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ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter
March 2007

Calendar of Events
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Homeowner Energy Upgrades

• FROM YOUR PRESIDENT'S PEN •

Dear Members,

Can you teach an old dog a new trick? Maybe. Our family has an old dog who answers to the name of Honey. She will be "sweet sixteen" (that's 112 dog years) within a few months. She's an airplane dog (her mother was an Airedale and her father was a plain old dog). Although she has a vocabulary of only twelve or fifteen words, she has become a master over the years at getting her way. She has constantly invented ways to manipulate and twist her family around her little finger (dewclaw). In other words, she has turned the question around to, "Can an old dog teach new tricks?" By the way, she has never been interested in any tricks that require physical acumen. She's more of a thinker.

As we practice our profession we learn a lot of "new tricks" that serve our clients well. We learn those "tricks" in many different ways. Sometimes we'll pick up something from reading an article in a trade publication or by attending a seminar. Occasionally we'll acquire a new technique when we review the work a prior accountant performed previously for a new client. Obviously we sometimes learn by simply reading the instructions to a tax form.

Today, I learned a "new trick" from an elderly client. I prepared her tax returns for many years. In recent years her income has been below the level requiring her to file a tax return. However, for the past three years she has brought in her year-end information, I review it, and inform her that she no longer is required to file. A few weeks ago, she brought her information for me to review. I reviewed it and informed her that she was not required to file. She was happy. I was happy. She left. Life was good.

Today, she returned. She only had one question. Ronny, I have heard that even though I am not required to file a tax return I can still file a form and get a telephone tax refund. Is that true? Of course it's true. I had failed to remember a few weeks earlier that she could file Form 1040EZ-T. It was worth $30 to her. The "trick" is that we have many elderly clients who no longer are required to file a return and who can benefit if we will take the time to serve them.

Can you teach an old dog a new trick? Maybe.

Ronny Woods P.A.
President

My New Email Address

I know that some of you already know my new email address. Those of you that don't, please make a note of it in your address book.

asalaverne@hughes.net

Since I have moved my office to my home, the cable I was using in town is not available out here in the country. So I was forced to get new service and it took a while to get it.

I am only 1/2 mile from the Newport city limits but there is no service out here. Another think that surprised me is that I could not have the A T & T dial up without a charge of 10 cents per minute.

Finally found this Hughes.net connection and it is working fine. Thank goodness.

So much for that. I hope that all of you are having a productive tax season and making heaps of money.

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Postal Rate Increase

President Bush signed the *Postal Accountability and Enhancement Act* (H.R. 6407) into law December 19, ensuring the continued modernization of the U.S. Postal Service's (USPS) business operations and a new rate-setting process that will link future rate increases to the rate of inflation. The current rate case will proceed with a recommendation from the Postal Rate Commission in early March, with implementation of new postal rates likely in May 2007.

CALENDAR OF EVENTS

May 25, 2007	Gear Up "Planning for Retirement and Transfers at Death"
July 26, 2007	Gear Up Accounting Seminar
July 27, 2007	Gear Up Technology Seminar
September 13, 2007	Gear UP Business Entities
September 14, 2007	Gear Up Practice Management
November 15 & 16, 2007	Gear Up 1040 Little Rock
November 29 & 30, 2007	Gear Up 1040 Springdale

As you have noticed I am sure, the July Seminars are one day and you may register for one or both. Also the September Seminars are one day and you may register for one or both.

Hopefully, you will find these one day seminars to your liking and will participate in all of them.

I am looking forward to seeing all of you at one or more of these seminars this spring and summer.

Till next month, happy tax season.

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E-FILING TOPS 50 PERCENT FALLS SHORT OF IRS GOAL

For the first year ever, more than 50 percent of all individual tax returns filed in 2005 were sent via electronic means. Expect that trend to continue: As of January 1, 2006, nine states required paid preparers to file electronically. More states are likely to follow. Nevertheless, the IRS will likely fall short of its goal of having 80 percent of all returns filed electronically in 2007.

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CLEAR THE CLUTTER TEACH CLIENTS HOW LONG TO RETAIN RECORDS

Some of your clients are pack rats. Others are determined dumpers. But the best strategy is to keep tax-related records only as long as necessary.

