



# ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

## Monthly Newsletter

June 2006

The Cruel AMT

A Message from the NSA State Director

IRA mistakes you can't afford

IRS Expands options for Direct Deposit

### • FROM YOUR PRESIDENT'S PEN •



Dear Members,

As you can tell by the temperatures, summer is here. Summer is the season when we get caught up on the work we promised in tax season, I hope it is also the season that we can take some time off to be with our families and friends; and to get some much needed time away from the office.

I received an email recently that alerted me to the fact that Congress had signed the "Tax Increase Prevention and Reconciliation Act". You have got to love the name of this Act. This new Act signing should be enough for every member who is going to prepare an income tax return for 2006 to start thinking about the Gear Up seminars on business entities and individual income taxes. These Arkansas Society of Accountants- sponsored seminars will be held in Little Rock on September 28 – 29 and November 16 – 17, respectively. For more details on all of the

upcoming seminars, visit the ASA website at [arspa.org](http://arspa.org).

If you perform any attestation engagements, which would include compilations and reviews, you will want to register to attend the ASA sponsored accounting seminar taught by NCPE. This seminar will be held at the Holiday Inn Select in Little Rock on July 26 and 27. Each member should be receiving their registration materials soon. This seminar will fulfill your CPE licensing requirements if you are performing any attestation engagements. If you do not receive your registration materials, you can visit the ASA website for information on how to sign up for this seminar.

Have a safe and enjoyable summer. I look forward to seeing each of you at the upcoming seminars.

Sincerely,

Bryan K. Johnston, CPA

President, Arkansas Society of Accountants

**Top taxpayer ombudsman Nina Olson**, the official National Taxpayer Advocate, urges the federal government to streamline the estimated tax process to make quarterly tax payments easier for self-employed individuals and other taxpayers who pay estimated tax.

**Her recommendations:** Allow monthly or bimonthly payments....have the government send payment reminders (the way other consumer bills are sent)...educate taxpayers about the Electronic Federal Tax Payment System ([www.eftps.gov](http://www.eftps.gov)), where payments can be scheduled in advance.

Nina E. Olson, National Taxpayer Advocate, 1111 Constitution Avenue NW, Washington, DC 20224.

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## **THE CRUEL AMT**

The alternative minimum tax (AMT), originally targeted at just a few millionaires, today increases the tax bills of millions of people... including ever more in the middle class. Here's what you need to know about the AMT, including frequently overlooked strategies for minimizing its risk to you...

### **The problem**

It's estimated that as many as 5.5 million individual taxpayers will owe AMT on their 2005 returns, including about....

- 17% of taxpayers with income between \$75,000 and \$100,000.
- 39% of those with income between \$100,000 and \$200,000.

- 78% of those with income between \$200,000 and \$500,000.

By 2010, nearly 30 million people will owe AMT, including two-thirds of taxpayers with adjusted gross incomes between \$50,000 and \$100,000 and 40 percent of all married couples.

**Why:** The AMT tax computation isn't indexed to inflation, while the regular income tax is. So inflation makes AMT more expensive compared with the regular tax bill every year, pushing more people into AMT.

In addition, the tax cuts of recent years make the regular tax bill smaller relative to the AMT, and so also push more people into the AMT. AMT income (AMTI) is computed by taking the taxable income shown on your return and adding back items that are used to reduce tax under regular rules.

For 2005 there is an exempt amount for AMTI of \$58,000 on a joint return or \$40,250 on a single return. The AMT applies to AMTI over the exempt amount at a 26% rate on the first \$175,000 28% rate on the rest.

However, the exempt amount is phased out by 25 cents for every dollar by which AMTI exceeds \$150,000 on a joint return or \$112,500 on a single return.

This creates marginal tax rates of 32.5% and 35% during the phase-out range, because for every extra dollar of additional income, \$1.25 is taxed.

**The politics of the AMT..**If the AMT was meant to tax only a few of the very rich, why doesn't Congress just index it to inflation as the regular tax computation is indexed?

While no Congressional leader publicly supports the AMT, Congress clearly doesn't

want to lose the revenue it produces.

Plus, the AMT enables Congress to take credit for passing tax cuts that appear much larger than they really are, because the AMT takes back much of their value in a way most people don't realize.

Major recent tax cuts, such as the lowering of top bracket rates, and the cut to 15% on capital gains and dividends, can lose much of their value to AMT. and many smaller cuts, such as the much publicized new tax credit for "hybrid" cars, aren't allowed under AMT at all.

In fact, 60% of the increase in AMT that is projected to occur by 2010 results from the tax cuts enacted since 2001, taking back the savings that the cuts supposedly produced.

