

# Arkansas Public Accountant

*A Publication of the Arkansas Society of Accountants*



**March 2005**

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



Dear Members:

Time really does change things. The other day I noticed our check going to our insurance company for our professional liability insurance. It hit me that it hasn't been too many years that our practice went "naked" operating without any professional liability coverage. It could be that maybe time really hasn't changed this one but I'm the one that has changed.

At the time I was under the false assumption that if you did not do audits and did only tax returns and compilations that your risk of litigation was very low. Boy was I mistaken. Statistics tell us that more litigation comes from tax return preparation than any other part of our practice.

We have been aggressive to get all of our clients to sign engagement letters-both tax clients and write-up clients. We have used gear-up material to fashion these engagement letters. It's amazing, this year for some reason the clients are reading them for a change. The scary part about it is some of them have been concerned about the part of the letter that deals with litigation. Some of these people have been clients for years and seem like reasonable people.

All of this leads me to believe that I was completely nuts to not have any insurance. I can't imagine not having some insurance now. The other part of the equation that is troublesome to me is fact that we are most vulnerable for mistakes during tax season. We check, re-check and spot check again returns, yet things still get out the door that should not get by us. The point is simple: we have to be as diligent as possible and even then we will be exposed more that we would like to be.

This not a big plug for NSA in one way but in another way it is. I know that they have offered us a way to be able to sleep at night and not be worried to death about being in court. The

## Topics Covered in this Newsletter

- **District VIII Governor's Column**
- **Audits of the High Income Taxpayers Skyrocket**
- **Technology - You Want Technology?**
- **IRS Form 941 for 2005**

insurance coverage that is available through membership is very competitive with other providers. This benefit alone is worth the price of admission. Yes, I do believe that the world is changing. I do believe that some of our clients would sue us at the drop of a hat. But I do believe that for us to have piece of mind we must be as diligent as we can and still spend the money for some coverage.

Tax season will be somewhere close to being over when you read this. Hopefully, you are having a successful one and are getting some rest.

Sincerely,

Tom Simmons, P.A., President  
Arkansas Society of Accountants

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### **DISRICT VIII GOVERNOR'S COLUMN**

Belated "Season's Greetings" to all! This sure was a busy fall this year. The Accounting Symposium in Baltimore went very well. A little over 300 signed up for the event which was exactly what President Clingan had hoped for. As a result, the seminar will be repeated again next year with the addition of at least one new location. Right now it has not been decided whether that new location will be in the "center" of the country or on the west coast, but if all goes as well next year as it did this year, by 2006 there should be three locations. Hopefully that will cut down on travel time and expenses for those attending and increase attendance even more.

At President Clingan's direction the SROC (State Regulation and Oversight Committee) is embarking on an "offensive" program of introducing legislation in ten to fifteen states to change their accounting laws to allow

the use of the ACAT "Accredited Business Accountant" credential. This could be a very exciting and fruitful time for legislative activity. I will keep you posted on how things turn out.

I am sure that by now everyone has had their fill of tax courses and most of us have written our client letters to go out with tax organizers. This can be a very useful tool in helping your clients organize their information prior to seeing you as well as a great retention tool. If you are not currently writing a client newsletter and would like a copy of our version, just drop me an email and I'll be happy to send you what we will be sending out to our clients. It is not "professionally" written, but our clients seem to find it useful and look forward to receiving it every year.

My first Board of Governors meeting back in November certainly was interesting and I think productive. It really is different sitting at "the big table" rather than out in "the peanut gallery." I must say that all of the Governors are very hard-working people who only have the best interest of NSA at heart – truly. We sometimes disagree on the best way to achieve success for NSA, but that really is everyone's goal. I am most impressed with our President, Eldon Clingan, and of course our First Vice President, Wanda Samek. Wanda has definitely not just been sitting around, waiting for her "turn." President Clingan has asked her to head up several task forces this year and as usual, she has tackled them with great enthusiasm and competency. She is a real work horse who takes her job seriously and always puts what's best for NSA first. This is going to be a GREAT year for NSA!

