



# ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

## Monthly Newsletter

October 2006

Message for District VIII Your Governor  
Silent Auction Results  
Newest Tax Return  
Pension Protection Act of 2006

### • FROM YOUR PRESIDENT'S PEN •



Dear Members,

In September, 1991, I was first elected as president of the Arkansas Society of Public Accountants. Now fifteen years later I have again accepted the gavel as president of the Arkansas Society of Accountants. Thank you for electing me as president of your society for the coming year. I look forward to serving you along with an outstanding Board of Governors.

Many changes have occurred during the last fifteen years. For one thing, our name has changed. Did you notice the "Public" in the name of our society in 1991 has been removed by 2006? Several years ago our Board of Governors concluded that removing "Public" from our name would clarify what our Society is all about, since our members include licensed and unlicensed practitioners. Our membership agreed and voted to change our name. I'm proud to be a member of a society that recognizes and serves members in diverse areas of our profession.

Another change that has occurred over the past fifteen years is that we now have six Certified Public Accountants on our Board of Governors. The addition of these members to the ASA Board of Governors is by design. Since Public Accountants are a dying class of practitioners and the number of PA's is declining,

I envision that ASA will become the premier organization that represents members of small accounting practices. The issue is no longer one of CPA's verses PA's verses unlicensed. The issue is one of small accounting practices verses large accounting practices. Small practices face the same daily issues and problems. Therefore, I believe that our society must focus on these issues.

Some things have not changed during the last fifteen years. ASA still provides an outstanding educational program. Seminar providers such as Gear Up, Jennings Seminars, and NCPE will continue to provide us with great seminars geared to the small accounting and tax practices. If you have not registered for the upcoming Gear Up 1040 tax seminar you will want to do so soon. Remember, this year ASA will be sponsoring a Gear Up 1040 seminar in Springdale as well as the Little Rock Seminar.

In addition, we maintain a good relationship with the State Board of Public Accountancy and the Arkansas Society of CPAs, which affords us the opportunity to provide input to accounting and tax legislation.

Thanks again for electing me as president of ASA. I look forward to visiting with you at one of our seminars.

Ronny Woods, PA  
President, ASA

## GREETINGS FROM YOUR DISTRICT VIII GOVERNOR



Many have inquired as to the problems your ASO experiences. Are your challenges unique to your State? It appears that membership numbers are at a lower level throughout most ASO's. Participation by your members? There seems to be about 20% of our members that do 90% of the work.

What are the solutions, the answers? Ask yourselves, ask your members. There probably is not just one answer, but do explore all avenues.

When each of us undertakes an appointment, whether elected or otherwise, we accept the responsibility of the position. This we understand and have agreed to diligently pursue to the best of our ability. These requirements are written and so stated when we take the oath and say "I do."

There is an additional fundamental unstated issue, but does need to be understood, as part of the "job description."

This activity involves observing and listening to all those in our profession with whom we have contact. Why? Because we are remiss if we do not provide a pool of qualified individuals as replacements for ourselves. Train someone for your job!

To support our efforts in preparing others for our jobs, NSA provides "leadership seminars" for those with the necessary requisites.

Which individual do we seek, one with the "attitude or the one with the ability?" Which has the greater benefit to our Society? This writer feels that needed abilities can be taught and learned. And, that attitude is the innate tendency we have toward a positive frame-of-mind, a positive outlook of life, a positive mind-set of "I Can Do!"

God has given us two ears and one mouth. We should listen twice as often as we speak! Do be a good listener.

As I spent time with the Arkansas Society of Accountants at their State Convention, their Business Entities Seminar and the Intuit presentation, I was able to observe and listen. Many members I have met and known for several years.... I have had the opportunity to meet many additional members and attendees at the meetings. It was pleasing to see and meet so many potential leaders who are commencing at various levels of service to our profession.

Too, I observed that many of the graying ASA members are preparing for the ultimate transition of their practices to a younger generation. They are preparing someone for their job!

Their mix of the seasoned elders and upcoming generation members is positive. Yes, we do learn from those who have been there.