The recent presidential Tax Reform Commission officially recommended repealing the AMT but Congress has taken no steps in this direction.

AMTI exempt amounts for 2006 have not been determined by Congress at this time. The current exempt amounts of \$58,000 on a joint return and \$42,500 on a single return were temporary and expired after December 31, 2005.

If these amounts aren't renewed or new ones enacted, exempt amounts will fall back to the earlier level of \$45,000 for couples and \$33,750 for singles and the number of individuals owing AMT for 2006 may hit 25 million.

Until Congress acts one way or the other, planning for the AMT will be even more difficult.

## **A Message From the NSA**

### **State Director**

If you are a practicing accountant, and a member of the Arkansas Society of Accountants (ASA), but not a member of our national organization, National Society of Accountants (NSA), I would like to invite and encourage you to become a member of the NSA.

Obviously, as with any other organization, membership comes with a price, but it also comes with many benefits. Of significance among those benefits, in my mind, is the representation we have in Washington, DC. At a time when many changes are being considered by Congress related to our chosen profession, it is good to know we have staff in our national office who are engaged in representing our point of view related to those proposed changes. Without paying our dues, a portion of which is used to provide representation on the hill, our collective position on issues would be without voice.

Won't you please join in this effort to protect our profession? If you have been a member in the past and just need to renew, please do so. If you have never been a member, please contact me for an application, or go to [www.nsacct.org](http://www.nsacct.org) and become a member. We need you so our voice continues to be heard.

Lonnie Taylor

NSA State Director for Arkansas

## **Why You Really Can't Afford a Mistake With Your IRA Now**

IRS fees for private rulings about IRA and

retirement plan transactions have just become much higher.

IRS private rulings often are used to obtain IRS “forgiveness” of good-faith errors, and to obtain advance IRS approval of complex or gray-area transactions that might otherwise later be questioned by an auditor.

But new IRS fee increases for private rulings now make them so costly that many people won’t want to use them.

**Examples:**

- When an IRA rollover is not completed within 60 days due to good-faith error or factors beyond the taxpayer’s control (such as a bank’s mistake), a private IRS ruling approving the late rollover, to save it from tax, formerly cost only \$95.

**New Cost:** \$3,000 for a rollover of \$100,000 or more...\$1,500 for a rollover of \$50,000 or more but less than \$100,000... \$500 for smaller rollovers.

- Rulings relating to technical issues – such as the use of trusts as IRA beneficiaries, post death distribution options for beneficiaries, late Roth IRA re-characterizations, etc—now generally cost \$9,000, up from as little as \$625 for persons with income under \$250,000.

When the professional fee charged by one’s tax advisor for preparing a ruling request, usually several thousand dollars itself, is added to the cost of the ruling, the combined cost may now be prohibitive.

**What to do:** Avoid the need for p private ruling by...

- Using conservative IRA planning strategies to avoid gray-area issues.
- Taking care to avoid mistakes that may need

correction, such as by not making any IRA rollovers. Make trustee-to-trustee transfers instead.

- Looking up previously published private rulings that match your situation. Although a private ruling is officially binding only for the taxpayer it is issued to, one issued to a taxpayer in the same situation as you may be persuasive to an IRS auditor.

Private rulings are published by the leading tax reporting services, with all information that might identify the taxpayers involved removed.

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**How you can be a victim of crime involving the IRS.** Suppose you own a company and use a payroll service to process weekly paychecks and remit payroll taxes to the IRS. Instead, the payroll service embezzles the money and the IRS eventually looks to your company for unpaid payroll taxes. The IRS and the courts have generally been unsympathetic when it comes to a taxpayer who has been the victim of embezzlement. Their position is that the contractual agreement between the taxpayer and the payroll service has nothing to do with the government. Best advice: Monitor the receipt by the IRS of the money that the payroll company is supposed to remit. (Request a transcript or statement from the IRS each quarter showing what payment has been made to the government.)

**The IRS cuts costs by relying on volunteers.** One way that the IRS is seeking to reduce its overhead is in its taxpayer service function. For many years, the IRS spent considerable

sums staffing walk-in sites during tax season to assist low-income taxpayers in preparing their income tax returns. Today people who devote their time in the volunteer income tax assistance (VITA) program fill much of the role previously assumed by paid seasonal employees. Problem: As poor as the advice sometimes is from the IRS, at least standards were in place to monitor the advice being given by paid employees to the public. Volunteers, although well intentioned, are not subjected to formal IRS supervision, and the advice could be spotty.

