

Arkansas Public Accountant

A Publication of the Arkansas Society of Public Accountants



April 2004

• **FROM YOUR**
PRESIDENT'S PEN •



Dear Members:

April is finally here, which means many of us can breathe a well deserved sigh of relief. Another tax season has come and gone. Three months ago, it seemed as if the end of tax season would never arrive and now it's over. I hope that each of you had a successful season. In fact, I trust that you are now reading this article on some secluded beach in the tropics getting the rest and relaxation you need. Or maybe you have just finished eighteen holes of golf.

Topics Covered in this Newsletter

**N.S.A. THE PRACTITIONERS
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SALES & USE TAX CHANGES

FRANCHISE TAX CHANGES

**IRS EXPLAINS NEW HEALTH
SAVINGS ACCOUNTS (HSAs)**

**IRS INTEREST RATES INCREASE
FOR THE 2nd QUARTER OF 2004**

Right after tax season, it is a good practice to take some time and review how you and your office performed during tax time. This review is more easily done now while things are still fresh in your mind. Make a note of the areas that need improvement and then look for ways to make them better. It's also helpful to communicate with others in your office to get their input on how they feel things could improve. Addressing this issue now will make you and your office more productive next year.

Last month ASPA participated in a community service program sponsored by Channel 7 and 7 on Your Side. Each year 7 on Your Side requests that ASCPA and ASPA send volunteers for one evening to answer tax questions that are called in by their viewers. I was honored once again to be able to participate. This year there were six representatives answering a wide variety of taxpayer questions. The most popular questions seemed to come from senior citizens and others wanting to know if they had to file a return this year. One young lady wanted to know if they could claim their Seeing Eye dog as a medical deduction. Providing these answers and many others to taxpayer's questions really makes you feel that you are helping out and serving the community. It is great that

ASPA could once again be a part of this program. I invite anyone who would like to volunteer for next year to contact LaVerne or myself.

Many of our tax clients are getting older. In fact, all our clients are getting older. None of us seem to get younger anymore. And with an aging population, more services are going to be needed in the area of Estate and Trust work. ASPA has a one day seminar scheduled in June for this very purpose. I invite you to register early to attend Gear Up's Estates & Trusts seminar in Little Rock.

Just a reminder that the ASPA website, www.arspa.org has the 2004 Event Calendar posted. Here you will find a schedule of upcoming seminars. You may also take a few minutes to browse the website for other valuable resources.

Again, I hope you had a wonderful productive tax season. Now put this article away and put on some sunscreen. Where's my seven iron?

Sincerely,
Brian L. Thompson, CPA
President, ASPA

District Governor's Column

N.S.A. – THE PRACTITIONERS PARTNER

One of the best things about belonging to a professional organization such as the National Society of Accountants is that it continues serving its members whether they are aware of it or not. During tax season, for instance, NSA members have their attention fully focused on tax preparation, meeting deadlines, and consulting with clients. They have little or no time to

fulfill various volunteer –driven tasks or even consciously take note of ongoing functions. The flow of NSA benefits, however, doesn't slacken, and that's why membership is so valuable.

The most important benefit provided at this time of year is undoubtedly the tax research service that is available to all NSA members. When difficult tax situations arise, members can access this assistance by going to NSA's website, strolling down the homepage, and locating the tax assistance heading. After logging in, the question can be submitted via e-mail. Alternately, the question can be faxed to the NSA office. Responses are received within a few days with explanations and, if needed citations.

New members benefits are explored, contacts negotiated, and promotions developed for them. Events for the coming year are planned, hotel arrangements made and speakers chosen. The next major activity is the Aging American Seminar to be held in Las Vegas May 24-25. Besides providing relevant information and guidance in a new and expanding field of practice, attendance at this seminar can lead to attainment of ACAT's newest credential, Elder Care Specialist. An innovative program is in the works for September and members will be delighted when an announcement is made shortly after tax season.

The Scholarship Foundation is in the midst of its busiest time period as Match 10 was the deadline date for receipt of scholarship applications to be considered for the coming year. More and more students are finding out about the scholarships being offered and the number of applications received is growing.

Leadership Networking Conferences for State Officers are being scheduled in Minneapolis on October 23-24 and in New Orleans on November 20-21. Since the November function is coming

to District VIII and LSIA will be playing host, the affiliated state societies in the District are encouraged to make plans to send as many leaders as possible.

A new insurance program will be launched soon, a Medicare supplement available through Forrest T. Jones, and will be offered to members age 54 and older. The Peer Review Program is being promoted to state accountancy boards, and its acceptance is growing. NSA continues to testify before Congressional bodies and IRS whenever the opportunity occurs.

It is an excellent time for staff to tend to administrative concerns such as website updates and improvements, adding interactive forms, news and tax information. Shifting to new software programs and integrating newer versions is accomplished during this time.

