



ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter

February 2006

IRS Simplifies Tax Filing for Small Employers
Tax Law Changes to Recent Hurricanes
Improvements to Refund Fraud Program
Tips on Client Relationship

• FROM YOUR PRESIDENT'S PEN •



Dear Members,

Is it unique to your firm, or are clients waiting longer and longer before they bring in information needed to finish a project? The more organized we become; the less organized our clients become. Or maybe, as I have gotten older, I have begun to lose some of my patience. I had better stop there, or I will never be able to finish this letter.

I know that all our members are swamped now that tax season has hit full stride. Here are a few pieces of wisdom that I want to pass along to all our members. Update your software regularly. Keep your research information up to date. Get all engagement letters signed; and last but not least, make sure your professional liability insurance is paid.

It is difficult to see the end of tax season right now; but we all know that the end is not as far off as it seems. It is never too early to begin making arrangements for your continuing education requirements. The Arkansas Society of Accountants has a great lineup of education opportunities for 2006. Visit your Society's web site at www.arspa.org to begin making plans to attend these seminars.

In closing, let me remind each of you to take care of yourselves, both physically and mentally, during this busy tax season. I look forward to seeing you all at the May Seminar.

Sincerely,
Bryan K. Johnston, CPA
President, Arkansas Society of Accountants

Filing a return by certified or registered mail is still the best way to file a paper return. In recent years, the IRS has accepted receipts from approved express delivery services (FedEx, UPS & DHL) as proof of the date when a return was filed.

Trap: If the IRS has no record of ever receiving a return at all, it will accept only a certified or registered mail receipt as proof that the return was in fact filed. The courts are divided about whether the IRS is right about this, so filing certified or registered mail remains safest.

The new standard mileage rate for business driving is 44.5 cents per mile. For medical and moving-related driving, it's 18 cents. These rates are higher than during the first eight months of 2005 (business 40.5 cents; medical & moving, 15 cents) but lower than for the last 4 months (business, 48.5 cents; medical & moving, 22 cents) when rates were raised due to post-Katrina gas price increases. Charitable driving related to Katrina relief may be deducted at 32 cents or reimbursed at 44.5 cents.

The IRS interest rate charged on underpayments of individual taxes stays at 7% for the first quarter of 2006.

Other first-quarter IRS interest rates on overpayments or underpayments also remain unchanged. Interest at 7% is paid on IRS refunds that are mailed more than 45 days from the return's due date of the actual filing date, whichever is later. The rate paid on refunds owed to corporations is 6%, but only 4.5% on the portion of corporate overpayments that exceeds \$10,000. Corporate underpayments that exceed \$100,000 are subject to a 9% rate.

Dozens of US lawmakers, including 22 senators, take an improper tax break. They have been claiming Washington, D.C.'s "homestead exemption." Which exempts \$38,000 of real estate from property tax. But the exemption is available only to those with a primary residence in Washington, D.C., and no voting address elsewhere. Some of them say that their mistake was due to a 2002 Washington, D.C. law change they didn't know about, and now that it's been pointed out, they will pay the back tax.

A new Internet scam sends taxpayers E-MAIL purportedly from the IRS saying that they're entitled to tax refunds. The link they are told to click in the E-mail leads to a counterfeit IRS Web site that asks for confidential information, such as Social Security and bank account numbers. The scammer then uses this information to steal from the accounts and/or commit identity theft. Safety: the IRS never sends refund notices by E-mail and never asks for confidential information on the Internet.

Stubborn IRS. The IRS isn't entitled to collect telephone tax on long-distance calls unless the calls are billed individually by time and distance, as the Tax Code specifies. Few phone plans bill this way today (compared to billing by time only, flat rate, etc.), so not only do phone users not owe the tax, but 9 billion of refunds may be available.

This has been the holding of two Courts of Appeals, two federal Court of Claims decisions, and several federal courts ordering refunds. (The IRS has won no court cases.) **And they have announced THEY WILL NOT PAY REFUNDS, AND PHONE USERS MUST CONTINUE TO PAY THE TAX.**

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

**IRS Simplifies Tax Filing
Requirements for Small Employers**

The Internal Revenue Service issued temporary and proposed regulations that will significantly reduce tax filing burden for nearly 950,000 small business owners. Beginning January 1, 2006, certain employment tax filers will be able to file the new Form 944 (Employer's Annual Federal Tax Return) once a year rather than filing 941 (Employer's Quarterly Federal Tax Return) four times a year. The new Form 944 will reduce burden on eligible small employers who file quarterly returns with little or no employment tax due. Most employers who file Form 944 will be able to make a single payment with their annual return.

