



# ARKANSAS SOCIETY OF • ACCOUNTANTS

RESPECTED ACCOUNTING PROFESSIONALS SERVING OUR COMMUNITIES

## Monthly Newsletter

January 2009

What's New on '08 Returns

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Trivia

### • FROM YOUR PRESIDENT'S PEN •



Dear Members

Hope everyone had a great holiday season and is ready to get to work. This busy season there is more going on other than taxes and year-end financials. In the upcoming legislative session, Senator Terry Smith will sponsor a bill to change the Arkansas Accountancy Act. Primarily this legislation will change how out of state CPAs register with the state board when doing business in our state. This act will get our state equivalent with new national standards and has been supported by your ASA board, the ASCPA and the Arkansas State Board of Public Accountancy. All of the states that surround us have already passed some version of this bill, which makes practicing between state borders a little easier. It should also strengthen the state board's ability to regulate out of state practitioners operating in Arkansas. This proposed legislation has been a great testament to how the two societies and the state board can work together. A special thanks to John Peace who helped author the bill.

As tax season begins I would like to share a short story....

An accountant is walking along the beach and finds an old lamp. He picks it up, rubs it, and of course, a genie appears. The genie says, "I am the most powerful genie that has ever lived. I can do great and wonderful things and can grant your one most desired wish." Well, this accountant is a deeply caring individual, and after a few minutes of thought makes his wish: "My wish is that you solve the Arab – Israeli conflict in the Middle East." The genie strokes his beard and looks worried. "Oh that's a tough one. Those people have been fighting for eons. No one has been able to come up with a successful solution. Are you sure there isn't anything else you might wish for?" All right says the accountant, "There is one other thing. I've been asked by the US Treasury to re-design the form 1040 so everyone can understand it. Can you help me with that one?" After a long silence the genie says... "Ok what about that Mid East problem."

Hope you have a great start to a busy season. To quote Albert Einstein, "The hardest thing in the world to understand is income tax." So just make sure your clients understand just how much we should be appreciated for interpreting it for them.

Tom Ed Simmons

## LEARN 'WHAT'S NEW' ON '08 RETURNS

It's that time or year again. As usual, you will have to contend with a slew of new law changes and adjustments on Form 1040 and accompanying forms and schedules.

**Strategy:** Know the new rules inside and out. This will help you pinpoint ways for clients to save taxes on their 2008 returns.

Here's a roundup of the main twists and turns in store for tax preparers this year:

### Form 1040

- **Wages, salaries and tips (Line 7):** Excluded military benefits may include bonus payments made to an armed forces member (or his or her dependent) while in a combat zone. Payments made by the U.S. Department of Veterans Affairs (VA) under a work therapy program also are tax-exempt.

- **Capital gains and losses (Line 13):** A surviving spouse can qualify for the home-sale exclusion for a sale occurring within two years of the deceased spouse's death as long as all the tax law requirements are met and the surviving spouse has not remarried. The two-out-of-five year test may be suspended for up to 10 years for as Peace Corps volunteer.

- **Other income (Line 21):** No tax is imposed on qualified state and local tax payments (e.g., income or property tax rebates) and qualified reimbursements of up to \$360 granted to members of volunteer emergency organization.

- **Health Savings Account (HSA) deduction (Line 26):** The maximum HSA deduction

increases to \$2,900 (\$5,800 for family coverage).

- **Moving expenses (Line 26):** The flat rate that may be used to deduct moving expenses increases to 19 cents per mile for the first six months of the year, 27 cents per mile for the last six months.

- **IRA deductions (Line 32):** The maximum 2008 IRA deduction of \$5,000 (\$6,000 if age 50 or older) phases out for active participants in a qualified plan. The phaseout range for single filers is \$53,000 to \$63,000 of modified AGI; \$85,000 to \$105,000 of modified AGI for joint filers.

- **Standard deduction (Lines 39c and 40):** The standard deduction increases to \$5,450 for singles and marrieds filing separately; \$8,000 for heads-of-household; and \$10,900 for joint filers and qualifying widow(er)s.

Qualified taxpayers claiming the standard deduction can deduct state and local property taxes. The maximum deduction is \$1,000 for joint filers; \$500 for all other filers. Also, non-itemizers can deduct federal disaster losses in 2008. Check the box on Line 39c if either of these new tax breaks applies.

- **Personal exemptions (Line 42):** The exemption for 2008 increases to \$3,500. Exemptions begin to phase out at \$119,975 of AGI for marrieds filing separately; \$159,950 of AGI for single filers; \$199,950 for heads of household; and \$239,950 for joint filers and qualifying widow(er)s.

The reduction of personal exemptions for high-income taxpayers decreases for 2008. Use the IRS work sheet to complete the reduction.

- **Tax (Line 44):** A 0% tax rate applies to certain

taxpayers with long-term capital gains and qualified dividends.

