A · S · A
ARKANSAS SOCIETY OF · ACCOUNTANTS
RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter
September 2007

• FROM YOUR PRESIDENT'S PEN •

Dear Members,

An "Uncle Arthur" story is related as follows.

Years ago, a farmer owned land along the Atlantic seacoast. He constantly advertised for hired hands. Most people were reluctant to work on farms along the Atlantic. They dreaded the awful storms that raged across the Atlantic, wreaking havoc on the buildings and crops. As the farmer interviewed applicants for the job he received a steady stream of refusals.

Finally, a short, thin man, well past middle age, approached the farmer. "Are you a good farm hand?" the farmer asked him. "Well I can sleep when the wind blows," answered the little man.

Although puzzled by this answer, the farmer, desperate for help, hired him. The little man worked well around the farm, busy from dawn to dusk, and the farmer felt satisfied with the man's work. Then one night the wind howled loudly in from offshore. Jumping out of bed, the farmer grabbed a lantern and rushed next door to the hired hand's sleeping quarters. He shook the little man and yelled, "Get up! A storm is coming! Tie things down before they blow away!" The little man rolled over in bed and said firmly, "No sir. I told you, I can sleep when the wind blows."

Enraged by the response, the farmer was tempted to fire him on the spot. Instead, he hurried outside to prepare for the storm. To his amazement, he discovered that all of the haystacks had been covered with tarpaulins. The cows were in the barn, the chickens were in the coops, and the doors were barred. The shutters were tightly secured. Everything was tied down.

Nothing could blow away. The farmer then understood what his hired hand meant, so he returned to his bed to also sleep while the wind blew.

This past year, I have slept while the wind blew. Along with the ASA Board of Governors I have tried my best to make sure that all the "haystacks were covered with tarpaulins, all the cows were in the barn, the chickens were in the coops, the doors were barred, and the shutters were secured." In the coming year I look forward to sleeping soundly while the wind blows because I am confident with the leadership of Brad Crain that ASA will continue to stay on a steady course of meeting the needs and protecting the right to practice of small practitioner firms. I pledge my complete support to Brad and ASA, and I urge you to do the same.

Ronny Woods P.A.
President

****

****

Silent Auction

ASA is once again holding our silent auction at the annual convention and seminar to be held September 13 & 14 at the Crowne Plaza in Little Rock. We are asking for your contributions of items to be offered. We will take new merchandise or used items. Look around your office and homes and bring us something you no longer use or want. Remember the old saying "Your trash may be someone's treasure." You might also ask for items from some of your local businesses. All proceeds from this auction are donated to the NSA Scholarship Foundation. This will guarantee a student from Arkansas, majoring in accounting, a scholarship. This is a good cause. Help us make this the best auction yet!!!

Donna Gowan
Chair – Silent Auction

****

14 New Tax Breaks
You Don't Want to Miss These

1. Investment tax rate changes. At the start of 2008, the tax rate owed on long-term capital gains and qualified dividends falls to 0% -- down from 5% in 2007—for people in the 15% or 10% bracket for ordinary income.

But also in 2008, the so-called "kiddie tax" that taxes children's investment income at their parent's tax rate is extended to children under age 24 who are full-time students paying less than half their own support.

Planning possibilities...

- People who will be eligible to pay the 0% capital gains rate in 2008 should defer taking capital gains until after year-end 2007.

- If your ordinary income tax bracket is over 15%, make gifts of capital gains and dividend paying assets to family members (e.g., parents) who are eligible for the 0% capital gains tax rate.

- If a child is at least age 18 now and needs funds, but will be subject to the kiddie tax next year under the new rules, have him/her cash in gains before year-end to pay tax at his own rate, rather than pay the higher kiddie tax rate next year.

2. **Mortgage insurance premiums on a personal residence** are deductible in 2007 only. If you have, or newly obtain, mortgage insurance this year, pay your premium by year-end, so you can deduct it. (Note: Income limits may prevent a deduction.)

3. **Gifts to charity by direct transfer from an IRA** can be made by people older than age 70 1/2, but only until the end of 2007. The maximum of such gifts for the year is $100,000.

This is better than withdrawing funds from an IRA and then making a

charitable with them that you can deduct, because with a direct transfer, no distribution from the IRA is included in your adjusted gross income (AGI). A higher AGI can have costly effects throughout your tax return (such as increasing tax on Social Security benefits).

4. **Pension plan rollovers for non-spouses** are newly available. Starting in 2007, funds in an employer's qualified retirement plan can, upon the death of an employee, be rolled over into an IRA for the benefit of a non-spouse beneficiary. Formerly, rollovers were possible only for spouse beneficiaries.