I hope your tax season is rewarding and fulfilling, and I look forward to seeing you soon.

Wanda Samek
District Governor
NSA District VIII

SALES & USE TAX CHANGES

The state sales and use tax rate increased from 5.125% to 6% on March 1, 2004. This provision requires the most immediate response, since merchants collecting sales tax, businesses and industries reporting use tax, and direct payment permit holders must immediately reprogram their computers and change compliance practices within days of passage of the new Act. The special Texarkana border city rate increased to 7% on the same date. The state portion of the special rental vehicle tax rate is frozen at 10% plus the local sales tax rates that apply.

Several new services become subject to sales tax on July 1, 2004, and a general rule is also being changed. In the past, the initial installation charge for a taxable item was exempt if stated separately on an invoice. Now, installation of taxable items will continue to be exempt. Some issues remain concerning the purchase of taxable items by contractors.

The new services subject to tax are the following:

- 1) Wrecker and towing services
- 2) Collection and disposal of solid wastes
- 3) Cleaning parking lots and gutters
- 4) Dry cleaning and laundry services
- 5) Industrial laundry services
- 6) Mini warehouse and self storage rentals
- 7) Body piercing, tattooing and electrolyses
- 8) Pest control services
- 9) Security and alarm monitoring services
- 10) Boat storage and docking fees
- 11) Camping and trailer spaces at campgrounds
- 12) Locksmith services
- 13) Pet grooming and kennel services

Taxpayers that are subject to collection requirements for the first time should promptly file an Application for a Sales and Use Tax Permit (Form ST-1) with the Arkansas Department of Finance & Administration, pay the \$50 permit fee, familiarize themselves with collection and reporting requirements and implement collection procedures prior to July 1, 2004.

Act 107 also makes minor changes to the tax structure for vending machine sales, effective July 1, 2004. The wholesale tax rate on purchases increases from 5.5% to 7% and the alternate decal fee for individual machines increases from \$70 to \$93.

FRANCHISE TAX CHANGES

Franchise taxes are paid by corporations and limited liability companies to the Secretary of State for the privilege of incorporating and doing business in the State of Arkansas. For most corporations, taxes are levied based on the stated par value of a corporation's outstanding capital stock and the proportion of corporation's property located in the state. Under the new Act, the rate of tax for corporation's increases from .27% to .3%, and the minimum tax paid increases from \$50 to \$150. Limited liability companies will continue to pay a flat rate equal to the corporate minimum tax of \$150. The tax for corporations without authorized capital stock increases from \$100 to \$300. A small number of mutual insurance corporations and mortgage loan corporations are subject to similar special provisions.

Over 72,000 of the 85,000 corporations and limited liability companies filing with the Secretary of State now pay the minimum tax. This number will increase as the minimum tax rate applies to more corporations based on the taxing formula. Corporations with outstanding capital stock of less than \$50,000 par value apportioned to Arkansas will pay the minimum under the new Act. ($\$50,000 \times .3 = \150). These corporations and limited liability companies will pay around 90% of the total franchise tax increase at a rate of \$100 per taxpayer. Larger corporations which pay more than the minimum tax will experience a tax increase of only 11.11%, and account for only about \$.6 million of the \$8 million increase expected to be raised under this Act. The Act also eliminates a cap of \$1,075,000 on franchise taxes under prior law. However, this change has little effect on existing taxpayers, since no

reporting corporations now pay taxes approaching this amount.

Although the changes in rates go into effect March 1, 2004, most taxpayers will not experience the tax increase until annual franchise tax reports are filed in 2005. The due date for annual reports is also being advanced by one month, to May 1 for reports filed in 2005.

IRS EXPLAINS NEW HEALTH SAVINGS ACCOUNTS (HSAs)

These are tax-favored savings accounts that, starting in 2004, individuals under age 55 can use to buy medical insurance and pay medical bills. Contributions are deductible and amounts that go unspent can be invested and accumulated to be available for general use after age 65. The IRS has published a Q&A-format explanation of the new accounts in IRS Notice 2004-2; IRB 2004-2, 1 Details: Visit www.irs.gov. Click on "The Newsroom" and "What's Hot."

IRS INTEREST RATES INCREASE FOR THE SECOND QUARTER OF 2004

March 1, 2004

The Internal Revenue Service today announced that interest rates will rise by one percentage point for the quarter beginning April 1, 2004. The interest rates are as follows:

- _ five (5) percent for overpayments [four(4) percent in the case of a corporation];
- _ five (5) percent for underpayments;
- _ seven(7) percent for large corporate underpayments; and
- _ two and one-half (2.5) percent for the portion of a corporate overpayment exceeding \$10,000.