The kiddie tax applies to a child under age 18, or under age 24 if a full time student, if his or her earned income doesn't exceed half of their support.

- **Alternative minimum tax: (Line 45):** Exemption amounts for calculating AMT on Form 6251 have increased to \$34,975 for marrieds filing separately; \$46,200 for single filers and heads-of-household; and \$69,950 for joint filers and qualifying widow(er)s.

Nonrefundable credits may offset AMT liability. The AMT credit no longer is subject to phaseout rules. Also, AMT underpayments outstanding on Oct 3, 2008, that are attributable to pre-2008 exercises of incentive stock options (ISOs) are eliminated.

- **Education credits (Line 50):** The Hope Scholarship and Lifetime Learning credits phase out for modified AGI between \$48,000-\$58,000; \$96,000-\$116,000 for joint filers. The Hope credit limit for 2008 increases to \$1,800. Use Form 8863.

- **Credits from other forms (Line 53):** The maximum adoption credit on Form 8839 increases to \$11,650. The credit is phased out between \$174,730 and \$214,730 of modified AGI.

Use this line to report the modified credit for residential energy-efficient property.

- **Other credits (Line 54):** This includes a new credit for small business employers that paid differential wages after June 17, 2008, to military personnel on active duty.

- **Self-employment tax (Line 57):** The maximum amount of net self-employment subject to the Social Security portion of self-employment increase to \$102,000. (There is no ceiling for the Medicare portion of the tax.)

- **Excess Social Security tax and RRTA tax withheld (Line 65):** The Social Security tax withholding ( 6.2% of the first \$102,000 of wages) is \$6,324. Any excess may be refunded.

- **Additional child credit (Line 66):** The earned income formula for determining the refundable child credit applies to 15% of earned income in excess of \$8,500.

- **First-time homebuyer credit (Line 69):** A qualified homebuyer can claim a credit equal to the lesser of \$7,500 or 10% of the purchase price for a principal residence purchased after April 8, 2008 and before July 1, 2009. Taxpayers can elect to treat a qualified 2009 purchase as being made December 31, 2008.

### **Schedule A (Itemized Deductions)**

- **Medical and dental expenses (Line 1):** The standard mileage rate for medical-related travel increases to 19 cents per mile (plus related tolls and parking fees) for the first six months of the year; 27 cents per mile for the last six months.

- **Casualty losses (Line 20):** The usual 10%-of-AGI limit for personal casualty losses doesn't apply to disaster-area losses.

- **Unreimbursed employee expenses (Line 21):** The standard mileage rate for unreimbursed business travel expenses increases to 50.5

cents per mile (plus related tolls and parking fees) for the first six months of the year; 58.5 cents for the last six months of the year (see Form 2106).

- Total itemized deductions (Line 29): The reduction of itemized deductions for high-income taxpayers decreases for 2008. This reduction begins is AGI exceeds \$159,950; \$79,975 for marrieds filing separately. For 2008, a taxpayer loses only one-third the amount that would otherwise be lost.

### **Schedule B (Interest and Ordinary Dividends)**

- Interest (Line 1): Accrued interest on matured Series E Savings Bonds issued in 1968 or 1978 must be reported as taxable interest on the 2008 return—even if the bonds have been redeemed.

Excludable interest on Series EE or I U.S. Savings Bonds issued after 1989 is exempt from tax if used for higher education. This tax exclusion begins to phase out at a modified AGI of \$100,650 for joint filers; \$67,100 for all other filers (see Form 8815).

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### **CRAINS CORNER**

Brad Crain  
Used-to-be President

I'm a moody person. The best way I can think of to describe my moods is through comparison to the weather in Arkansas. Sunny and 72 one day, 44 and sleet the next. As I write this sentence, I'm kind of in a bad mood, but I bet I'll probably be in a good mood by the time I'm done. Could you

imagine having to live with that?

I've been kind of in a bad mood because the holidays are over. I look forward to them so much, and then they're over and the world gets back to being like normal. We watch *It's a Wonderful Life* every year leading up to Christmas, and I feel so good in my heart while we're watching it. I usually end up crying like a blubbering fool before it's over with. It wouldn't be the same if I watched it today, now that Christmas is over. I probably would make fun of *George Bailey* for being such a loser and trying to take the easy way out. After 35 years on earth, I've come to realize that that's just the way it is after the holidays. All of the family has gone home, the people on the streets don't wish you seasons greetings anymore, the decorations are removed from the town square, and there's just a big letdown as we move on into regular life again. But every cloud has its silver lining.