If you have a pension plan with a non-spouse beneficiary, or are a non-spouse beneficiary of an IRA, revise your IRA planning now, with help from an expert.

5. **Energy-saving tax credits.** A tax credit of as much as $500 is available for energy-saving improvements made to your home by the end of 2007. To learn more about this, visit the government's EnergyStar Web site (*www.energystar.gov*) and click on "Tax Credits Under the Energy Bill."

6. **The college tuition deduction** that expired after 2005 has been renewed for 2007—and for 2006 too, although it did not appear on the 2006 tax return forms.

The deduction is up to $4,000 for people with AGI of up to $130,000 on a joint return or $65,000 on a single return, and up to $2,000 when AGI is more than those amounts but not more than

$160,000 on a joint return or $80,000 on a single return.

If you didn't claim the deduction on your 2006 return because it wasn't listed on the tax form, you can do so now and get a refund by filing an amended return. Form 1040X, for 2006.

7. **Fund a traditional IRA to convert to a Roth IRA.** In 2010, the $100,000 income eligibility limit on people who want to convert a regular IRA to a Roth IRA will be repealed. If you want to move funds to a Roth IRA then—to obtain totally tax-free investment returns on it and freedom from minimum required distributions after age 70 1/2 -- maximize contributions to traditional

IRAs before then.

If in 2007 you aren't eligible to make a deductible IRA contribution to a traditional IRA because you participate in an employer's retirement plan and your income is higher than fixed limits (which change every year) you can still make a non-deductible contribution of $4,000 ($5,000 if age 50 or older).

8. **IRA to health savings account (HSA) rollovers.** If you have an HAS, new law effective in 2007 lets you make a one-time rollover of funds to it from an IRA. If you wish to move funds into an HSA to buy health insurance or increase tax-favored savings for other future health expenditures, consider such a rollover now.

9. **Whistle-blowers reward.** New law for the first time in 2007 gives individuals an enforceable legal right to collect a

reward from the IRS for giving it information about a tax wrongdoer that leads to tax collection.

Rules: The alleged wrongdoer (individual or business) must have a potential tax debt of more than $2 million and annual gross income of more than $200,000. The reward can be up to 30% of the tax collected. For details, visit TaxWhistleBlowers.org. (www.taxwhistleblowers.org).

10. **Automatic enrollment of employees in 401(k) plans** is permitted in 2008 under new law. Increasing the participation by rank-and-file employees in a plan can increase the benefits that are permitted to top-paid employees under anti-discrimination rules—so consult with plan administrators now to have automatic enrollment in place at the start of 2008.

11. **The domestic production activity deduction** doubles in size in 2007. This deduction is for "producer" firms (such as manufacturers, building contractors, and software makers), formerly 3%, doubles to 6% of net income from qualified domestic production. A 6% deduction can be large for many firms, so don't overlook it.

Details: See the instructions to IRS Form 8903. Domestic Production Activities Deduction.

12. **Extended research tax credit.** This credit, for research related activities (see instructions for Form 6765, Credit for Increasing Research Activities, for details), expired after 2005 but has been extended for 2007, and retroactively for 2006. The credit formula is modified to generally provide a larger credit—and a new simplified alternative formula can to attractive to smaller and newer firms.

13. **Increased expensing.** The Section 179 expensing election, which provides an immediate deduction for the cost of newly acquired business equipment (in the place of slower depreciated deductions), is increased for 2007 to $125,000 from the originally scheduled $112,000.

Equipment must not only be purchased but actually be placed in service by year-end to qualify, so plan acquisitions now.

14. **Extended work opportunity tax credit**. This credit, which expired at the end of 2005, has been extended through August 31, 2011. The maximum credit generally is $2,400, and may be claimed during the employee's first year of employment. The credit is now available for disabled veterans who had been unemployed for six months or more in the year prior to hire and other targeted groups. Workers must be certified as being qualified for the credit by a state labor agency. Check with state labor authorities about local certification rules for claiming the credit for 2007.

****

Estate Doesn't Have to Put Up A Bond

An estate properly elected to pay a large estate tax bill in installments over several years, but the IRS said that it would have to post a bond equal to twice the tax or give the IRS a lien against its assets.

The estate asked the IRS to waive these conditions, saying that its credit was so good that the IRS faced no risk of nonpayment, but a bond or lien would impair the operating business held in the estate. The IRS said that the bond/lien requirement is automatic and rejected the election.

Tax Court: The IRS "has no authority to require a bond or a special lien in every case." The estate will get a new full hearing on the merits.
Estate if Edward P. Roski Sr., 128 TC No. 10.

