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ARKANSAS SOCIETY OF · ACCOUNTANTS
RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

Monthly Newsletter
November 2008

• FROM YOUR PRESIDENT'S PEN •

Dear Members

"The foolish man built his house upon the sand,
The foolish man built his house upon the sand,
The foolish man built his house upon the sand
And the rains came tumbling down.

The rains came down and the floods came up,
The rains cam down and the floods came up,
The rains came down and the floods came up
And the foolish man's house went SPLAT!!"

A simple song I learned as a kid growing up in Sunday School and one that has come to mind over the last few weeks listening to the news. It appears our entire economy is going to suffer for a while because we allowed ourselves to build some of our financial foundations on sand and not solid rock.

Situations like these should prompt us to look at our practices and the foundations we are building them on. What core principles helped your practice grow in the beginning? One principle that his been integral to our firm's success has been we strive to be more than just score-keepers for our clients. We feel building a relationship with them is necessary to us helping them succeed. This core principal has become more difficult as our practice continues to grow. More clients equals less time with client which can equal less relationship.

I challenge you before we begin another hectic busy season to take a breather and examine what makes your practice successful. What principles are at your foundation? Are you still building on the same foundation on which you started? We need to make sure we are still building on solid rock.

Hopefully I'll see you at one of our 1040 seminars this month.

Thanks,

Tom Ed Simmons
President

CONGRESS EXTENDS EXPIRING TAX BREAKS

As part of the federal bailout law signed October 3, Congress passed new legislation extending several expired tax breaks and patching the alternative minimum tax (AMT) once again. Some key tax changes in the Emergency Economic Stabilization Act.

- An increase in the AMT exemption amounts for 2008.
- A two year extension (through 2009) of the option to deduct state and local sales taxes.
- A two-year extension (through 2009) of the above-the-line deduction for higher education expenses ($4000 maximum) and educator expenses ($250 limit)
- Extension through 2009 of the additional standard deduction for property taxes for non itemizers.
- Extension through 2009 of the research credit (with certain modifications)
- Extension through 2009 of the option for tax-free distributions from IRAs to charities.
- Extension through 2009 of the 15 year write-off for qualified leasehold costs and restaurant improvements.
- Extension and expansions of various clean-energy tax incentives.
- Extension of a wide variety of energy saving tax incentives directed at both individual and business taxpayers. In many cases, the extensions go beyond the usual one-year or two-year extension for the other new tax breaks.

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CRAIN'S CORNER

Dear Members:

I like writing. I also like having an outlet for the random thoughts that go through my head from time to time.

Welcome to Crain's Corner, a monthly column in the ASA newsletter that serves as a window into my mind and soul. There will be much discussion on movies, sports, and my family. There will periodically be something about the accounting profession. I'll try not to spend too much on that though, and you can take **that** to the bank!

Have you ever had your feelings hurt by someone who is too blunt with their words? For example, I saw this lady a few months back that I hadn't seen in about three years. Her first words to me were. "You sure have put on some weight." Not to come across as some overly-sensitive girly-man, but that kind of hurt my feelings. After laughing it off and agreeing with her, and resisting the urge to retort with "and your ugly," I thought how I wouldn't have said that to someone. There was truth there, but I still wouldn't have said it. Sometimes in life, and especially in our businesses, we have to be pretty blunt, though, don't we? I don't really like celery. If Katherine makes food with celery in it, and I don't ever say anything, who's fault is it that I keep eating celery? Aunt Bea made the worst pickles in the world, but Andy, Barney and Opie had to keep eating them because they would never tell her the truth. The way I see it is it was their fault.

Some of our continuing education instructors have talked about the need to fire our awful clients. I'm talking about the type of clients who never give us what we ask for, need everything last week, and then don't pay us to boot. We are hesitant to fire these types of clients for multiple reasons. It could be money. It could be we are afraid they will talk about us around town. I would bet the most of us do not fire them because we don't want to make them mad or hurt their feelings. Firing clients goes against every instinct I have as a person. I quit being a loan officer in the mid-90's because I hated telling people no. This summer I had had enough with a few of those riff-raff clients and I decided to follow Bob Jennings advice. I picked out 3 clients that fit the description above and "fired" them. I laid out the reasons, and frankly, they could not argue with any of the facts. I actually felt good about it, because I knew I was right. My life has been easier because of it. I can't wait to fire some more next year, but I may wait until Christmas time and make that an additional present for them. Join me in firing a few as well. As I see Hank and Georgie grow up to fast, life's just too short for bad clients.

I hope you have a great start to your holiday season, and for pete's sake, do not comment on the weight I gain over Thanksgiving when we see each other again.

Brad Crain C.P.A.
Used-to-be-President

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BE SURE TO REGISTER FOR THE 1040 SEMINAR, EITHER IN LITTLE ROCK OR SPRINGDALE. DON'T FORGET!

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Did you know that taxpayers can deduct their property taxes in addition to taking the standard deduction. Only in 2008. The extra write off is capped at $1,000 for married filing jointly and $500 for singles.

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Credit card issuers will have to file 1099s on payments to merchants starting with payments for 2011. That gives issuers time to gear up their computers.

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4 REQUIREMENTS FOR BONUS DEPRECIATION

There are four key requirements for claiming bonus depreciation deductions:

1. The property must fall within one of these categories:

· Property eligible for regular Modified Accelerated Cost Recovery System (MACRS) depreciation over a period of 20 years or less.

·Qualified water utility property

·Computer software property (other than property covered under Section 197)

· Qualified leasehold property

2. Original use must commence with the taxpayer after December 31, 2007. In other words, the property must be new rather than used.

