



ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter

March 2006

A message from your District VIII Gov.
IRS Tax Scams for 2006

News from the State Board of Public Accountancy

• FROM YOUR PRESIDENT'S PEN •



Dear Members,

According to my calculations, tax season is half way over. In only fifty or so days, we can put another tax season behind us. I hope that this filing season has been uneventful for all of you. In the small amount of time I have for reading right now, I came across an article stressing the idea of identifying services our clients might need from us after April 15th. I found this article especially useful in our practice because we have so many clients who have inadequate or out of date estate plans. It seems like we get so busy that we forget to make ourselves notes on client issues that need to be addressed at a future date. I personally keep a legal pad in a file folder at my desk, so I can jot down ideas for specific clients. It is pretty low tech but it does work.

As I am writing this letter it is Presidents day. I read an article on the internet entitled

“20 Things You Didn’t Know About U.S. Presidents”. In this article, it states that our Twentieth President, James Garfield, was both ambidextrous and multilingual. It goes on to say that he could write Greek with one hand while writing Latin with the other. After letting this soak in, I had to ponder whether the late President’s ghost is helping our lawmakers write the Internal Revenue Code?

I know it seems early to start thinking about our education opportunities, but summer will be here before we know it. Take some time to visit the Society web site at arspa.org. It contains all of the information about the seminars we will be hosting this year.

Take care of yourselves, and I look forward to seeing each of you at the first seminar of the year in May.

Sincerely,

Bryan K. Johnston. CPA

President, Arkansas Society of Accountants

February 18, 2006

From Jim's Desk:

A message from your District VIII Governor

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The "big" news for District VIII since my last letter is that I will not be seeking re-election this August as your Governor. This was a very hard decision for my family and I to make, but I have been approached by several NSA members about seeking the office of NSA 2nd Vice President in August. I have truly enjoyed the work of being your Governor and have felt great satisfaction in representing the district at State Society meeting/conventions and at the Board of Governors' meetings. I feel that "we" are accomplishing worthy goals and that the time and effort that I have spent as been well worth it.

I notified the leadership in each state of our district of my decision in January, and now it is time for all members to know my decision. One of the traditions in NSA politics has been that formal announcements occur at the May Board of Governors meeting. To that end, I realize that I am breaking with tradition by mentioning this in a February newsletter. That's all right. Keeping the membership informed is the purpose of these letters and you have a right to know what's going on as well. Before becoming deeply involved in NSA politics, I always felt a little "second class" because I was always hearing about things after they happened in a lot of cases and I didn't want everyone reading articles in June about this announcement from the May Board meeting. I'd rather you know in advance rather than afterward.

The Long Range Planning Committee which I am vice chair, met in December and was looking at the role and interaction of

state directors in NSA. If you have thoughts on what this role should be, duties of the director, who and how the director is responsible to and in what way, please pass those ideas on to me. Consider such topics as: who is primarily responsible for membership recruitment; if not the state director, what should be the role of the state director in the overall recruitment process; who is the state director responsible to; should the state directors be appointed by the Governor; how should a state director who is not performing their duties be removed/replaced; what "compensation," if any, should a state director receive.

The OSA web site (www.ospa.org) has an interesting article on including an arbitration clause in your engagement letters. Take a look at the article "Arbitration Clause Upheld in Professional Services Contract" on the OSA web site under the tab "Hot Topics." Frankly, I had never thought of including this in our engagement letters, but it might be a good idea to consider rather than leaving the matter to a jury to decide if a dispute should arise.

Jim Nolen

IRS ANNOUNCES "DIRTY DOZEN" TAX SCAMS FOR 2006

WASHINGTON – The Internal Revenue Service today issued the 2006 "Dirty Dozen" – its latest tally of some of the most notorious tax scams – along with an alert to taxpayers this filing season to watch out for schemes that promise to reduce or eliminate taxes.

Two new schemes have worked their way onto the list in 2006. In recent months IRS personnel have noted the emergence of the two scams – "zero wages" and "Form 843

Tax Abatement – in which filers use IRS forms to claim that their tax bills have been wrongly inflated.

Also high on the list in 2006 is “phishing,” a favorite play of identity thieves. Over the past few years, the IRS has observed criminals working through the Internet, posing even as representatives of the IRS itself, with the goal of tricking unsuspecting taxpayers into revealing private information that can be used to steal from their financial accounts.

Several of the usual suspects from last year remain on the list. The IRS, for example, continues to see schemes designed to exploit charitable organizations. Some taxpayers, meanwhile, still use frivolous arguments to claim they do now owe taxes, despite the fact such reasoning has been thrown out of the court time and time again.