****

IRS Won't Grant New Hearings in "No Harm" Violations

When J. Jean Moore last a case at IRS Appeals, she protested that her case had been prejudiced after revenue agents involved in her audit contacted the appeals officer about her without her knowledge. The IRS admitted that the contacts had been illegal under the Tax Code, but they resulted in "no harm" since the IRS had informed her of them afterward and they hadn't affected the case's outcome. The Tax Court agreed with Moore and ordered the IRS to grant her a new hearing or other remedy to remove risk of prejudice. IRS: Such "no harm" violations of the law should not result in new hearings. It will not grant them in any such future cases, regardless of this court decision.
IRS Action on Decision 2007-02, non-acquiescence in J. Jean Moore. TC Memo 2006-171.

Providing Medial Marijuana Does Not Invalidate Tax-favored Status

A California non-profit group provided care—giving services to people with debilitating illnesses. It also provided medical marijuana as a pain reliever, as is legal under state law. IRS: The organization engaged in illegal drug trafficking under federal law, so it gets no tax benefit from its expenditures, which makes its income taxable, resulting in a $355,056 tax bill. The organization protested in Tax Court. Decision: The Organization engaged in many care-giving activities other than distributing marijuana. While it loses all its marijuana-related deductions, it keeps deductions for its other activities.

****

Delay Costs Tax in 22 Cases

The Tax Code says that after a partnership settles a dispute with the IRS, the IRS has one year to assess the resulting tax due against the partners personally as individuals. Case: A complex partnership dispute consolidating 22 court cases was settled by an exchange of letters between the partners and IRS. But the IRS didn't assess tax against the partners within a year, so they said they escaped it. The IRS answered that the settlement wouldn't be final until a closing agreement was signed. Court: The letters agreeing to settlement were legally binding on both sides. In them, IRS never required a closing agreement. It can't do so after the fact—so the partners escape the tax.
Fenton Gingerich. Court of Federal Claims, No. 98-533T.

****

RECEPTION AT BE SEMINAR

PRESIDENT ELECT – Brad Crain and his lovely wife, Katherine Dalrymple Crain invites you to attend a reception honoring him following a business meeting held on the 13th of September. The business meeting will be immediately after the BE seminar. Room number to be announced. Be sure to make plans to attend. All are invited.

Legal Fees Reduce Property Gain

John Stukes bought property with a home on it, improved it, and sold it for a profit. However, he believed that the real estate agent who arranged the sale had damaged the home's contents, so he withheld the agent's commission. The agent sued for it and Stukes eventually lost. He then deducted his legal fees—but the IRS disallowed the deduction.
Tax Court: The tax treatment of legal fees depends on the nature of the legal dispute. Here, the fees resulted from a good-faith dispute concerning the sale of property, so they are not a deductible expense but are a capital cost that reduces taxable gain on the sale.
John C. Stukes, TC Summary Opinion 2007-65

****

Improper Deductions Don't Prove Fraud

Carlos Sala invested a large amount in what the IRS said was an illegal tax shelter. It sent a tax bill that he paid—but he then sought a refund of $1.5 million of interest that the IRS could collect only in fraud cases. IRS: The shelter was fraudulent because the deductions it gave were much larger then any amount Sala ever risked losing on his investment in it. Court: Sala's small risk of loss might make his deductions improper, but fraud requires acts of deceit and concealment from the IRS. Sala
had acted openly and even obtained a lawyer's opinion about the shelter's propriety before investing in it. There was no proof of fraud—refund allowed.

APPLICATION FOR MEMBERSHIP IN THE ARKANSAS SOCIETY OF ACCOUNTANTS

ARKANSAS SOCIETY OF ACCOUNTANTS
RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

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.

OFFICERS & GOVERNORS

Ronny Woods .... President
Brad Crain .... President Elect
TomEd Simmons .... 1st Vice President
Penny Lincoln..................... 2nd Vice President
Marchelle Foshee .... Governor District I
Donna Gowan .... Governor District II
Mickey Stafford .... Governor District III
Brian Thompson .... Governor District IV
Carl Dalrymple, Jr. .... Governor District V
Jim Hodge .... Governor District VI

A • S • A
ARKANSAS SOCIETY OF • ACCOUNTANTS
RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

LaVerne Long /EXECUTIVE SECRETARY
EXECUTIVE OFFICES:
5725 HWY 18 E. • P.O. BOX 725
NEWPORT, AR 72112
PHONE 870-523-5329 • FAX 870-217-0154
www.arspa.org

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.

A • S • A
ARKANSAS SOCIETY OF • ACCOUNTANTS
RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES
P.O. BOX 725
NEWPORT, AR 72112
Return Service Requested