3.The property must be acquired after December 31, 2007, and before January 1, 2009. (not including property for which a binding contract was in effect prior to December 31, 2007)

4. The property must be placed in service in 2008. But this rule is extended for one year until December 31, 2009, for certain property with a recovery period of 10 years or longer (i.e., property with an estimated production period exceeding one year and costing more than $1 million) and certain transportation property.

CAN CLIENTS SIDESTEP THE "NANNY TAX?"

The reaches of the "nanny tax" can extend beyond traditional caregivers for children.

Alert: Spread the word to your affluent clients. Some of them may face nanny tax consequences without being aware they are violating the rules.

It's your responsibility to ensure that clients aren't blindsided by an unexpected tax bill from the IRS.

Background information: For many years, employers of household employees often ignored or bungled the existing employment tax rules. Congress finally clamped down in the mid-90s by imposing substantial penalties for failure to pay the required taxes (known collectively as the nanny tax). Under current law, a household employer is required to pay employment taxes if the wages paid to an employee exceed a specific annual threshold ($1,600 for 2008).

What employment taxes are included in the nanny tax? There are four major tax obligations:

1.The 6.2% Social Security tax is withheld from employees and matched by the employer up to the amount of the annual "wage base." The wage base for 2008 is $102,000.

2. The employer must withhold and match the 1.45% Medicare tax on the full amount of wages paid to workers.

3. The employer must pay 6.2% on the first $7,000 in wages for 2008, but this amount is

generally reduced by a credit of 5.4%. So the net tax is only 0.8% if the employer has paid all the required state unemployment and disability taxes.

Key point: The nanny tax applies to all household employees. This includes workers who do jobs in and around the home such as nannies, babysitters, private nurses and other caretakers, cleaning people, yard workers and similar domestic workers. However, a worker is an "employee" of the taxpayer only if the taxpayer controls the worker's activities. For instance, if a client pays an agency directly, the agency is treated as the employer of the worker and the agency pays the employment taxes.

Alternatively, is the worker controls how and when the work is performed and works for several households, he or she may be treated as a self-employed individual. This typically occurs when the worker offer services to the general public and provides his or her own tools and supplies. Self-employeds are responsible for their own employment taxes.

The law is littered with other exceptions. For instance, a taxpayer is not responsible for the nanny tax for services by:

- The taxpayer's spouse
- The taxpayer's child if under age 21
- The taxpayer's parent (unless certain special conditions apply)
- An employee who is under age 18 at any time during the year, except when providing household services is the employees principal occupation

Advisory: To avoid clearing the $1,600 nanny tax wage threshold in 2008, a client might postpone payment to next year. Result: Both parties save tax on the deal.

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AVOID PENALTIES ON EARLY IRA DISTRIBUTIONS

Generally, early distributions (before age 59 ½) from an IRA will trigger a 10% penalty tax, on top of the regular income tax owed on the distribution. But, there's a way you can help clients cushion the tax blow.

Strategy: Arrange for substantially equal periodic payments (SEPPs) from
the IRA. As long as certain conditions are met, the payouts are exempt from the usual 10% penalty—no matter how young the client is.

Background information: Normally, an IRA owner must pay a 10% penalty tax if he or she begins taking withdrawals from the IRA prior to 59½. The penalty tax is added to the regular income tax due on the tax-deductible contributions and earnings.

But there is an exception to the 10% penalty tax for a series of SEPPs lasting at least five years or until the IRA owner reaches age 59 ½ , which ever is later. The payment amounts are based on the IRA owner's like expectancy (or the joint life expectancy of the owner and a designated beneficiary).

3 options for SEPPs
The IRS has identified three basic methods for determining SEPPs. If the payment method is

substantially modified before age 59 ½ (or five years, if that's later) the 10% penalty tax is still imposed.

1. Required minimum distribution (RMD) method: Under this method, the annual payment is determined by dividing the account balance at the end of the prior year by the number from the applicable IRS life expectancy table for the year. But those numbers change annually, resulting in a slightly different payment amount each year.

For instance, distributions may vary due to:

- Account balance changes reflecting earnings and distributions from the year.
- Changes in the IRA owner's life expectancy as he or she ages.

2. Fixed amortization method: With this method, the annual payment is determined by amortization of the account balance over a period of years using a life-expectancy table and assumed interest rate.

IRS rules allow the owner to select between two different life expectancy tables and several interest rate assumptions. Under this method, the annual payment remains the same from year to year.

3. Fixed annuitization method: The annual payment is determined by dividing the account balance by an annuity factor derived from a reasonable mortality table with a reasonable assumed interest rate. As with the second method, the amount stays constant from year to year.

Note that the SEPP exception is applied on an IRA-IRA basis. Therefore, an IRA owner who desires more flexibility can choose to divide an existing IRA into several different IRAs before taking any distributions before age 59 ½.

Then he or she can begin taking distributions from any one of the IRAs. If future distributions are needed, they may be withdrawn from one of the other IRAs (or several of the other IRAs) using the SEPP rules.

Furthermore, IRA owners have the ability to make a one-time switch from the fixed amortization method or the fixed annuitization method to the RMD method.

This may be beneficial if the IRA owner is locked into a fixed payment under one of these two methods and the account has declined in value. By making the switch to the RMD method, a new lower payment may be calculated based on the reduced account balance.

Clients who have started SEPPs prior to this year may benefit from a switch in this volatile economic environment.

Overall, the RMD method is the simplest and tends to provide the smallest annual payout, while the other two methods generally provide bigger
payouts.

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APPLICATION FOR MEMBERSHIP IN THE ARKANSAS SOCIETY OF ACCOUNTANTS

P.O. Box 725
Newport, Arkansas 72112
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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)

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Signature Title Date

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FOR YOUR INFORMATION

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