Do listen, hear and learn!

R. Deane Wymer

## SILENT AUCTION RESULTS

We thought all of you would want to know what a success the silent auction was this year. As most of you know, this money goes to the NSA Scholarship Fund and we set a goal each year of \$1,000.00. If ASA donates at least this amount, we are assured that a student in Arkansas will receive a scholarship. This year we raised \$1,200.00. Thanks to everyone who participated in this event!

Donna, Shelly & Penny  
Committee for the auction

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### Practices for sale and Wanted!

For sale-NEW-NLR Area-Gross \$562k-  
Good Fees-Great Cash Flow to the Owners!  
NEW-Heber Springs-Gross \$67k. Central  
Arkansas-Gross \$330k! Asking \$260k. East  
Arkansas – Gross \$226k-Great Cash Flow!  
Little Rock-Sold! Thinking of Selling? We  
do all the work to make it quick and easy by  
bringing you serious and qualified buyers!  
Completely risk-free and confidential.

### Accounting Practice Sales

1217 Front St., Conway, AR 72032

Call: Kathy Brents at (501) 327-2000

Email: [Kathy@accountingpracticesales.com](mailto:Kathy@accountingpracticesales.com)

Also visit us at:

[www.accountingpracticesales.com](http://www.accountingpracticesales.com)

## IRAs UNDERUTILIZED

According to recent IRS statistics, in 2002 (the most recent year available), while about 79% of taxpayers were eligible to make IRA contributions, only 10.3% actually did so.

Married couples filing jointly contributed larger amounts than single filers, and men contributed more than women. Overall, IRAs held more than \$2.5 trillion at the end of 2002 – more than \$204.4 billion was rolled over to IRAs from company plans and \$3.3 billion was converted from traditional IRAs to Roth IRAs. (IRS Statistics of Income Bulletin: Spring 2006.)

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### Newest Tax Return

Now that the government has agreed to make refunds for federal excise tax paid on long-distance telephone service after February 28, 2003, the IRS is creating a new tax return for low-income taxpayers so they won't miss out.

Those with income below the threshold that mandates the filing of a return can use the new return, Form 1040EZ-T, to obtain a refund.

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## Protection for Retirement Accounts

The Federal Deposit Insurance Corporation (FDIC) has increased insurance to \$250,000 from \$100,000 for self-directed retirement accounts held at banks.

**Protected:** Traditional and Roth IRAs, simplified employee pension plans, “Section 457” deferred compensation plan accounts, Keogh plan accounts, and defined-contribution plan accounts such as 401(k)s.

A self-directed retirement account is one for which the owner, not a plan administrator, has the right to direct how the funds are invested.

**Limit:** Each person’s deposits in such accounts at the same bank are added together with their total insured up to the \$250,000 limit. So, if you have funds in both an IRA and a Keogh at the same bank, the \$250,000 applies to their combined balance, not to each account separately. The increase became effective April 1, 2006.

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**How long does the IRS have to come after you for** extra tax if you under-reported your income? The answer depends on the amount of un-reported income and why it was not reported on your return. Statute of limitation rule:

Unless the IRS issues an assessment within three years from the date the tax return was filed, it is out of luck. Exception 1: If you understated your income by more than 25%

of the gross income reported on your return, the three year limitation period is extended to six years. Exception 2: If the IRS can prove that the understatement of income was attributable to fraud (that is, you intended to underreport your income- it was not a simple mistake), there is not statue of limitations and it can make an assessment at any time.

**Couple can deduct bad loan to son.** A retired couple borrowed \$55,000 against their home t lend to their son so that he could buy a pet store, and he signed a note acknowledging it. But, soon afterward, new competing stores opened, and the son went bankrupt without repaying them. The couple claimed a bad-debt deduction – but the IRS disallowed it, saying that the \$55,000 really was a gift, and that the note was unconvincing as it lacked a repayment schedule, maturity date, and security. TAX Court: The couple had consulted with a lawyer to be sure the loan was valid and testified credibly that they intended it to be repaid. Lacking a maturity date, the note created a valid demand note – deduction allowed. William King Alt, TC Summary Opinion 2006-96.