The holidays season may have come to an end but a new year has begun. Elvis proudly sang this question, "Why can't every day be like Christmas?," and I proudly answer back "Elvis, it can be!" 2009 could be the greatest year of our lives!!! It's time for making resolutions on how we can improve ourselves for this New Year. Many times we don't have a problem coming up with a list of personal resolutions e.g. losing weight, investing money, cleaning out the garage, stop buying so many movies, etc. However, I want to encourage each of you to sit down and make a list of resolutions for your business this year. Maybe this is the year you finally switch to that new software that makes your life so much easier. Maybe this is the year you change your workflow through the office and your efficiency doubles. Maybe this is the year you start putting Payday and Crunch bars in your client's tax return packets, and they

find a way to even if they've been crunched. I know there are areas where the offices of Dalrymple-Crain P.A., Ltd. could improve and I plan to make my own list. Just like in my personal life, if I'm not improving I'm declining. It's the same for our businesses. If we're not moving forward through improvements, then we're declining. I hope in 2009 each of us can make the improvements that will help this year be the best ever.

I am sort of fired up about 2009 now! I was right, I am in a better mood.

HAPPY NEW YEAR!

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## EDITORIAL

Clipped from the Wyoming Publication  
By Jarvis Windom

With tax season being just around the corner, I thought you might find the following tips and information interesting.

### The Size of the IRS

The IRS has 114,000 employees. That's equal to the population of Peoria, Illinois. It is twice as big as the CIA and five times the size of the FBI.

IRS employment has increased 20 percent over the past 10 years. The rest of the government shrank by 10 percent period.

The IRS spends \$8 billion per year, its budget has doubled over the past 10 years, but who's counting? After all, it collects \$1.7 TRILLION in tax revenues.

### The Complexity of the IRS

When the income tax first took effect, it had 170 pages of laws and regulations. Today, the tax code has 17,000 pages along with hundreds of thousands of pages of court decisions. The 1986 tax act was aimed at simplification. It ended up amending 2,000 sections of the code and creating more than 100 new forms.

In 1985, Americans spent 5.5 billion hours complying with the income tax laws, according to the IRS. That's equivalent to nearly three million people – more people than serve in the Armed Forces – working full time just to keep records and file forms.

According to the Tax Foundation, it costs us \$200 billion a year just to comply with the tax code. That's like taking every new car, van and truck that General Motors builds and driving them off a cliff.

Each year the IRS sends about 10 million computerized notices to taxpayers accruing them of underreporting income or miscalculating tax payments. A GAO study found that 48 percent of these notices contained errors.

The IRS answers about 80 million taxpayer questions each year. Eleven percent of the time the IRS is WRONG. That means that 8.5 million people are getting wrong tax information from the government.

This year roughly 10 million Americans will receive computerized notices from the IRS and about half of those will be erroneous.

### Problems Complying with the IRS

More than 50 percent of us use professional tax help, and this percentage is going up. It was 40

percent in 1980.

Even the professionals have problems. A few years ago, Money Magazine send the same tax information for the same hypothetical family to 50 different preparers. It got 50 different answers, and none of them were right.

People who call the IRS have only a 1 in 4 chance of getting through.

Many people have simply lost confidence in the system; they've stopped paying taxes. In 1995, according to the GAO, Americans owed an estimated \$100 billion more income tax than we actually paid. This tax gap is on the rise. In 1987 it was only \$71 billion.

Even Congress doesn't understand the tax laws. Sixty percent of the members of the Ways and Means Committee and the Senate Finance Committee don't do their own taxes, according to a Money Magazine survey.

Congress gets free tax preparation services. The rest of us pay \$30 billion a year for professional tax help.

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### TRIVIA

1. What kind of animal is a merino?
2. Which word can be a musical instrument of a part of the human body?
3. In tennis, how many events make up the Grand Slam?
4. What word can go after soap and before house?
5. Foods will not brown in what type of oven?
6. What is a butterfly's proboscis?

7. What beverage was advertised as "good to the last drop" in 1907?
8. What did the Wrigley Company do to promote its chewing gum nationwide in 1914?
9. What did all Nippon Airways do in an effort to prevent its planes from sucking birds into their engines?
10. What "foot doctor" had over 300 patients?

### ANSWERS

1. Sheep
2. Organ
3. Four
4. Opera
5. Microwave Oven
6. Feeding Tube
7. Coca-Cola. The slogan was long forgotten by the time it was adopted by Maxwell House Coffee.
8. It mailed Doublemint gum to everyone listed in U.S. phone books.
9. It painted giant eyes on the engine intakes to discourage birds from approaching.
10. Dr. Scholl

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Life is either a daring adventure or nothing. Security does not exist in nature, nor do the children of men as a whole experience it. Avoiding danger is no safer in the long run than exposure.

Helen Keller  
1880-1968

To find fault is easy, to do better may be difficult.

Plutarch  
45-125 A.D.

Real success is finding your life  
work in the work you love.

David McCullough



**APPLICATION FOR MEMBERSHIP IN  
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ACCOUNTANTS**

P.O. Box 725  
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asalaverne@hughes.net  
www.arspa.org

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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  
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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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