Under the Internal Revenue Code, the rate of interest is determined on a quarterly basis. For taxpayers other than corporations, the overpayment and underpayment rate is the federal short-term rate plus 3 percentage points. Generally, in the case of a corporation, the underpayment rate is the federal short-term rate plus 3 percentage points and the overpayment rate is the federal short-term rate plus 2 percentage points. The rate for large corporate underpayments is the federal short-term rate plus 5 percentage points. The rate on the portions of a corporate overpayment of tax exceeding \$10,000 for a taxable period is the federal short-term rate plus one-half (0.5) of a percentage point.

The interest rates announced today are computed from the federal short-term rate based on daily compounding determined during January 2004.

TAX INFORMATION FROM THE IRS
APRIL 2004
PROVIDED BY SB/SE TAXPAYER EDUCATION & COMMUNICATION
LITTLE ROCK, AR

IRS IS CHANGING THE FACE
OF ITS EXAMINATIONS

The Small Business/Self Employed (SB/SE) division of the Internal Revenue Service initiated its Examination Reengineering effort to improve the quality and consistency of income tax examinations.

SB/SE interviewed a wide range of individuals both internally and externally to identify best practices and potential areas of improvement in its examinations. Among the individuals the reengineering teams interviewed were previously

audited taxpayers, tax practitioners, federal and state government agencies, financial institutions, examination employees, and many others involved in the tax community.

SB/SE tested the redesigned examination process in both rural and urban areas to ensure the new process is equally effective and consistent throughout the country. The reengineered process was adjusted according to the feedback from taxpayers, practitioners and employees involved in the examinations during the test period.

Some of the features of the reengineered field examination process are:

- Clearly communicated expectations of both the taxpayer and field agent through mandatory discussions between the revenue agent and taxpayer regarding specific examination issues, required documentation, and a mutually agreed upon date to complete the examination.

- At the beginning of each examination, field agents and their managers will meet to discuss the agent's approach to the examination, the plan to close the examination, and the mutual commitment date arrived at with the taxpayer.

- Field agents will use standardized templates for every examination issue to gather the information necessary to resolve issues. Agents will use a standardized guide when deciding if additional issues need to be added to the examination. The agent will explain to the taxpayer if any additional issues are included in the examination.

Some of the features of the reengineered office examination process are:

- Clearly communicated expectations of both the taxpayer and the examiner prior to the initial appointment. Office examiners will provide the

taxpayer with focused document requests that specifically identify the information needed.

– Improved flexibility in the scheduling process will enable examiners and taxpayers to reduce the time it takes to complete an examination.

– Office examiners will use standardized templates for every examination issue to gather the information necessary to resolve issues. Examiners will use a standardized guide when deciding if additional issues need to be added to the examination. The examiner will explain to the taxpayer if any additional issues are included in the examination.

With the final adjustments made, SB/SE will train all of its income tax field agents and office examiners during the 2004 fiscal year. Field training began in December 2003 and training for the office examiners began in January 2004.

The redesigned examination process will benefit taxpayers and practitioners because the audits will be better focused on relevant issues, expectations between the examiner and taxpayer will be clearly communicated, and the time it takes to complete the examination may be reduced.

The consistency and efficiency of the reengineered process benefits both the taxpayer and the examiner. Clearly communicated expectations and the use of standardized examination tools and templates ensure taxpayer rights are protected, that the tax laws are administered equitably and fairly, and the burden of preparing for an examination is reduced.

EXECUTIVE SECRETARY COLUMN

I was so pleased that our President, Brian L. Thompson, mentioned in his message this

month the 7 ON YOUR SIDE program that he participated in again this year.

Brian has been the only one of our members to participate in recent years. One reason being that we do not receive much notice and although I contact several of you out there, everyone is too busy. I hope that you will all give this some very serious thought in the future and next year when this comes up, make a real effort to represent ASPA in this endeavor.

I try to call only members in the Little Rock area so there will not be a great deal of travel time involved. I know this is a very busy time of year and it is hard to leave your office. JUST THINK ABOUT IT PLEASE!

I look forward to seeing a great number of you at the upcoming seminars. It will be good to get out of the office and see our peers. I'm sure we will have a lot of visiting and catching up to do. SEE YOU SOON!

A motivational speaker tells the story about being on his return flight from giving a speech. The man sitting next to him, when learning what he did for a living, said, "Aaah, that motivational stuff doesn't last. You get yourself all pumped up for a while and then it wears off."

A passing flight attendant overheard him and said, "Well, a both doesn't last either, but it's still a good idea."

If you think about it, food doesn't last either. Exercise doesn't last. Everything in life needs to be renewed and nurtured. We feel hungry, we eat, we feel full, and in due time we get hungry again.

Pat Pearson – You Deserve the Best



APPLICATION FOR MEMBERSHIP IN
THE ARKANSAS SOCIETY OF
PUBLIC 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

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Amount

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*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 PUBLIC 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.

LaVerne Long, ED
P O Box 725
Newport, AR 72112 - 0725
Email: longaspa@cox-internet.com
Phone: 870-523-5329
Fax: 870-217-0154