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**The registration forms for the Gear Up 1040 seminars have been mailed. If you have not received yours, go to [www.arspa.org](http://www.arspa.org) and print one at that site, or you can email: [laverne1@cox-internet.com](mailto:laverne1@cox-internet.com) to fax or mail you one.**

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## PENSION PROTECTION ACT OF 2006 BECOMES LAW

This massive 800-plus-page law overhauls the funding and disclosure rules for defined benefit plans, revises the deduction limits for qualified plans, addresses conversions of pension plans to cash balance plans, carries liberalized payout and rollover rules, and makes a host of other changes relating to pension plans and their beneficiaries. It also revises key charitable giving rules and makes a number of exempt organization reforms.

Many of these changes will affect larger corporations, but there are a number of issues to the smaller tax practitioner as well. Following are a few examples:

- Qualified plan to IRA rollovers allowed for non-spouse beneficiaries after 2006.
- Direct rollovers from qualified plans to Roth IRAs permitted after 2007.
- Extra IRA contributions up to \$3,000 allowed for employees victimized by employer bankruptcies starting in 2007.
- Easing of the rules for distributions on account of hardship and unforeseen circumstances.
- Key traditional and Roth IRA income limits indexed after 2006.
- Tax refunds may be deposited directly to

IRAs after 2006.

- Distributions to called-up reservists not subject to 10% penalty.

The following items previously scheduled to sunset at the end of 2010 are not made permanent:

- Increases in the IRA contribution limits, including the ability to make catch-up contributions.
- Rules relating to deemed IRAs under employer plans.
- Increases in the limits on contributions, benefits, and compensation under qualified retirement plans, tax sheltered annuities, and eligible deferred compensation plans.
- Modification of the top-heavy rules.
- Elective deferrals not taken into account for purposes of deduction limits.
- Option to treat elective deferrals as after-tax Roth contributions.
- Catch-up 401(k), SEP and SIMPLE IRA contributions for individuals age 50 and older.
- Low-income saver's credit made permanent and indexed after 2007.

In the next article we cover some of the New Charitable Incentives.

## **Pension Protection Act of 2006 Contains New Charitable Incentives**

Included in the latest piece of legislation signed by the President are several provisions which affect charitable giving.

### **Tax-Free IRA Distributions for Charitable Purposes**

Previously, if an amount withdrawn from a traditional or Roth IRA is donated to a charitable organization, the rules relating to the tax treatment of withdrawals from IRAs apply to the amount withdrawn and the charitable contribution is subject to the normally applicable limitations on deductibility of contributions.

### **New Law**

For distributions in tax years beginning after 2005 and before 2008, the Act provides an exclusion from gross income for otherwise taxable IRA distributions from a traditional or Roth IRA that are qualified charitable distributions. To constitute a qualified charitable distribution, the distribution must be made (1) directly by the IRA trustee to certain charities and (2) on or after the date the IRA owner reaches age 70 1/2 .

Distributions that are excluded under the new provision aren't taken into account in determining the individual's deduction, if any, for charitable contributions.

The new provision clearly saves taxes for

non-itemizers and can save taxes for itemizers as well, to the extent charitable limitations would have reduced the amount currently deductible for the contribution of the IRA.

Even if limitations would not cause a reduction in the amount of the charitable deduction, the new provision can still save taxes by lowering adjusted gross income, and thereby making it less likely to lose certain tax breaks pegged to AGI, such as medical expense deductions. Using IRA distributions, rather than other funds, to make charitable contributions can help to reduce the amount of social security benefits included in gross income.

In addition to the above, the following provisions are also included in the new law:

**KETRA** deduction for food and book contributions extended for two years through 2007.

**FMV** of Contributions of Real Property for conservation purposes allowed up to 50% of AGI and may be carried forward up to 15 years.

**Reprinted with permission from Gear Up Gold Rush Newsletter, Vol.2, Issue 9, September 06.**



**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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