**Private tax collection companies set to start work this summer.** The IRS has announced that it has selected three firms, the first of approximately 12 firms to be used, to collect unpaid debts owed to the IRS. The use of private debt collectors was approved by a provision in the American Jobs Creation Act of 2004. Biggest concern: That these firms will abuse their authority. Another concern is that private financial information will not be adequately safeguarded. Taxpayers' only protection: Firms are required by law to follow the Fair Debt Collection Practices Act. Unauthorized disclosures can expose firms to severe fines and criminal penalties and can cost them the IRS contract.

**What if the IRS tries to collect tax from you that even it admits is owed by someone else?** The IRS has the ability to generate a "nominee lien" if it suspects that one taxpayer (generally the spouse) is holding property on behalf of another taxpayer. Example: Husband and wife file separate tax returns and the husband's tax liability is never paid. The wife owns an expensive home that is maintained by the husband's income. Remedy: You have to establish that the IRS made a mistake in filing

the lien because the property was purchased and/or maintained with the money from the non-liable spouse. It may be necessary to file a lawsuit against the IRS in federal district court in an effort to release the lien if no resolution can be reached with the IRS collection division or appeals office.

**The real unreported income problem.** The IRS Advisory Council (IRSAC) is made up of 22 volunteers selected by the IRS to offer advice on policy and procedural issues. The council has expressed concern that the IRS's focus on wealthy taxpayers with tax shelters lets ordinary taxpayers think they can avoid IRS scrutiny. The Advisory Council feels that income underreporting would be reduced substantially if the IRS devoted more resources to audits of small businesses and self-employed individuals. It is estimated that approximately 80% of the \$300 billion tax gap is attributable to this neglected sector. Problem: There is a considerable amount of unreported income attributable to the small-business/self-employed population that doesn't exist on paper. This group includes many who conduct business in cash without proper records. What this may mean for you: There will be ongoing pressure for the IRS to crack down on sole proprietors and small business owners.

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## **LAWYER'S VICTORY**

Willfully failing to pay taxes is not a serious crime, if you are a lawyer.

John Ashton Wray, Jr., was a lawyer who filed tax returns but intentionally did not pay his taxes.

As a result, he was disbarred from practicing before the US district Court for this “serious crime.” He protested.

Court of Appeals: The list of serious crimes that justify disbarment under federal court rules includes “willful failure to file income tax returns” – but Wray had filed his returns. His failure to pay the taxes he owed was a less serious misdemeanor – not a “serious crime.” The disbarment is overturned. John Ashton Wray Jr., CA-4, No. 05-1106

### **IRS Expands Taxpayers' Options for Direct Deposit of Refunds**

Washington – Hoping to encourage higher savings and more banking, the Internal Revenue Service announced today that it will create a new program to allow taxpayers who use direct deposit to divide their refunds in up to three financial accounts.

The IRS will create a new form, Form 8888, which will give taxpayers a choice of selecting one, two or three accounts such as checking, savings and retirement account. Taxpayers who want all their refund deposited directly into one account can still use the appropriate line on the Form 1040 series.

“Direct deposit is growing rapidly and is now used by over half of all refund filers,” said IRS Commissioner Mark W. Everson. “This program will give taxpayers the option of depositing a refund into more than one account. Split refunds should encourage saving, and we hope it will dampen demand for refund anticipation loans.

Exact details of the split-refund program, including a draft of Form 8888, are still being

decided. The IRS intends to meet with a number of consumer, tax professional and software associations to seek suggestions on operational and promotional details. The program will take effect in January of 2007.

More than three-quarters of the nation’s taxpayers receive a refund each year. Last year, the average refund was \$2,171. The IRS repeatedly has encouraged taxpayers to adjust their payroll withholding to ensure they pay only the taxes required, but some people appear to view payroll withholding as a way to save money.

Direct deposit of refunds was first offered in 1987. Last year, the IRS issued 100 million refunds (from 133 million tax returns) amounting to \$217.6 billion. Of these figures, 52.7 million refunds amounting to \$134.2 billion were deposited directly into bank accountants.

Currently, taxpayers have two options for receiving their individual federal income tax refunds – a paper check or a direct deposit into a checking or savings account. The electronic funds transfer gives taxpayers the safety and speed of direct deposit. Taxpayers who file their return electronically and opt for direct deposit can receive their refund in two weeks or less.

This ability to split or allocate their direct deposit refunds among multiple accounts will be available to all individual filers, whether they file Forms 1040, 1040A/EZ, 1040NR or any of the other 1040 series forms.

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**ANNUAL ACCOUNTING SEMINAR WILL BE JULY 26 & 27, 2006. BE SURE TO WATCH THE MAIL FOR YOUR RE-GISTRATION FORM.**



**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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## 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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