“When it comes to taxes everyone has to pay their fair share,” IRS Commissioner Mark W. Everson said. “I urge taxpayers not to be taken in by hucksters who promise to lower or eliminate taxes. Getting caught up in the Dirty Dozen or similar schemes can lead to big headaches.”

Namely, involvement with tax schemes can lead to imprisonment and fines. The IRS pursues and shuts down promoters of these and numerous other scams. Anyone pulled into these schemes can also face repayment of taxes plus interest and penalties.

The IRS urges people to avoid these common schemes:

1. **Zero Wages.** In this scam, new to the Dirty Dozen, a taxpayer attaches to his or her return either a Form 4852 (Substitute Form W-2) or a “corrected” Form 1099 that shows zero or little wages or other income. The taxpayer may include a statement indicating the taxpayer is rebutting information submitted to the

IRS by the payer. An explanation on the Form 4852 may cite “statutory language behind IRS 3401 and 3121” or may include some reference to the paying company refusing to issue a corrected Form W-2 for fear of IRS retaliation. The form 4852 or 1099 is usually attached to a “Zero Return.” (see number four below.)

2. **Form 843 Tax Abatement.** This scam, also new to the Dirty Dozen, rests on faulty interpretation of the Internal Revenue Code. It involves the filer requesting abatement of previously assessed tax using Form 843. Many using this scam have not previously tax returns and the tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program. The filer uses the Form 843 to list reasons for the request. Often, one of the reasons is: “Failed to properly compute and/or calculate IRC Sec 83 – Property Transferred in Connection with Performance of Service.”

3. **Phishing.** Phishing is a technique used by identify thieves to acquire personal financial data in order to gain access to the financial accounts of unsuspecting consumers, run up charges on their credit cards or apply for new loans in the names. These Internet-based criminals pose as representatives of a financial institution and send out fictitious e-mail correspondence in an attempt to trick consumers into disclosing private information. Sometimes scammers pose as the IRS itself. A typical e-mail notifies a taxpayer of an outstanding refund and urges the taxpayer to click on a hyperlink and visit an official Web site. The Web site then solicits a social security and credit card number. In a variation of this scheme, criminals have used e-mail to

announce to unsuspecting taxpayers they are “under audit” and could make things right by divulging selected private financial information. Taxpayers should tax note: The IRS does not use e-mail to initiate contact with taxpayers about issues related to their accounts. If a taxpayer has any doubt whether a contact for the IRS is authentic, the taxpayer should call 1-800-829-1040 to confirm it.

4. **Zero Return.** Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholding and then write “nunc pro tunc” Latin for “now for then”- on the return. They often also do this with amended returns in the hope the IRS will disregard the original return in which they reported wages and other income.
5. **Trust Misuse.** For years unscrupulous promoters have urged taxpayers to transfer assets into trusts. They promise reduction of income tax subject to tax, deductions for personal expenses and reduced estate or gift taxes. However, some trusts do not deliver the promised tax benefits, and the IRS is actively examining these arrangements. There are currently more than 200 active investigations underway and three dozen injunctions have been obtained against promoters since 2001. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering into a trust.
6. **Frivolous Arguments.** Promoters have been known to make the following outlandish claims: the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; wages are not income;

filing a return and paying taxes are merely voluntary; and being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Don't believe these or other similar claims. These arguments are false and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law.

7. **Return Preparer Fraud.** Dishonest return preparers can cause many headaches for taxpayers who fall victim to their schemes. Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Taxpayers should choose carefully when hiring a tax preparer. As the old saying goes, “If its sounds too good to be true, it probably is.” And remember, no matter who prepares the return, the taxpayer is ultimately responsible for its accuracy. Since 2002, the courts have issued injunctions ordering dozens of individuals to cease preparing returns, and the Department of Justice has filed complaints against dozens of others. During fiscal year 2005, more than 110 tax return preparers were convicted of tax crimes.
8. **Credit Counseling Agencies.** Tax payers should be careful with credit counseling organizations that claim they can fix credit ratings, push debt payment plans or impose high set-up fees or monthly service charges that may add to existing debt. The IRS Tax Exempt and Government Entities Division is in the process of revoking the tax-exempt status of numerous credit counseling organizations that operated under the guise of educating financially

distressed consumers with debt problems while charging debtors large fees and providing little or no counseling.

9. Abuse of Charitable Organizations and Deductions. The IRS has observed increased use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur, for example, when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control over the assets or income, thereby obtaining a tax deduction without transferring commensurate benefit to charity. A “contribution” of a historic façade easement to a tax exempt conservation organization is another example. In many cases, local historic preservation laws already prohibit alteration of the home’s façade, making the contributed easement superfluous. Even if the façade could be altered, the deduction claimed for the easement contribution may far exceed the easement’s impact on the value of the property.

