. His materials have continued to sell well despite his being jailed twice for failing to pay his own taxes.

WHEN SELLING A CAR IS BETTER THAN TRADING IT IN

When it’s time to dispose of a business automobile, it can be better tax-wise to sell it for cash rather than trade it toward the price of a new vehicle.

Why? Depreciation deductions allowed for automobiles are almost always smaller than the real loss of value they incur over time.

For expensive vehicles, the difference can be very large.

Example: A \$35,000 car bought in 1999 and used 100% for business will take 17 years to fully depreciate its cost. That’s until the year 2016! But most of its value will be gone long before that.

Key: Because of the limited depreciation deductions, the market value of a used business auto will likely be less than its tax basis (acquisition cost minus depreciation deductions). And when business property is sold for less

than its tax basis, a deductible loss results.

Trap: When a car is traded in toward the purchase price of a new vehicle, the IRS considers the transaction to be an exchange rather than a sale, and no loss is currently allowed. The loss effectively is rolled over into the replacement vehicle and is deferred until it is sold.

Strategy: Before selling a business auto, compare its tax basis to the price you expect to get. If the basis is higher, sell it for cash and take a loss deduction right away.

Note: If you use the IRS standard mileage rate to account for business use of a car, use the deemed depreciated rate (17 cents per mile in 2005).

Man is not like other animals in the ways that are really significant: Animals have instincts, we have taxes.

Irving Goffman

IRS TRACKS FOREIGN ACCOUNT SCHEMERS

Last year, the IRS began seeking unreported foreign bank accounts through records of credit cards used to tap them, while offering owners of such accounts reduced penalties if they came forward, reported them voluntarily, and informed the IRS about the sponsors and promoters of such accounts.

Result: More than 1,300 taxpayers came forward. So far, the IRS has collected more than \$170 million in taxes, interest and penalties. Most important IRS has obtained the names of nearly 500 scheme and scam promoters, about half of whom were previously unknown to it.

Key: The IRS says that it is now obtaining each promoter's "participant list," which names all the other people for whom the promoter set up such accounts who haven't turned themselves in. With these names and the knowledge the IRS has obtained from the promoters about the details of how off-shore accounts are set up, the IRS expects to catch many more owners of unreported foreign accounts.

"The likelihood of [these tax evaders] hearing from us is increasing daily," says the IRS. IRS News Release IR-2004-19.

BOB JENNINGS TECHNOLOGY SEMINAR WILL BE HELD IN LITTLE ROCK, ARKANSAS ON JUNE 1 AND 2, 2005. THIS IS THE BEST TECH SEMINAR. MARK YOUR CALENDARS NOW AND DON'T MISS THIS MUST HAVE SEMINAR. THE MAILOUT WILL BE SENT IN APRIL.

FEDERAL TAX ASSISTANCE

Tax Forms, Instructions & Publications

Forms & Publications

Telephone 800-829-3676

Fax 703-368-9694

Internet: <http://www.irs.gov/formspubs/index.html>

Assistance & Answers

Practitioner Priority Service

7:30 am – 5:30 pm CST, Monday - Friday

Telephone 866-860-4259

Fax 901-546-4221

Taxpayer Advocate Service

7:30 am – 4 pm CST, Monday – Friday

Telephone 877-777-4778

Telephone 901-395-1900

Fax 901-395-1925

Centralized Authorization File CAF

24 Hours – 7 Days

Fax 901-546-4115 (to file POAs)

Fax – TIN

3 am – 11 pm CST, 7 Days

Fax 215-516-3990

Telephone 866-816-2065

General Tax Assistance

Telephone 800-829-1040

Electronic Filing Help Desk

7 am – 5:30 pm CST Monday – Friday

Telephone 866-255-0654

VISIT OUR WEBSITE at www.arspa.org

READ THIS PUBLICATION ON LINE AND RE-SEARCH BACK ISSUES.

STATE TAX ASSISTANCE

Tax Forms, Instructions & Publications

Forms & Publications

Weekdays 8 am – 4:30 pm CST

Telephone 501-682-1100 Little Rock

800-882-9275 Statewide

Internet: <http://www.arkansas.gov/dfa/>

Assistance & Answers

Taxpayer Assistance for Individuals

Weekdays 8 am – 4:30 pm CST

Telephone 501-682-1100- Little Rock

800-882-9275 – Statewide

Corporate Income Tax

Weekdays 8 am – 4:30 pm CST

Telephone 501-682-4775

Sales & Use Tax

Weekdays 8 am – 4:30 pm CST

Telephone 501-682-1895

Tax Amnesty

Weekdays 8 am – 4:30 pm CST

Telephone 501-682-7751 Little Rock

800-340-9509 Statewide

Refund Information

Weekdays 8 am – 4:30 pm CST

Telephone 501-682-0200 Little Rock

800-438-1992 Statewide



**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 Amount FOR ASPA OFFICE USE ONLY 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

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

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.

LaVerne Long, ED
P O Box 725
Newport, AR 72112 - 0725
Email: longaspa@cox-internet.com
Phone: 870-523-5329
Fax: 870-217-0154



Arkansas Society of Accountants
P.O. Box 725
Newport, AR 72112