As you know, the IRS typically has three years to audit returns. But it has six years if it suspects that the return understates income by more than 25 percent. And no statue of limitations applies if fraud is involved or the person fails to file.

To help your clients determine which records to toss and which to keep at the end of tax season, pass along this handy record-retention list, which is based on legal as well as tax considerations.

Record Retention Schedules

Copies of tax returns	Forever
Tax/legal correspondence	Forever
Audit reports	Forever
Contracts and leases	Forever
Real estate records	Forever
Corporate minutes and stock records	Forever
Bank statements	6 years
General ledger and journals	6 years
Sales records and journals	6 years
Employee expense records	3 years
Personal investment records	6 years after sales
IRA records	6 years after withdrawals
Cancelled checks	3 years
Paid vendor invoices	3 years
Employee payroll records	3 years
Depreciation schedules	Tax life of asset plus 3 years

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Help Clients Write Off Their Parent's Home ...By Buying It

For many of your clients, their aging parents live in a home that has appreciated greatly, but the parents aren't reaping home-ownership tax breaks during those retirement years.

Yet, with one swoop of the pen, all those family members can win: The parents gain instant access to their home equity (without moving) and your client picks up some generous new tax deductions.

The Strategy: Encourage your client to buy the home from his or her parents and rent it back to them at the going rate.

Why rock the boat? The combined family unit is overpaying the IRS. Your clients could benefit from tax breaks that their parents most likely can't pull out of their homes anymore.

The parents' mortgage is either paid off or the payments are mostly principal at this point. Even if the parents still take interest deductions their tax bracket might be low in retirement, so those deductions don't provide much tax savings. In fact, many retirees take the standard deduction rather than itemize. If so, the parents are also passing up property tax deductions.

Several good reasons exist for the parents to opt into this plan. First, it puts cash in their pockets without having to refinance or dip into a home-equity loan. Second, it allows them to put their money into safer investments than a possible stagnant or declining real estate market. Third, if their capital gain already exceeds the $500,000 home-sale gain exclusion for married couples ($250,000 limit for unmarried people), then they're just creating more taxable income for themselves.

Bonus Benefits: Once your client owns the house, he or she can write off travel expenses when visiting the house (and parents). Furthermore, any time parents want new furniture, they can gift the money (up to $12,000 per parent) to the child so he or she can purchase it for them and depreciate it.

Transferring the house. To avoid gift-tax complications, the client should pay a fair price for the home. The price should be supported by newspaper listings showing the prices of similar homes.

If your client needs some help with the down payment, the parents can gift $12,000 per parent. If necessary, the gift could then be added back to the purchase price and financed.

Signing the lease. Then, the two sides should enter into a lease at a fair rental value. A long-term lease may be desired by skeptical parents. Keep in mind that courts have said that landlords can reduce their fair-market rent by 20 percent when renting to relatives. That lower rent reflects the savings in maintenance and management costs.

But, be aware that if the rent is set too low, the IRS might way the rental is really personal use for your client (the homeowner). In that case, the deductions might be limited to mortgage interest and property tax, the same as if your client owned a vacation home.

Taking deductions: Once your client owns the parents' house, he or she is entitled to reap the tax benefits of owning rental property. That includes taking write-offs for operating expenses, such as utilities, maintenance, insurance, repairs and supplies.

Finally, your client can claim depreciation deductions for the home. He or she can't depreciate the cost of the property apportioned to land. So, advise clients to obtain an appraisal allocating the price paid between the depreciable structure and the non-depreciable land.

Your client can use all of these deductions to offset the rental income received from his or her parents. Remember that any allowable tax loss will phase out between $100,000 and $150,000 pf AGI. Any suspended losses may be taken when your client sells the house.

Endgame: Eventually, the parents won't be able to live in the house. Then, your client can sell it, rent it to another tenant or move in. If your client moves in and makes it his principal residence for at least two years, he can shelter another $250,000 or $500,000 worth of capital gains: a true tax bonanza!

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<u>New Tax Break: Make IRA Gifts to Charity</u>

New law now allows people over 70 1/2 to transfer up to $100,000 from an IRA to a public charity, without paying any tax on the withdrawal from the IRA.

This tax-free treatment is better that taking a conventional deduction for funds donated to a charity, after taking the funds from the IRA in a taxable withdrawal.