10. Offshore transactions. Despite a crackdown by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities or life insurance to do so. The IRS and the tax agencies of U.S. states and possessions continue to aggressively pursue taxpayers and promoters involved in such abusive transactions. During fiscal 2005, 68 individuals were convicted on charges of promotion and use of abusive tax schemes designed to evade taxes.

11. Employment Tax Evasion. The IRS has seen a number of illegal schemes that instruct employers not to withhold federal

income tax or other employment taxes from wages paid to their employees. Such advice is based on an incorrect interpretation of Section 861 and other parts of the law and has been refuted in court. Lately, the IRS has seen an increase in activity in the area of “double-dip” parking and medical reimbursement issues. In recent years, the courts have issued injunctions against more than a dozen persons ordering them to stop promoting the scheme. During fiscal 2005, more than 50 individuals were sentenced to an average of 30 months in prison for employment tax evasion. Employer participants can also be held responsible for back payments of employment taxes, plus penalties and interest. It is worth noting that employees who have nothing withheld from their wages are still responsible for payment of their personal taxes.

12. “No Gain” Deduction. Filers attempt to eliminate their entire adjusted gross income (AGI) by deducting it on Schedule A. the filer lists his or her AGI under the Schedule A section labeled “Other Miscellaneous Deductions” and attaches statement to the return that refers to court documents and includes the words “No Gain Realized.”

NEWS FROM THE STATE BOARD OF PUBLIC ACCOUNTANCY

2006 ANNUAL RENEWALS

We are in the process of completing the Annual Registration Period. All licensees should receive either a late fee invoice, license receipt card, or a second notice by the second week of February. If your address has changed, please visit our website at www.arkansas.gov/asbpa, download and complete the written notification

of demographic changes form and send to the Board office as quickly as possible.

The Public Accountancy Act was amended in the 2005 legislative session and corresponding changes in the rules occurred in 2005 and affect the renewal of licenses. All licenses not renewed prior to August 12, 2005, the effective date of Act 54, lapsed and if not reinstated on or before August 11, 2006 will become void. A 2005 license (active or inactive) not renewed by April 1, 2006 will lapse.

A licensee may choose not to renew a license by notifying the board in writing prior to the expiration date (December 31 of each year) of the license and surrender the license to the board immediately upon its expiration or otherwise comply with board rules concerning the disposition of the license. However, when a licensee does not notify the board, surrender their license or renew their license by the first day of the fourth month after expiration, the license or registration will lapse.

After the license is allowed to lapse, the board may reinstate a lapsed license if (1) application is made by the licensee within three (3) years following the expiration of the license (2) the applicant complies with the continuing education requirement and (3) the applicant pays all applicable fees including a reinstatement fee. If a lapsed license or registration is not reinstated within three (3) years following the expiration, the license or registration will be void and not subject to renewal or reinstatement.

The holder of a void license or registration may apply for a new license or registration, but may be required to comply with education or other requirements deemed appropriate by the board, including successful completion of the CPA examination.

CPE AUDIT

Five hundred (500) licensees were randomly selected for the Board's 2005 CPE audit. The Board has completed the audit and plans to notify the selected licensees in February of the results.

PUBLICATION OF DISCIPLINARY/ ADMINISTRATIVE SANCTIONS

The Arkansas State Board of Public Accountancy is mandated by statute to protect the public by ensuring that CPAs adhere to the highest standards of professional conduct. It is also charged with determining if grounds exist for disciplinary action. Such action may include revocation, suspension, or denial of a license, monetary penalties, completion of appropriate education programs, preissuance review of audits, review reports or compilations, quality review conducted in such a manner as the board may specify and successful completion of the licensing examination for the license holder.

The Board held several hearings this past year where disciplinary actions were taken. Although the Board has not published this information in the past, the Board does have the right to publish this information and may do so in the future pursuant to Board rule 11.11.

This rule allows the Board to publish in the Board's and NASBA's (National Association of State Boards of Accountancy) official publications (printed or electronic), and in newspapers of general circulation in the state, the name of any certificate or registration holder who is the subject of a reprimand, suspension of certificate or registration, revocation of certificate or registration, or surrender of certificate or registration in lieu of disciplinary action, or any other disciplinary action after a final Board order has been issued. The publication may contain a narrative factual summary of the actions and /or violations which were the basis for the disciplinary/administrative action.



**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
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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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