The November NSA Board of Governors meeting was held in Las Vegas. One of the evenings while we were there the NSA Board ate dinner at and toured the hotel complex

where next summer's Committee Week and Annual Convention will be held. It is a very new facility that is just beautiful and it has a golf course just on the opposite side of the road from the hotel. I think everyone will be very pleased with the things that are available. One of the things that struck me was that it really is pretty well self-contained with shops and such as part of the complex, as well as dining facilities and the casino area. It is about a twenty to thirty minute ride out from "the strip," but that will, in a lot of ways, promote more interaction with fellow attendees – something I miss sometimes with folks "running off" all the time to various places. It really can be hard to look up old friends and meet new ones with that type of setting.

The big news I'd like to report to you is the head-way ACAT has made with the Internal Revenue Service.

In a recent newsletter on Tax Preparer Fraud (FS-2005-8 January 2005) the Internal Revenue Service recommends taxpayers looking for a return preparer seek out certain types of individuals, based on their credentials.

The article lists numerous credentials to look for when searching for a tax preparer. I'm not certain how they decided the order to place them in, but being **first** is a very nice place to be! Here's how the "Helpful Hints When Choosing a Return Preparer" reads:

"Find out the person's credentials. Is he or she an Accredited Tax Preparer, Enrolled Agent, Certified Public Accountant (CPA), Licensed Public Accountant or Tax Attorney? Only attorneys, CPAs and enrolled agents can represent taxpayers before the IRS in all matters including audits, collection and appeals. Other return preparers may only represent taxpayers for audits."

And then there's more – it recommends that the consumer "Find out if the preparer is affiliated with a professional organization that provides its members with continuing education and resources and holds them to a code of ethics."

In essence, the Service is also telling consumers that membership in state and national professional societies such as NSA and its affiliates is an important thing to look for as well as credentials.

For those of us who also hold the ATA and or ABA credentials from ACAT you should point out to your clients that these credentials have taxation expertise that is equal to or greater than the ATP credentials.

Great going ACAT!

We are preparing a hand-out for all of our clients which will be placed in their tax folders talking about the credentials so they have something in hand. That way when they are talking to neighbors and friends, they can share the information about ACAT credentials and how "their" preparer is "fully" qualified.

Hope all of you had memorable holidays and have a successful tax season this year.

DISTRICT VIII GOVERNOR  
JIM NOLAN

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## **AUDITS OF HIGH INCOME TAXPAYERS SKYROCKET**

Audits of individuals with adjusted gross incomes of at least \$100,000 increased by about 30% from fiscal 2003 to 2004. In

2003, the Internal Revenue Service 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 has failed to report a significant amount of income.

**The IRS will no longer allow a formula approach 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 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.

**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 individual's 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.

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## **TECHNOLOGY – YOU WANT TECHNOLOGY?**

Do you want your computer to look like it has suffered a melt down and act that way also? Why take the chance in 2005, - hear Tax Geek Bob Jennings, the guy who originated, developed and wrote the country's most popular live technology seminar. What will he have new for 2005? How about everything, including networks without computers or network software, dual monitor laptops, Pop-up proof Internet systems, new space saving computers, the new safer version of wireless networks, in-depth coverage to protect you from the bad guys, new computer purchase guidelines, new 2005 software musts in all offices- this one will blow your sox off!, online paperless offices, and much more-all demonstrated and tested by the guy who has never been afraid to spend money on electric toys. The advantage of the Jennings Technology seminar is simple- Bob really uses the things he talks about- in a real live tax practice.

**Coming to Little Rock June 1 & 2, 2005 sponsored by the Arkansas Society of Accountants. Watch your mail for the registration form.**

TLS, have you transmitted all R text files for this cycle update?

I.R.S. SPECIFICATIONS TO BE REMOVED BEFORE PRINTING
INSTRUCTIONS TO PRINTERS
FORM 941, PAGE 1 of 4
MARGINS: TOP 13 mm (1/2") CENTER SIDES. PRINTS: HEAD TO HEAD
PAPER: WHITE, WRITING, SUB. 20 INK: BLACK
FLAT SIZE: 216 mm (8 1/2") x 279 mm (11")
PERFORATE: NONE
DO NOT PRINT — DO NOT PRINT — DO NOT PRINT — DO NOT PRINT

Table with 3 columns: Action, Date, Signature. Rows include O.K. to print and Revised proofs requested.