Reasons......

• The charity deduction is limited to 50% of adjusted gross income (AGI), so many people would not be able to fully deduct such a large conventional gift to charity. (The excess charity deduction can be carried forward for up to five years.)

• An IRA distribution is included in AGI, so it may reduce or eliminate many other deductions and tax-saving devices that have AGI-related limits.

If you donate cash or appreciated securities to a charity and leave an IRA to heirs, the heirs will pay income tax at high ordinary rates on IRA distributions. But if you give IRA funds to charity and cash or appreciated securities to heirs, you will get the same charity deduction, but heirs will owe no income tax on the bequest they receive.
Why: Because inherited appreciated securities received stepped-up basis that eliminates taxable gain.

Thus, using this break as part of an estate plan can reduce the family's future tax bill—removing the IRS from effectively being one of your beneficiaries.

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<u>Volunteer Preparer Foul-Ups</u>

According to a recently report by the Treasury Inspector General, more than half of the tax returns prepared by the federal government's Volunteer Income Tax Assistance (VITA) during the 2006 filing season were inaccurate.

The Inspector General based his report on the results of a test sample of 36 tax returns. Twenty-two of the 36 were found to contain errors. In recent years, the IRS has been criticized for delegating too much of its own responsibility for taxpayer service to volunteers who lack the experience to gather the proper information and apply the appropriate tax law.
Lesson: You get what you pay for.

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<u>Draft Family Partnerships to Withstand IRS Heat</u>

Your well-to-do clients may come to you after reading dire warnings about the viability of family limited partnerships (FLPs) as a future estate-planning tool.

The death of FLPs has been greatly exaggerated. So long as FLPs are crafted correctly, they can withstand the increased scrutiny from the IRS and the courts. For you, that means making sure clients observe all the necessary formalities and run the partnerships like legitimate investment entities, not piggy banks.

Typically, your client would name himself as general partner and transfer his assets to a limited partnership. By giving away limited partnership interest to family members, the client removes assets from his estate. Best of all, those limited partnership shares can be discounted for gift-tax purposes.

In a much-watched ruling, a court recently nixed the tax benefits of a taxpayer's FLP, saying the arrangement was a sham because the FLP's only withdrawals were made for the taxpayer's living expenses. He used the FLP assets personally.

If clients keep too much control over the FLP – directly or indirectly – the IRS can shoot down the deal. The more an FLP looks and acts like an actual partnership, the better its chances of passing muster with the IRS. That means FLPs must:

• Be administered properly. Clients should set up a bank account that makes withdrawals in accordance with the agreement, not for personal enjoyment. Clients should hold meetings with other partners to discuss management issues.

• Leave some money outside the FLP to live on. Clients will draw IRS suspicion if they transfer all or nearly all of their assets to the FLP.

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CREDIT FOR HOMEOWNER ENERGY UPGRADES

For the 2006 and 2007 tax years, homeowners can take a 10 percent tax credit (not just a deduction) for a wide range of energy-efficient building components for their principal residences, including:

- Insulation materials or systems that cut heating and cooling costs.
- Exterior windows (including skylights).
- Exterior doors.
- Certain metal roofs with special coating designed to deflect heat.

To qualify, homeowners must be the initial users of equipment and the equipment must be expected to last at least five years.

In addition to the 10 percent credit, homeowners can claim a credit equal to 100 percent of the cost of:

- Energy-efficient building components, such as electric heat-pump water heaters; electric heat pumps; geothermal heat pumps; central air conditioning; and natural gas, propane or oil water-heaters that meet energy-efficient standards. (Maximum credit: $300)
- Natural gas, propane or oil furnaces, or hot water boilers. (Maximum credit $150)

Note: Taxpayers' overall lifetime credit for these improvements is limited to $500, but they can claim only $200 of the credit for buying and installing energy saving windows.

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SEE YOU NEXT MONTH
UNTIL THEN, HAVE A GOOD DAY

ARKANSAS SOCIETY OF ACCOUNTANTS

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APPLICATION FOR MEMBERSHIP IN THE ARKANSAS SOCIETY OF ACCOUNTANTS

P.O. Box 725
Newport, Arkansas 72112
laverne1@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

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