Eligible employers are those with estimated annual employment tax liability of \$1,000 or less. The IRS will begin mailing notification letters between February 1 and February 15, 2006 to eligible small employers for the calendar year 2006. Employers who do not receive a letter and believe they are eligible to file the new form 944 can call the IRS at 1-800-829-0115 to find out if they qualify. Taxpayers should contact the IRS by April 1, 2006.

New employers who expect to owe \$1,000 or less in total annual employment tax (approximately \$4,000 or less in annual wages) also are eligible to file Form 944. These employers can indicate their estimated tax amount when applying for their EIN (Employer's Identification Number) on Form

SS-4. The IRS will notify the employer to file either Form 944 or Form 941 in the same notice indicating the taxpayer's new EIN.

"This is just one more burden reduction step the IRS is taking to make it easier for small business employers to comply with the tax laws. Replacing four quarterly forms with one annual form is a significant benefit for small business taxpayers," said the IRS' Small Business/Self Employed Commissioner Kevin M. Brown.

The new Form 944 and instructions will be available on the IRS Web site at IRS.gov by January 31, 2006.

The proposed regulations are open to public comment for 90 days after publication. A public hearing on the regulations has been scheduled for April 26, 2006 at 10 a.m.

Regulations:

Proposed Regulation (Reg. 148568-04)
Temporary Regulation (TD 9239)

**New Publication Explains Tax Law
Changes to Recent Hurricanes**

The IRS has issued a new publication today explaining changes to the tax law and relief provisions available to those affected by Hurricanes Katrina, Rita and Wilma.

Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rite and Wilma, is available on IRS IRS.gov and paper copies will be available in about two weeks.

This new publication will list the disaster

areas for each hurricane and explain which areas are eligible for administration relief from the IRS and which areas receive special tax breaks under recently enacted provisions of the law.

The publication provides information for individuals regarding how to claim unreimbursed losses, the tax favored use of retirement savings, and new rules regarding charitable giving.

The publication not only provides information useful to individuals but highlights the changes businesses need to know about, such as a special depreciation allowance for qualified Gulf Opportunity Zone property, an increase in the amount affected businesses can expense instead of depreciating and new net operating loss (NOL) rules for losses in the GO Zone.

Commissioner Everson Calls for Improvements to Refund Fraud Program

IRS Commissioner Mark W. Everson announced that he has directed a review of the Questionable Refund Program, which will include notification procedures pertaining to frozen refunds.

“We will announce plans in the very near future to institute notification procedures as well as significant processing improvements to minimize the number of taxpayers whose refunds are frozen unnecessarily,” Everson said in announcing the review.

The IRS noted that members of Congress and the National Taxpayer Advocate have raised

legitimate issues regarding the length of delay and lack of notification for refund claims and have called for changes to the program.

“Claiming fraudulent refunds ultimately undermines the integrity of the tax system, but I believe that appropriate notification should be given when refunds have been frozen,” Everson said. “Honest taxpayers expecting a refund deserve to be treated fairly.”

The IRS established the Questionable Refund Program (QRP) to deal with the serious problem of refund fraud, which has increased significantly in recent years. The IRS estimates that fraudulent refund claims now exceed a half-billion dollars a year. Congress has held a number of hearings urging the IRS to devote additional resources and improve its detection and prevention of fraudulent refunds, particularly those involving prisoners.

The typical fraudulent refund claim involves false income and withholding. A significant portion includes false Earned Income Tax Credit claims of up to \$4,400 per return.

According to the IRS, each year it receives more than 130 million individual income tax returns and issues over 100 million refunds totaling over \$200 billion. The QRP holds for further scrutiny less than 1 percent of refund returns. Of the refund claims held beyond the normal refund cycle, about 200,000 or 0.2 percent of all refund claims are held longer than one week, and many refunds are held for a period of months or even years.

If you need additional information related to the above topics, please contact the local Taxpayer Education and Communication office at 501-324-5328 ext. 264.

ANNOUNCEMENT

As most of you know, we have had a Public Accountant who served on the State Board of Public Accountancy, for the past 30 years. This has now been terminated due to the agreement that was executed in the original law. Therefore we no longer have a Public Accountant serving on the board.