Date

VERSION B

Form 941 for 2005: Employer's Quarterly Federal Tax Return
(Rev. January 2005) Department of the Treasury — Internal Revenue Service

9901
OMB No. 1545-0029

Employer identification number, Name (not your trade name), Trade name (if any), Address (Number, Street, Suite or room number, City, State, ZIP code)

Report for this Quarter ... (Check one.)
1: January, February, March
2: April, May, June
3: July, August, September
4: October, November, December

Read the separate instructions before you fill out this form. Please type or print within the boxes.

Part 1: Answer these questions for this quarter.

1 Number of employees who received wages, tips, or other compensation for the pay period including: Mar. 12 (Quarter 1), June 12 (Quarter 2), Sept. 12 (Quarter 3), Dec. 12 (Quarter 4)
2 Wages, tips, and other compensation
3 Total income tax withheld from wages, tips, and other compensation
4 If no wages, tips, and other compensation are subject to social security or Medicare tax
5 Taxable social security and Medicare wages and tips:
5a Taxable social security wages
5b Taxable social security tips
5c Taxable Medicare wages & tips
5d Total social security and Medicare taxes (Column 2, lines 5a + 5b + 5c = line 5d)
6 Total taxes before adjustments (lines 3 + 5d = line 6)
7 Tax adjustments (If your answer is a negative number, write it in brackets.):
7a Current quarter's fractions of cents
7b Current quarter's sick pay
7c Current quarter's adjustments for tips and group-term life insurance
7d Current year's income tax withholding (Attach Form 941c)
7e Prior quarters' social security and Medicare taxes (Attach Form 941c)
7f Special additions to federal income tax (reserved use)
7g Special additions to social security and Medicare (reserved use)
7h Total adjustments (Combine all amounts: lines 7a through 7g.)
8 Total taxes after adjustments (Combine lines 6 and 7h.)
9 Advance earned income credit (EIC) payments made to employees
10 Total taxes after adjustment for advance EIC (lines 8 - 9 = line 10)
11 Total deposits for this quarter, including overpayment applied from a prior quarter
12 Balance due (lines 10 - 11 = line 12) Make checks payable to the United States Treasury
13 Overpayment (If line 11 is more than line 10, write the difference here.)

Check one
Apply to next return.
Send a refund.

Next ->

**I.R.S. SPECIFICATIONS TO BE REMOVED BEFORE PRINTING**  
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 FORM 941, PAGE 2 of 4  
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VERSION B

9902

Name (not your trade name)

Employer identification number

Part 2: Tell us about your deposit schedule for this quarter.

If you are unsure about whether you are a monthly schedule depositor or a semiweekly schedule depositor, see Pub. 15 (Circular E), section 11.

14 Write the state abbreviation for the state where you made your deposits OR write "MU" if you made your deposits in multiple states.

15 Check one: Line 10 is less than \$2,500. Go to Part 3. You were a monthly schedule depositor for the entire quarter. Fill out your tax liability for each month. Then go to Part 3.

Tax liability: Month 1, Month 2, Month 3, Total. Total must equal line 10.

You were a semiweekly schedule depositor for any part of this quarter. Fill out Schedule B (Form 941): Report of Tax Liability for Semiweekly Schedule Depositors, and attach it to this form.

Part 3: Tell us about your business. If a question does NOT apply to your business, leave it blank.

16 If your business has closed and you do not have to file returns in the future. Check here, and enter the final date you paid wages.

17 If you are a seasonal employer and you do not have to file a return for every quarter of the year. Check here.

Part 4: May we contact your third-party designee?

Do you want to allow an employee, a paid tax preparer, or another person to discuss this return with the IRS? See the instructions for details.

Yes. Designee's name, Phone, Personal Identification Number (PIN). No.

Part 5: Sign here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Sign your name here, Print name and title, Date, Phone.

Part 6: For paid preparers only (optional)

Preparer's signature, Firm's name, Address, Date, Phone, EIN, ZIP code, SSN/PTIN. Check if you are self-employed.



**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.

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## 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.

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