We recommended Tom Ed Simmons, CPA of Hot Springs be appointed by the Governor to replace Robin Clatworthy and the appointment was made.

Tom Ed is qualified to serve and he also is a member of the Arkansas Society of Accountants, serving as 2nd Vice President at this time.

LaVerne Long monitors the State Board and attends all their meetings. She also will keep us apprized of any and everything that affects the practice of accounting in the State of Arkansas.

If you have any questions regarding any of this please do not hesitate to contact LaVerne of any officer of the Arkansas Society of Accountants.

6 MONTH 1040 FILING EXTENSIONS AVAILABLE IN 2006

Under new regulations released by the Treasury Department and the Internal Revenue Service, most 1040 clients will be eligible to request an automatic, six-month tax-filing extension.

Beginning January 1, 2006, this new full six-month tax-filing extension will be available to most

individual taxpayers, without a reason or even a signature. This will replace the existing two-step process under which an automatic extension was only allowed for four months, generally until August 15. As in the past, a tax-filing extension does not extend the tax payment deadline. The new 6 month extension request will continue to be filed on Form 4868, and Form 2688 will be eliminated.

I have also read where we will now be able to file an automatic six-month extension for partnership, trusts, etc. This will be Form 7004, now used only for corporations and will be expanded to include 1065's etc. Wonder how that will impact those taxpayers who have to receive a K-1 before they can file their 1040? Oh well nothing is ever simple, is it?

PRETEND YOU ARE YOUR OWN CLIENT

BY BILL PARRISH

CLIPPED FROM THE GOLDEN STATE MONITOR

Day after day, we go to our office and focus on getting our client work done, on managing our practice, on making sure we stay abreast of the latest developments on taxation and accountancy, and a hundred other things. What we don't do is to find out how our clients view us. Are we just a necessary evil, or do we add to their business and financial life? Are we viewed as up-to-date and full of money and tax savings, or as a stoic professional who continually does the same old things?

We have a choice in how our clients perceive us, but we must first determine how our clients

currently view us. One of the ways to do this is to pretend we are a client. We need to call our office while it is closed and see what kind of impression our phone system leaves. Is the phone promptly answered with an upbeat message that says our office is closed right now? Does it provide, in a clear and pleasant manner, a way to leave a message? We need to call our office during normal business hours and see how the phones are answered. We need to make sure they are answered by someone with a smile in their voice. We need to make sure that the client we are pretending to be is treated as if nothing is more important right now than they are. We need to make sure the person answering the phone tries to help the client, and that the client is called back as soon as possible.

We also need to walk through our front door as if we were a prospective client and take a look around. Is the office neat and clean? Is there any dirt on the floors or dust on the furniture? Is the furniture modern and good-looking? Is the paint fresh and a bright modern color? Is there clutter, or stacks of paper on every available horizontal space? How does this look to our clients? It says, "We are too busy!"

We need to take a look at the various periodicals and other reading material lying around. Is it appropriate to our practice while educating our clients about our firm or things important to their financial lives? Or is it simply copies of old magazines and trade publications? Does such material benefit our clients and improve our image?

Until we step into our clients' shoes and look at ourselves through their eyes, we have no idea what our real image is. We may joke about a cluttered desk being the sign of a genius, but our

clients view it as being unorganized, inefficient, or just plain sloppy.

Finally, we must take a look at how we and our employees are dressing. Is our image that of a professional, or do we look crumpled and too casual? To be viewed as a professional, we need to dress one level above the level of our best-dressed clients.

It is not easy to take a look at ourselves and our practice through someone else's eyes, but it is necessary if we are to attain that practice we are striving for.

Just Wandering

Sometimes it is really hard to fill all the space in this publication and I have no idea if my readers like what I choose to include or not. But in reading some of the pubs from other states I came across something that I found interesting.

It has to do with encouraging accountants and tax preparers of what to look for when a new client comes to you. It encourages us to make sure they are who they say they are.

Be observant. The client's dress and manner should fit his/her occupation. Ask to see their driver's license and social security card and make a copy for your files. If they have children, ask to see the social security cards of the children.

I would think that this information would be very important for persons who do a great deal of walk-in traffic during the filing season.

I found this interesting and I hope you found to be something that made you think also.

I WISH FOR YOU, GOOD HEALTH AND AN UNEVENTFUL TAX SEASON.



**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
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State Member Approving Membership

Signature _____

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*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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